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中粮
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CHINA AGRI-INDUSTRIES HOLDINGS LIMITED
中國糧油控股有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 606)

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

FINANCIAL HIGHLIGHTS

- The Group's operating profit for the six months ended 30 June 2019 was HK$617.7 million (six months ended 30 June 2018: HK$1,109.3 million).

- Profit attributable to owners of the Company was HK$448.8 million for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$751.0 million). Basic earnings per share was 8.53 HK cents (six months ended 30 June 2018: 14.30 HK cents).

- The Board declared the payment of an interim dividend of 1.7 HK cents per share (six months ended 30 June 2018: 3.6 HK cents per share).

INTERIM RESULTS

The Board of Directors (the "Board") of China Agri-Industries Holdings Limited (the "Company") presents the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019	2018
		HK$'000	*HK$'000*
	Notes	**(Unaudited)**	(Unaudited)
REVENUE		**59,754,034**	48,320,171
Cost of sales	*4*	**(56,095,748)**	(43,950,729)
Gross profit		**3,658,286**	4,369,442
Other income and gains	*3*	**266,350**	252,614
Selling and distribution expenses		**(2,390,218)**	(2,229,971)
Administrative expenses		**(723,449)**	(961,305)
Other expenses		**(129,438)**	(246,086)
Finance costs		**(379,789)**	(302,699)
Share of profits and losses of associates		**19,721**	125,024
PROFIT BEFORE TAX	*4*	**321,463**	1,007,019
Income tax	*5*	**79,131**	(6,731)
PROFIT FOR THE PERIOD		**400,594**	1,000,288
Attributable to:			
Owners of the Company		**448,827**	751,020
Non-controlling interests		**(48,233)**	249,268
		400,594	1,000,288
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*6*		
Basic		**8.53 HK cents**	14.30 HK cents
Diluted		**8.53 HK cents**	14.29 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**400,594**	1,000,288
Other comprehensive loss that may be reclassified to profit or loss in subsequent period:		
Exchange difference on translation of foreign operations	**(131,226)**	(223,997)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**269,368**	776,291
Attributable to:		
Owners of the Company	**344,018**	564,098
Non-controlling interests	**(74,650)**	212,193
	269,368	776,291

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Notes	**30 June 2019** ***HK$'000*** **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**18,024,518**	16,921,331
Right-of-use assets		**2,437,518**	-
Prepaid lease payments		**-**	2,137,675
Deposits for purchases of items of property, plant and equipment		**210,663**	143,771
Goodwill		**1,519,833**	1,518,670
Investments in associates		**2,332,067**	2,294,206
Equity instruments at fair value through other comprehensive income		**28,069**	28,066
Intangible assets		**600,437**	612,338
Deferred tax assets		**947,725**	792,674
Total non-current assets		**26,100,830**	24,448,731
CURRENT ASSETS			
Inventories		**22,965,403**	23,314,434
Accounts and bills receivables	*8*	**3,250,384**	4,102,926
Prepayments, deposits and other receivables		**4,706,928**	4,612,215
Other receivables due from Sinograin	*9*	**-**	52,183
Financial assets at fair value through profit or loss		**225,882**	186,365
Due from fellow subsidiaries		**2,721,811**	5,446,633
Due from related companies		**11,172**	31,372
Due from the ultimate holding company		**129,664**	21,150
Due from non-controlling shareholders of subsidiaries		**32,659**	1,505
Due from associates		**31,313**	20,979
Tax recoverable		**194,799**	9,030
Restricted cash at bank		**548,636**	921,327
Cash and cash equivalents		**5,083,956**	7,396,978
Total current assets		**39,902,607**	46,117,097

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2019

	Notes	**30 June 2019** *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
CURRENT LIABILITIES			
Accounts and bills payables	*10*	**3,793,100**	3,003,744
Other payables and accruals		**3,606,773**	4,799,785
Other financial liabilities		**173,727**	45,682
Lease liabilities		**74,601**	-
Interest-bearing bank and other borrowings		**18,408,960**	22,093,866
Bank borrowings due to ADBC	*9*	**-**	52,183
Due to fellow subsidiaries		**2,203,071**	2,362,822
Due to related companies		**9,474**	10,566
Due to the ultimate holding company		**160,841**	177,769
Due to the immediate holding company		**40,220**	-
Due to the intermediate holding company		**5,472**	-
Due to associates		**15,189**	9,425
Due to non-controlling shareholders of subsidiaries		**6,890**	11,058
Contract liabilities		**1,947,591**	3,079,307
Tax payable		**51,399**	272,942
Deferred income		**53,589**	30,366
Total current liabilities		**30,550,897**	35,949,515
NET CURRENT ASSETS		**9,351,710**	10,167,582
TOTAL ASSETS LESS CURRENT LIABILITIES		**35,452,540**	34,616,313
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**90,944**	97,010
Lease liabilities		**116,075**	-
Due to the ultimate holding company		**120,865**	69,836
Due to non-controlling shareholders of subsidiaries		**198,489**	198,803
Deferred income		**656,952**	643,141
Deferred tax liabilities		**387,591**	387,033
Other non-current liabilities		**40,295**	24,561
Total non-current liabilities		**1,611,211**	1,420,384
Net assets		**33,841,329**	33,195,929

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2019

	30 June 2019 *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
EQUITY		
Equity attributable to owners of the Company		
Share capital	**9,797,612**	9,797,048
Other reserves	**19,434,506**	19,166,147
	29,232,118	28,963,195
Non-controlling interests	**4,609,211**	4,232,734
Total equity	**33,841,329**	33,195,929

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial information is prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The financial information relating to the year ended 31 December 2018 that is included in this preliminary announcement of interim results as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*

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

1.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

1.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

1.1.1 Key changes in accounting policies resulting from application of HKFRS 16 - continued

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in an index or a rate used to determine those payments/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

1.1.1 Key changes in accounting policies resulting from application of HKFRS 16 - continued

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

The Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

1.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected 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 standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

1.1.2 Transition and summary of effects arising from initial application of HKFRS 16 - continued

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
iv. applied a single discount rate to a portfolio of leases with a similar remaining lease terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases was determined on a portfolio basis.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.75%.

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	243,082
Lease liabilities discounted at relevant incremental borrowing rates	212,984
Less: Recognition exemption – short-term leases	(27,521)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	185,463
Analysed as	
Current	63,647
Non-current	121,816
	185,463

1.1.2 Transition and summary of effects arising from initial application of HKFRS 16 - continued

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		185,463
Reclassified from prepaid lease payments	(a)	2,189,768
		2,375,231
By class:		
Leasehold lands		2,221,794
Buildings		151,434
Machineries and equipment		1,403
Others		600
		2,375,231

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$52,093,000 and HK$2,137,675,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(b) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019.

(c) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and should be adjusted to reflect the discounting effect at transition. The adjustment of refundable rental deposits paid has no material impact on the Group's financial statements.

1.1.2 Transition and summary of effects arising from initial application of HKFRS 16 - continued

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
		HK$'000	*HK$'000*	*HK$'000*
Non-current assets				
Prepaid lease payments	(a)	2,137,675	(2,137,675)	-
Right-of-use assets		-	2,375,231	2,375,231
Current assets				
Prepayments, deposits and other receivables	(a)	4,612,215	(52,093)	4,560,122
Current liabilities				
Lease liabilities		-	(63,647)	(63,647)
Non-current liabilities				
Lease liabilities		-	(121,816)	(121,816)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

1.2 Impacts and changes in accounting policies of application of other new and amendments to HKFRSs

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the Group to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by individual group entities in their respective income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

The Group applied this interpretation retrospectively with the cumulative effect of initially applying the interpretation recognised at the date of initial application, 1 January 2019, without restating comparatives. The amendments have no material impact on the Group's financial statements.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

(a) the oilseeds processing segment engages in the extraction, refining and trading of edible oil and related products;
(b) the rice processing and trading segment engages in the processing and trading of rice;
(c) the wheat processing segment engages in the production and sale of flour products and related products;
(d) the brewing materials segment engages in the processing and trading of malt; and
(e) the corporate and others segment comprises the Group's corporate income and expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, finance costs and share of profits and losses of associates are managed on a group basis and are not allocated to reportable operating segments.

Segment assets exclude deferred tax assets, tax recoverable, restricted cash at bank, cash and cash equivalents and investments in associates as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Information about the major customer

During the six months ended 30 June 2019, revenue of approximately HK$7,131,688,000 was derived from sales by the oilseeds processing segment to a fellow subsidiary of the Company in respect of certain non-recurring strategic purchases and subcontracting charge contracts by the purchaser. During the six months ended 30 June 2018, no revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue.

Geographical information

As the Group's major operations and customers are located in Mainland China, no further geographical segment information is provided.

2. OPERATING SEGMENT INFORMATION (Continued)

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

Six months ended 30 June 2019

	Oilseeds processing	Rice processing and trading	Wheat processing	Brewing materials	Corporate and others	Eliminations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:							
Sales to external customers	42,992,691	9,138,002	6,191,722	1,305,953	125,666	-	59,754,034
Intersegment sales	-	21,714	14	7,973	-	(29,701)	-
Other revenue	113,255	60,570	36,894	853	24,285	(33,328)	202,529
Segment results	113,815	331,404	61,081	119,969	(8,848)	289	617,710
Interest income							63,821
Finance costs							(379,789)
Share of profits and losses of associates							19,721
Profit before tax							321,463
Income tax							79,131
Profit for the period							400,594
Other segment information:							
Depreciation and amortisation	366,893	110,909	61,316	38,810	22,168	-	600,096
Capital expenditure	430,386	250,869	1,310,614	37,396	32,275	-	2,061,540
As at 30 June 2019							
Assets and liabilities							
Segment assets	36,369,728	10,195,446	6,739,725	3,335,024	19,702,392	(19,446,061)	56,896,254
Corporate and other unallocated assets							9,107,183
Total assets							66,003,437
Segment liabilities	21,661,732	5,637,589	3,082,974	984,264	713,758	(18,857,103)	13,223,214
Corporate and other unallocated liabilities							18,938,894
Total liabilities							32,162,108

2. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2018

	Oilseeds processing *HK$'000* (Unaudited)	Rice processing and trading *HK$'000* (Unaudited)	Wheat processing *HK$'000* (Unaudited)	Brewing materials *HK$'000* (Unaudited)	Corporate and others *HK$'000* (Unaudited)	Eliminations *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue:							
Sales to external customers	33,224,213	7,438,250	5,971,440	1,289,372	396,896	-	48,320,171
Intersegment sales	33	49,941	7	4,950	36,192	(91,123)	-
Other revenue	83,554	82,921	29,654	3,273	1,831	(24,019)	177,214
Segment results	643,950	394,936	104,033	(5,711)	(26,812)	(1,102)	1,109,294
Interest income							75,400
Finance costs							(302,699)
Share of profits and losses of associates							125,024
Profit before tax							1,007,019
Income tax							(6,731)
Profit for the period							1,000,288
Other segment information:							
Depreciation and amortisation	344,249	97,356	52,783	49,092	19,064	-	562,544
Capital expenditure	207,483	53,986	73,586	41,063	9,306	-	385,424
As at 31 December 2018							
Assets and liabilities							
Segment assets	40,157,356	10,601,268	5,235,854	2,820,899	17,957,570	(17,621,334)	59,151,613
Corporate and other unallocated assets							11,414,215
Total assets							70,565,828
Segment liabilities	21,893,855	5,660,220	3,099,397	735,853	747,151	(17,617,428)	14,519,048
Corporate and other unallocated liabilities							22,850,851
Total liabilities							37,369,899

3. REVENUE, OTHER INCOME AND GAINS

Disaggregation of revenue from contracts with customers

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

	For the six months ended 30 June 2019						
	Oilseeds processing	**Rice processing and trading**	**Wheat processing**	**Brewing materials**	**Corporate and others**	**Eliminations**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Types of goods or services							
Edible oil and related products	**42,457,147**	**-**	**-**	**-**	**-**	**-**	**42,457,147**
Rice	**-**	**9,159,716**	**-**	**-**	**-**	**(21,714)**	**9,138,002**
Flour and related products	**-**	**-**	**6,191,736**	**-**	**-**	**(14)**	**6,191,722**
Malt	**-**	**-**	**-**	**1,313,926**	**-**	**(7,973)**	**1,305,953**
Subcontracting service	**535,544**	**-**	**-**	**-**	**-**	**-**	**535,544**
Others	**-**	**-**	**-**	**-**	**125,666**	**-**	**125,666**
Total	**42,992,691**	**9,159,716**	**6,191,736**	**1,313,926**	**125,666**	**(29,701)**	**59,754,034**
Timing of revenue recognition							
A point of time	**42,992,691**	**9,159,716**	**6,191,736**	**1,313,926**	**125,666**	**(29,701)**	**59,754,034**
Total	**42,992,691**	**9,159,716**	**6,191,736**	**1,313,926**	**125,666**	**(29,701)**	**59,754,034**

	For the six months ended 30 June 2018						
	Oilseeds processing	Rice processing and trading	Wheat processing	Brewing materials	Corporate and others	Eliminations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Types of goods or services							
Edible oil and related products	33,224,246	-	-	-	-	(33)	33,224,213
Rice	-	7,488,191	-	-	-	(49,941)	7,438,250
Flour and related products	-	-	5,971,447	-	-	(7)	5,971,440
Malt	-	-	-	1,294,322	-	(4,950)	1,289,372
Others	-	-	-	-	433,088	(36,192)	396,896
Total	33,224,246	7,488,191	5,971,447	1,294,322	433,088	(91,123)	48,320,171
Timing of revenue recognition							
A point of time	33,224,246	7,488,191	5,971,447	1,294,322	433,088	(91,123)	48,320,171
Total	33,224,246	7,488,191	5,971,447	1,294,322	433,088	(91,123)	48,320,171

3. REVENUE, OTHER INCOME AND GAINS (Continued)

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other income		
Government grants*	**70,555**	48,921
Storage income from agency purchase	**-**	6,704
Logistic service, storage income and rental income	**77,906**	58,647
Interest income	**63,821**	75,400
Others	**19,021**	15,353
	231,303	205,025
Gains		
Gains on disposal of raw materials, by-products and scrap items	**27,626**	24,853
Others	**7,421**	22,736
	35,047	47,589
	266,350	252,614

* Various government grants have been received by the Group in certain provinces in Mainland China, which are available for industries or locations in which the Company's subsidiaries operate. There are no unfulfilled conditions or contingencies relating to these grants.

4. PROFIT BEFORE TAX

Profit before tax for the period has been arrived at after charging/(crediting) the following items:

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold or services provided	**55,419,873**	43,170,395
Realised and unrealised fair value losses/(gains) of commodity futures contracts, net	**539,987**	(576,133)
Provision for inventories	**62,349**	497,082
Provision for loss on non-cancellable purchase commitments^	**73,539**	859,385
Cost of sales	**56,095,748**	43,950,729
Depreciation of property, plant and equipment	**521,893**	522,783
Depreciation of right-of-use assets	**65,990**	-
Amortisation of intangible assets	**12,213**	13,365
Recognition of prepaid lease payments	**-**	26,396
Employee benefit expenses (including directors' and chief executive's remuneration)	**1,048,820**	1,254,872
(Gain)/loss on disposal of items of property, plant and equipment	**(5,769)**	636
Loss on foreign exchange, net	**87,559**	76,688
Realised and unrealised fair value losses on foreign currency forward contracts, net	**17,629**	34,337

^ It is the Group's usual practice to enter into purchase commitments with delivery of raw materials at a specified future date. As at 30 June 2019, the Group had certain non-cancellable purchase commitments of raw materials (the "Purchase Contracts") on which the Group expects that the unavoidable costs of meeting obligations under the Purchase Contracts will exceed the economic benefits expected to be received under it. The expected loss of HK$73,539,000 (six months ended 30 June 2018: HK$859,385,000) is estimated with reference to the expected selling prices of the corresponding products, and a provision thereon has been made in the condensed consolidated statement of profit or loss for the six months ended 30 June 2019. The directors of the Company consider that these losses are resulted from the Group's ordinary course of business.

5. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Pursuant to the approvals issued by the State Administration of Taxation of the PRC in 2013, the Company and certain of its subsidiaries incorporated out of Mainland China are regarded as Chinese resident enterprises, and the relevant enterprise income tax policies of PRC are applicable to the Company and these subsidiaries commencing from 1 January 2013.

PRC corporate income tax ("CIT") represents tax charged on the estimated assessable profits arising from the enterprises operating in Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC CIT rate of 25%. However, one of the Group's subsidiaries is being approved by the relevant authorities as high-technology enterprise in Mainland China, and another subsidiary of the Group is engaged in the industry specified in the "Western Development Strategy" in Mainland China. The relevant authorities have granted these subsidiaries preferential CIT rate of 15%. Besides, the Group's certain subsidiaries are also granted income tax exemption on the profit generated from processing of certain agricultural products.

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current – Hong Kong		
Charge for the period	**853**	(255)
Current – Mainland China		
Charge for the period	**60,126**	192,704
Under-provision in prior periods	**16,636**	16,214
Deferred tax	**(156,746)**	(201,932)
Total tax for the period	**(79,131)**	6,731

6. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic and diluted earnings per share attributable to ordinary equity holders of the Company is based on the following data:

Earnings

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculations	**448,827**	751,020

Number of shares

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations	**5,258,962,416**	5,251,722,325
Effect of dilution on the weighted average number of ordinary shares		
Share options	**-**	3,830,353
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculations	**5,258,962,416**	5,255,552,678

For the six months ended 30 June 2019, no adjustments in respect of share options have been made to the earnings and number of shares used in the basic earnings per share calculation due to that the outstanding share options have anti-dilutive effect on the basic earnings per share amount presented.

7. DIVIDEND

On 28 August 2019, the Board declared an interim dividend of 1.7 HK cents (six months ended 30 June 2018: 3.6 HK cents) per ordinary share, amounting to a total of approximately HK$89,403,000 (six months ended 30 June 2018: HK$189,306,000).

The amount of the interim dividend per ordinary share for the six months ended 30 June 2019 was calculated based on 5,258,985,388 (30 June 2018: 5,258,507,388) ordinary shares in issue as at 30 June 2019.

8. ACCOUNTS AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for 30 to 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 the 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. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivables balances. Accounts and bills receivables are non-interest-bearing and are normally settled within one to three months, and one to six months, respectively.

The following is an analysis of trade receivables by age, presented based on the invoice date and bill issue date, net of allowance for credit losses.

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**3,115,833**	3,931,031
3 to 12 months	**130,396**	169,850
1 to 2 years	**3,622**	1,425
2 to 3 years	**533**	620
	3,250,384	4,102,926

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 sales 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 rate is considered insignificant at 30 June 2019.

The estimated loss rate is estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information.

9. AGENCY PURCHASE OF GRAINS

Pursuant to the Fagaidian [2013] No. 229, Guoliangtiao [2013] No. 265, Guoliangtiao [2014] No. 254 and Guoliangtiao [2015] No.169 issued by certain Chinese government authorities (the "Notices"), during the period from 30 November 2013 to 30 April 2014, the period from 30 November 2014 to 30 April 2015 and the period from 1 November 2015 to 30 April 2016 (the "Designated Grain Purchase Periods"), certain subsidiaries (the "Entrusted Subsidiaries") of rice processing and trading business entered into agency purchase agreements (the "Agency Purchase Agreements") with branch companies of China Grain Reserves Corporation ("Sinograin"), which is a state-owned enterprise, and local grain authorities of State Administration of Grain to purchase certain quantities of grains from farmers as agent of Sinograin at prices fixed in the Agency Purchase Agreements during the Designated Grain Purchase Periods. According to the Notices and the Agency Purchase Agreements, (a) the grains purchased are national grains reserve and should be stored in separate warehouses of the Entrusted Subsidiaries and Sinograin is obliged to pay the Entrusted Subsidiaries with custody fees; (b) the funds for purchase of grains would be financed by Agricultural Development Bank of China ("ADBC"), which is a bank incorporated to implement Chinese government's agricultural policies, through bank loans lent to the Entrusted Subsidiaries; (c) the interest expenses related to these bank loans would be fully reimbursed by Sinograin to these Entrusted Subsidiaries once the related government subsidies were granted to Sinograin; and (d) the principal of the bank loans should be repaid to ADBC upon receipt of funds transferred from Sinograin when the grains are sold by Sinograin.

As at 30 June 2019, the balance owed by Sinograin to the Group was nil (31 December 2018: HK$52,183,000) and the balance of short term unsecured bank loans owed by the Group to ADBC was nil (31 December 2018: HK$52,183,000), as a result of the aforesaid arrangements. In view of the fact that the interest expenses to ADBC can be fully reimbursed by the related interest income from Sinograin, the interest expenses to ADBC and the related interest income from Sinograin were presented on a net basis in the condensed consolidated statement of profit or loss.

10. ACCOUNTS AND BILLS PAYABLES

An aging analysis of the Group's accounts and bills payables at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2019 *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
Within 3 months	**3,618,734**	2,911,538
3 to 12 months	**149,848**	72,192
1 to 2 years	**20,972**	16,592
Over 2 years	**3,546**	3,422
	3,793,100	3,003,744

Accounts and bills payables are non-interest-bearing and are normally settled within one to three months.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2019, China's GDP reached RMB45 trillion according to preliminary calculation, up 6.3% year-on-year based on comparable price. China's economy has been operating within an expected proper range, and remained stable while making further progress. However, the market fluctuated notably due to the uncertain international trade environment and unfavourable weather conditions in the main material growing regions. The African swine fever epidemic affected the demand of animal feed ingredients for hog breeding industry in China. The competition for branded products' market share became intensive. As a result, the agri-food processing industry faced increasing challenges.

China Agri-Industries Holdings Limited ("China Agri" or the "Company") continued to execute the existing strategy to promote the development of branded business, and address the industry headwinds with its integrated value chain. Leveraging the supplier network, comprehensive production capacity and mature customer channels that have been built up through years of effort, the Company kept expanding business scale. Total sales volume of major products further increased year-on-year, driving a 23.7% rise in revenue to HK$59,754.0 million. The Company's overall capacity utilisation rate also remained high, amid an increase in production capacity. However, adverse factors, such as weak domestic demand for animal feed, led to a year-on-year tightened margin for the oilseeds processing industry, which also affected the performance of the Company's oilseeds processing business. In addition, there was more spending to expand the market of the branded rice and flour products. Profit attributable to owners of the Company for the period was HK$448.8 million, versus HK$751.0 million in the same period of 2018.

- **Oilseeds Processing Business:**

In the first half of 2019, the international oilseeds market fluctuated wildly due to the uncertain international trade environment and unstable weather in the main material growing regions, making the industry environment more complex. The overall profitability of the oilseeds processing industry was relatively low, mainly due to sluggish demand for animal feed because of the epidemic in the domestic hog breeding industry.

In spite of such a fluctuating market environment, the Company's oilseeds processing business continued to benefit from its integrated value chain. The business team leveraged its raw material procurement system to keep track the changes in the market closely, appropriately adjust the sources of procurement and ensure a stable and sustainable supply of raw material. In the meantime, by leveraging its business capability in each link of value chain, the Company expanded income sources through various channels to offset the negative impact of weak demand. As a result, the Company achieved a year-on-year increase in sales volume and value (including the business reflected under the heading of "information about the major customer" under note 2 of the condensed consolidated interim financial information). The oilseeds processing business has proactively taken measures to improve operational quality and efficiency, reduce operating costs and increase the effectiveness of spending. Nevertheless, sluggish demand limited the cost pass-through ability of products such as oilseed meal. Against a volatile market backdrop, the Company recorded a significant year-on-year decline in gross margin and significant drop in profit.

During the period under review, the Company continued to make progress in its branded edible oil business by increasing its sales volume and market share among both retail and catering customers. In terms of branding, the Company selected suitable media, such as local satellite TV, hypermarkets and media display screens in lifts, to reach the target group of small-packaged products according to customer surveys to improve the effectiveness and precision of advertisement. With over 35,000 offline promotional activities, over 1,600 local communities' campaigns and 40 roadshows during the period under review, the Company enhanced its connection with consumers to effectively improve sales conversion rate. Meanwhile, the Company actively developed its mid-packaged edible oil business to seize the market opportunity of fast-growing demand of the catering and restaurants. By leveraging its advantages in production capacity, products portfolio and branding, sales volume rapidly grew via classified distributor management, flagship store establishment and product promotion. During the period under review, the Company recorded total sales volume of 1.055 million metric tons of branded edible oil[1], representing a 13.9% year-on-year increase.

During the first half of 2019, the oilseeds processing business sold 5.293 million metric tons of oilseed meals and 3.070 million metric tons of vegetable oil, 17.4% and 26.0% increases, respectively, from a high base for the same period last year. Revenue rose by 29.4% year-on-year to HK$42,992.7 million. Operating profit was HK$113.8 million, compared with HK$644.0 million in the same period of 2018.

- **Rice Processing and Trading Business:**

Since 2019, China has faced an oversupply of paddy and falling average prices for different rice varieties compared with the previous year, which brought down material costs. Although the food consumption of rice has been shrinking, demand for mid-to-high end and premium rice has been climbing steadily, driving the industry towards more branding and refined businesses. Large-scale companies continued to sharpen their edges in production capacity, utilisation rate and market share, driving the market to further consolidate and helping leading players to maintain healthy margins despite the fierce competition.

During the period under review, with more resources put into branded business, the rice processing and trading business achieved encouraging positive outcomes in both brand promotion and featured product development. During the Spring Festival sales season, the Company kicked off a promotional campaign with the theme "Taking Fortune Home with You for the Spring Festival (福臨門陪您回家過年)", bringing the "Fortune (福临门)" brand closer to consumers. As the key new product, the Company has continued to push the marketing of "Fortune Jintian Rice (福临门金田米)" since it was launched at the end of last year. With an integrated online and offline marketing slogan "Fortune Jintian Rice, Good Rice from Good Growing Regions (福臨門金田米，產地好大米好)", awareness of the product has been effectively spread within customers. In addition, the Company organised the 2019 China Agri Fortune Paddy Ploughing Culture Festival (中糧福臨門 2019 年水稻開耕文化節) in Hulin City of Heilongjiang Province, one of the best high-quality rice growing regions in China, to further promote the provenance of "Fortune Jintian Rice (福临门金田米)" and strengthen its brand recognition. The Company also participated in the 100th China National Food and Drinks Fair (第 100 屆全國糖酒商品交易會) in Chengdu City to demonstrate the strength of its products and brands, which also helped to draw more attention from the market. During the period under review, the Company's increased sales expenses helped further sales growth of branded rice products. The market share for the Company's branded rice business was approximately 12.9%[2], retaining the leading position in the industry.

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[1] Branded edible oil includes small-packaged oil for retail customers and mid-packaged oil for catering customers.
[2] Data source: AC Nielsen, hypermarkets of 16 major cities.

The Company leveraged its well-established business system and actively grew the scale of its import/export business to generate new growth drivers. As a result, the sales volume increased significantly year-on-year and the capacity utilisation rate remained stable at high level. By closely controlling the integrated value chain, China Agri was able to deliver reliable and stable product quality as well as record high delivery efficiency, which reinforced a premium corporate image in the international market. The Company currently exports products to customers in over 70 countries and regions.

During the period under review, with strong support from the Company's international trade business system, total sales volume of major products for the rice trading and processing business increased 34.7% year-on-year to 2.100 million metric tons, and revenue rose 22.9% year-on-year to HK$9,138.0 million. The gross profit margin was declined slightly year-on-year, which remained at a relatively high level. Due to a continual increase in marketing expenses for branded products, operating profit declined to HK$331.4 million compared with the same period last year.

- **Wheat Processing Business:**

Since the start of 2019, the domestic supply of wheat has been sufficient, which has reduced the cost of raw materials. Driven by the increasing demand for special-purpose and branded flour products, market leaders have continued to gain more market share. However, the capacity utilisation rate across the sector has been inadequate, which put pressures on profitability. Against a backdrop of declining bran prices, the profit margin of the entire industry has been further squeezed.

As one of the market leaders, the Company has been actively implementing its strategic plan to boost the scale of the wheat processing capacity. After the completion of the acquisitions to extend footprint in high-quality material growing regions in last year, the Company made another acquisition in Tianjin City during the period under review to achieve more than 20% growth in wheat processing capacity. As a result, this effectively improved the Company's coverage and capacity in the key Beijing-Tianjin-Hebei market, laying a solid foundation for further sales growth. Moreover, with the support of technology, the wheat processing business successfully developed 26 new flour products, 10 new noodle products, and 2 high-end baking flour to meet the market demand. Product portfolio became more complete, which helped boost the Company's sales performance.

Focusing on high-quality development, the Company further increased its investment in the branded flour business with multi-channel synergies in an effort to drive the sales volume of major products. The Company concentrated its efforts on expanding the coverage of its branded flour products in supermarkets to improve its penetration rate. It also incentivised distributors to sell high margin products in order to support sales growth. Furthermore, the Company cooperated with several important ecommerce platforms to conduct new product interactive marketing campaigns and joint promotion of rice and flour products to increase potential customer base. With the support of the marketing programs, the Company has accumulated 33,000 more sales outlets, helping to deliver faster year-on-year growth in sales volume of branded flour products.

During the period under review, the sales volume of flour products in the Company's wheat processing business increased by 12.9% year-on-year to 1.481 million metric tons. Revenue was HK$6,191.7 million, an increase of 3.7% year-on-year. The gross profit margin was relatively stable year-on-year. Due to the increase in marketing expenses for branded products, operating profit decreased to HK$61.1 million.

- Brewing Materials Business:

In the first half of 2019, brewing material market and supply were affected by abnormal weather conditions in the major barley growing regions of the world and changes in the international trade environment, which brought more challenges to the business. Factors such as a delayed summer led to sluggish demand for beer, which negatively affected the domestic demand for malt. In addition, raw material suppliers for beer faced greater sales pressure due to the high inventory among customers.

The Company analysed the supply and demand of alternative suppliers to actively respond to policy changes of the major material supply country. By making alternate plans and managing risks, the Company managed to secure a relatively stable supply of raw materials, and thus mitigate the pressure of rising costs. Supported by its technical capabilities, the Company followed the trends in the high-end and craft beer markets to further upgrade its products portfolio and mitigate the challenges of weak demand to maintain sales volume. With effective management, the Company maintained high capacity utilisation, effectively controlled the production costs and various expenses, keeping profit and return at a high level.

During the period under review, the sales volume of malt for the Company's brewing materials business decreased slightly by 1.9% year-on-year to 358,000 metric tons. Revenue, supported by rising product prices, increased by 1.3% year-on-year to HK$1,306.0 million. Gross profit margin declined slightly year-on-year. Operating profit, increased significantly year-on-year to HK$120.0 million due to the lower base in 2018, which mainly owing to the cessation of operations of a plant in Inner Mongolia, which resulted in the recognition of impairment losses on property, plant and equipment of HK$128.5 million in last year.

Outlook

Looking ahead to the second half of the year, the international trade environment and commodity markets will remain complex, which may still posing challenges to the operation. The Company will continue to focus on its branded business strategically. By deepening the cooperation with the upstream and downstream value chains, enhancing coordination across product categories and improving effectiveness of spending, China Agri will keep expanding the business scale of branded oil, rice and flour products. With more efforts put on lean management and cost savings, the Company will improve the operational efficiency of newly-expanded capacity to match the growth in sales volume and market share, enhancing its industry leading position and competitiveness.

FINANCIAL REVIEW

Overview of Financial Results for the Six Months Ended 30 June 2019

Revenue

	For the six months ended 30 June	
	2019	2018
	HK$ million	*HK$ million*
Business units:		
Oilseeds processing	**42,992.7**	33,224.2
Rice processing and trading	**9,138.0**	7,438.3
Wheat processing	**6,191.7**	5,971.4
Brewing materials	**1,305.9**	1,289.4
Corporate and others	**125.7**	396.9
	59,754.0	48,320.2

For the six months ended 30 June 2019, the Group continuously cultivated new markets, promoted its branded business and expanded its business scale. Sales volume of major products, particularly in edible oil, rice and flour, grew year-on-year, maintaining the overall capacity utilisation rate at a high level. The revenue of the Group during the period increased by 23.7% to HK$59,754.0 million from a year earlier.

Gross Profit and Gross Profit Margin

During the period, the breeding industry witnessed falling hog stocks mainly due to the impact of the African swine fever, resulting in a weaker demand and lower overall market prices of soybean meals and other materials for animal feeds and a narrower average profit margin of domestic oilseeds processing industry. Under pressure from these factors, the overall gross profit of the Group declined by 16.3% to 3,658.3 million and gross profit margin dropped by 2.9 percentage points to 6.1% as compared with the corresponding period in 2018.

Selling and Distribution Expenses

During the period, due to an increase in logistic expenses owing to larger sales volume and an investment in marketing expenses for the branded business, the selling and distribution expenses of the Group were HK$2,390.2 million (six months ended 30 June 2018: HK$2,230.0 million), accounting for 4.0% of the Group’s revenue (six months ended 30 June 2018: 4.6%) and representing a year-on-year increase of 7.2%.

Administrative Expenses

During the period, the Group's administrative expenses decreased by 24.7% year-on-year to HK$723.4 million due to adjustments to performance based remuneration for employees and continual improvement on operational quality and efficiency.

Finance Costs

During the period, the average interest rate of US Dollar ("USD") loans of the Group increased year-on-year as a result of increases in interest rate of USD in 2018, and the average size of trade finance slightly increased as compared with corresponding period last year. The finance costs of the Group were HK$379.8 million (six months ended 30 June 2018: HK$302.7 million), up 25.5% as compared with the same period last year. An analysis of the finance costs by category is as follows:

	For the six months ended 30 June	
	2019	2018
	HK$ million	*HK$ million*
Interest on loans:		
Bank loans	**299.0**	274.2
Loans from fellow subsidiaries	**75.9**	29.4
Loans from the ultimate holding company	**2.3**	0.6
Loans from non-controlling shareholders of subsidiaries	**0.2**	-
	377.4	304.2
Interest on lease liabilities:		
Lease liabilities due to third parties	**2.0**	-
Lease liabilities due to the ultimate holding company	**1.3**	-
Lease liabilities due to fellow subsidiaries	**1.0**	-
	4.3	-
Total interest expenses on financial liabilities not at fair value through profit or loss	**381.7**	304.2
Less: Interest capitalised	**(1.9)**	(1.5)
	379.8	302.7

Profit Attributable to Owners of the Company

During the period, the Group continued to implement its existing strategies and promoted its branded business. The sales volume of major products grew. However, the weaker demand on animal feeds affected the business performance of the oilseeds processing business of the Group and selling and distribution expenses increased as compared with the corresponding period last year, leading to a year-on-year decline in profit attributable to owners of the Company during the period to HK$448.8 million.

Interim Dividend

The Board has declared the payment of an interim dividend of 1.7 HK cents (six months ended 30 June 2018: 3.6 HK cents) per share for the six months ended 30 June 2019. This interim dividend will be payable on or around 31 October 2019 to shareholders whose names appear on the register of members of the Company on 16 September 2019.

Significant Investments Held and Material Acquisitions and Disposals of Subsidiaries

On 13 March 2019, COFCO Rice (HK) No.6 Limited ("Rice No.6"), a wholly-owned subsidiary of the Company, and COFCO Corporation ("COFCO") entered into the Shenyang Rice Capital Increase Agreement, to agree upon the capital increase in COFCO Shenyang Rice Processing Limited ("Shenyang Rice") on a pro-rata basis. Pursuant to which, Rice No.6 and COFCO made a capital increase in an amount of approximately RMB87,609,000 and approximately RMB12,253,000 in Shenyang Rice, respectively. The capital increase of Rice No.6 was paid in cash out of the internal funds of the Group. Immediately after the completion of capital increase in Shenyang Rice, the shareholders and shareholding ratio of Shenyang Rice remain the same, and Shenyang Rice is still being held as to 87.73% by Rice No.6 and 12.27% by COFCO. The capital increase transaction was completed on 24 April 2019.

On 13 March 2019, COFCO Rice (HK) No.2 Limited ("Rice No.2"), a wholly-owned subsidiary of the Company, and COFCO entered into the Yancheng Rice Capital Increase Agreement, to agree upon the capital increase in COFCO Rice (Yancheng) Co., Ltd. ("Yancheng Rice") on a pro-rata basis. Pursuant to which, Rice No.2 and COFCO made a capital increase in an amount of RMB17,846,000 and RMB2,154,000 in Yancheng Rice, respectively. The capital increase of Rice No.2 was paid in cash out of the internal funds of the Group. Immediately after the completion of capital increase in Yancheng Rice, the shareholders and shareholding ratio of Yancheng Rice remain the same, and Yancheng Rice is still being held as to 89.23% by Rice No.2 and 10.77% by COFCO. The capital increase transaction was completed on 15 April 2019.

Please refer to the Company's announcements dated 13 March 2019 for the details of the abovementioned transactions.

Saved as disclosed above, the Group did not have any other significant investments held nor any material acquisitions and disposals of subsidiaries during the period.

Working Capital and Financial Policy

The Group closely monitors the liquidity of funding and the availability of financial resources to ensure that cash inflows generated from operating activities together with undrawn banking facilities are sufficient to meet the demands required for day-to-day operations, loan repayments, capital expenditure and potential business expansion opportunities. During the period, the Group's working capital needs were financed primarily by the accumulated surplus and bank borrowings.

The Group adheres to a prudent and stable financial policy and commits to developing new external funding channels, strengthening fund-raising capability and ensuring liquidity of funding. The Group aims to raise turnover rate and generate more operating cash flows as well as pursuing a centralised cash management on surplus funding. Besides, the Group has actively used hedging tools to avert foreign exchange risk exposure on the foreign debts.

The Group entered into a financial services agreement with COFCO Finance Co., Ltd. through COFCO Agri-Industries Management Co., Ltd. (a subsidiary of the Company) for the purpose of achieving more efficient deployment and application of funds within the Group so as to reduce the average borrowing costs and better facilitate intra-Group settlement services. During the year, the Group enhanced the liquidity of funds, reduced finance costs and effectively monitored the use of funds through this treasury platform.

Cash and Bank Deposits

Cash and bank deposits (including restricted cash at bank) of the Group were HK$5,632.6 million as at 30 June 2019 (31 December 2018: HK$8,318.3 million). During the period, the Group recorded net cash inflows from operations of approximately HK$2,565.5 million (year ended 31 December 2018: net cash outflows of HK$882.5 million). These liquid funds were mainly denominated in Hong Kong dollars, Renminbi and USD.

Bank Loans and Other Borrowings

Total interest-bearing bank loans and other borrowings amounted to HK$18,499.9 million (31 December 2018: HK$22,190.9 million) as at 30 June 2019. The borrowings were mainly used for the daily operation and business expansion of the Group. These loans are repayable within the following periods:

	30 June 2019 *HK$ million*	31 December 2018 *HK$ million*
Within one year or on demand	**18,408.9**	22,093.9
In the second to fifth years, inclusive	**45.5**	45.6
Beyond five years	**45.5**	51.4
	18,499.9	22,190.9

Interest-bearing bank loans carried annual interest rates ranging between 2.77% and 5.22% (31 December 2018: between 2.80% and 5.22%). Other borrowings carried annual interest rates ranging between 1.08% and 4.57% (31 December 2018: between 1.08% and 4.57%). These interest-bearing bank loans and other borrowings were mainly denominated in Hong Kong dollars, Renminbi and USD.

As at 30 June 2019, the Group has pledged property, plant and equipment and land use rights, with an aggregate carrying value of HK$103.9 million (31 December 2018: HK$38.1 million), deposits of HK$317.9 million (31 December 2018: HK$526.7 million) and no bills receivables (31 December 2018: HK$159.8 million) to secure bank loans and banking facilities.

The Group had no unutilised committed banking facilities as at 30 June 2019 and 31 December 2018. The Group will continue to obtain financing on an unsecured basis whenever possible and supplement such borrowings with secured financing.

Financial Ratios

The Group's financial ratios at 30 June 2019 and 31 December 2018 are set out below:

	30 June 2019	31 December 2018
Net gearing ratio (the ratio of net debts to equity attributable to owners of the Company)	**44.0%**	47.9%
Liquidity ratio (the ratio of current assets to current liabilities)	**1.31**	1.28
Quick ratio (the ratio of current assets less inventories to current liabilities)	**0.55**	0.63

Net debt represents the Group's total interest-bearing bank loans and other borrowings less cash and cash equivalents and restricted cash at bank. Therefore, net debt of the Group was HK$12,867.3 million at 30 June 2019 (31 December 2018: HK$13,872.6 million).

Capital Expenditures

The total capital expenditures of the Group for the period ended 30 June 2019 are tabulated below:

	For the six months ended 30 June	
	2019	2018
	HK$ million	*HK$ million*
Business units:		
Oilseeds processing	**430.4**	207.5
Rice processing and trading	**250.9**	54.0
Wheat processing	**1,310.6**	73.6
Brewing materials	**37.4**	41.0
Corporate and others	**32.2**	9.3
	2,061.5	385.4

Capital Commitments

Capital commitments contracted but not provided for in the Group's condensed consolidated interim financial statements as at 30 June 2019 are set out below. These commitments are to be financed by loans and working capital of the Group.

	30 June 2019 *HK$ million*	31 December 2018 *HK$ million*
Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	**1,489.7**	1,248.7

HUMAN RESOURCES

The Group employed 18,011 (31 December 2018: 17,646) staff as at 30 June 2019. The Group's employees are remunerated based on job nature, performance assessment result and market trends with built-in merit components. Total remuneration (including directors' and chief executive's remuneration) for the period ended 30 June 2019 amounted to approximately HK$1,048.8 million (six months ended 30 June 2018: HK$1,254.9 million). Employees in Hong Kong receive retirement benefits, mostly in form of a Mandatory Provident Fund entitlement, and a similar benefit scheme is offered to employees in Mainland China. Of the total remuneration, pension scheme contributions amounted to HK$104.6 million (six months ended 30 June 2018: HK$98.9 million) for the period.

The Company adopted a share option scheme on 12 January 2007 to attract, retain and motivate senior management personnel and key employees, and provide eligible participants with an opportunity to acquire equity interests in the Company that would encourage them to work towards enhancing the value of the Company and its shares. The share option scheme of the Company expired on 21 March 2017. As at 30 June 2019, there were 94,340,000 outstanding share options granted, which are exercisable in accordance with the terms of the expired share option scheme.

Besides, the Group also encourages employee participation in continuing training programmes, seminars and e-learning courses, through which will enhance their career development and technical skills for tapping individual potentials.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

INTERIM DIVIDEND

On 28 August 2019, the Board resolved to declare the payment of an interim dividend of 1.7 HK cents per ordinary share for the six months ended 30 June 2019 (the "2019 Interim Dividend") payable on or around 31 October 2019 to shareholders of the Company whose names appear on the register of members of the Company on 16 September 2019 (the "Record Date").

The "Notice Regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management" was issued by the State Administration of Taxation of PRC (the "SAT") on 22 April 2009 (the "Notice"). The implementation of the Notice commenced on 1 January 2008. In 2013, the Company received the SAT approvals which confirmed that (i) the Company is regarded as a Chinese Resident Enterprise; and (ii) relevant enterprise income tax policies shall be applicable to the Company starting from 1 January 2013. Pursuant to the Notice, the "Enterprise Income Tax Law of the People's Republic of China" (the "Enterprise Income Tax Law") and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" (the "Implementation Rules"), the Company is required under the laws of the PRC to withhold and pay enterprise income tax for its non-resident enterprise shareholders to whom the Company pays the 2019 Interim Dividend. The withholding and payment obligation lies with the Company.

Pursuant to (i) the Notice, (ii) the Enterprise Income Tax Law and the Implementation Rules, and (iii) the SAT approvals, the Company is required to withhold 10% enterprise income tax when it distributes the 2019 Interim Dividend to its non-resident enterprise shareholders. In respect of all shareholders whose names appear on the Company's register of members as at the Record Date who are not individuals (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organisations, which are all considered as non-resident enterprise shareholders), the Company will distribute the 2019 Interim Dividend after deducting enterprise income tax of 10%. The Company will not withhold and pay the income tax in respect of the 2019 Interim Dividend payable to any natural person shareholders whose names appear on the Company's register of members on the Record Date.

If any resident enterprise (as defined in the Enterprise Income Tax Law) listed on the Company's register of members which is duly incorporated in the PRC or under the laws of a foreign country (or a region) but with a PRC-based de facto management body, does not desire to have the Company withhold the said 10% enterprise income tax, it should lodge with Tricor Progressive Limited documents from its governing tax authority confirming that the Company is not required to withhold and pay enterprise income tax in respect of the dividend that it is entitled before 4:30 p.m. on 13 September 2019.

Investors should read the above carefully. If anyone would like to change the identity of the holders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold for payment of the enterprise income tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government departments and adhere strictly to the information set out in the Company's register of members on the Record Date. The Company assumes no liability whatsoever in respect of, and will not entertain any claims arising from, any delay in, or inaccurate determination of, the status of the shareholders or any disputes over the mechanism of withholding.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the 2019 Interim Dividend, the register of members of the Company will be closed on 16 September 2019. No transfers of shares will be registered on that date. In order to be qualified for entitlement to the 2019 Interim Dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the share registrar and transfer office of the Company, Tricor Progressive Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 13 September 2019.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2019, the Company complied with all the code provisions and, where appropriate, the applicable recommended best practices set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for a deviation from the code provision E.1.2. The code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. Mr. Luan Richeng, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 31 May 2019 due to other business engagement. Mr. Wang Zhen, an executive director and the managing director of the Company, took the chair of the annual general meeting and all other chairmen of Board committees attended the meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the principal standards of securities transactions for directors of the Company. Each of the directors of the Company have confirmed, following specific enquiry of all the directors by the Company, that they have complied with the required standards as set out in the Model Code during the six months ended 30 June 2019.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information of the Company for the six months ended 30 June 2019 has been reviewed by the Audit Committee of the Company.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the Company's website *(http://www.chinaagri.com)* and the website of The Stock Exchange of Hong Kong Limited. The 2019 interim report of the Company will be available on the aforementioned websites and despatched to shareholders of the Company before 30 September 2019.

By Order of the Board
China Agri-Industries Holdings Limited
LUAN Richeng
Chairman

Hong Kong, 28 August 2019

As at the date of this announcement, the Board comprises: Mr. LUAN Richeng as chairman of the Board and non-executive director; Mr. WANG Zhen, Mr. XU Guanghong and Ms. HUA Jian as executive directors; Mr. JIA Peng and Mr. MENG Qingguo as non-executive directors; and Mr. LAM Wai Hon, Ambrose, Mr. Patrick Vincent VIZZONE and Mr. ONG Teck Chye as independent non-executive directors.

This announcement has been issued in the English language with a separate Chinese language translation. If there is any conflict in the announcement between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.