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中糧家佳康食品有限公司
COFCO Joycome Foods Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01610)

**ANNUAL RESULTS ANNOUNCEMENT FOR
THE YEAR ENDED DECEMBER 31, 2020**

The board of directors (the “**Board**”) of COFCO Joycome Foods Limited (the “**Company**” or “**we**”, “**our**” or “**us**”) is pleased to announce the audited consolidated results and financial position of the Company and its subsidiaries (the “**Group**”) for the year ended December 31, 2020, together with the comparative figures for the corresponding period in 2019 as follows:

HIGHLIGHTS

Key Operating Data	2020	2019	year-on-year (%)	
Hog production volume (unit: ' 000 heads) ⁽¹⁾	2,046	1,985	3.1%	
Average selling price of finishing hogs (RMB/kg) ⁽¹⁾	32.33	16.16	100.1%	
Fresh pork sales volume (unit: ' 000 tons) ⁽²⁾	109	146	-25.5%	
Branded small-packed fresh pork sales volume (unit: ' 000 boxes) ⁽²⁾	34,942	26,426	32.2%	
Ratio of revenue from branded business of total fresh pork business ⁽³⁾	38.9%	32.0%	6.9ppt	
Meat import sales volume (unit: ' 000 tons) ⁽⁴⁾	356	179	99.1%	
Key Financial Data	2020		2019	
	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 specified)			
Revenue ⁽⁵⁾	18,922,112	18,922,112	11,078,665	11,078,665
Profit for the Year	2,910,475	4,024,634	373,406	1,522,223
Profit attributable to the owners of the Company ^{(6) (7)}	2,880,965	3,995,124	424,910	1,573,727
Basic earnings per share (RMB per share) ⁽⁸⁾	0.7383	1.0239	0.1094	0.4033

Notes:

1. Hog supply across the country remains tight this year, with the average selling price of finishing hogs of the Group increasing by 100.1% year-on-year. Benefiting from the effective prevention and control of the African swine fever, the Group's hog production volume increased by 3.1% year-on-year, and the production cost were maintained at a competitive level within the industry. The above mentioned factors significantly increased the income and profit from the hog production segment year-on-year.
2. Affected by the shortage of hog supply in the industry, hog procurement volume of the Group's fresh pork segment declined, and fresh pork sales volume decreased by 25.5% year-on-year. However, seizing the opportunities of rapid growth in household consumption during the COVID-19 pandemic, the Group vigorously promoted its branded small-packed fresh pork, the sales volume of which increased by 32.2% year-on-year.
3. "Ratio of revenue from branded business of total fresh pork business" refers to revenue from branded fresh pork divided by total fresh pork revenue. The ratio increased by 6.9 percentage points year on year, benefiting from brand promotion and channel development.
4. To deal tight domestic meat supply, the Group expanded its import procurement and sales volume, and the meat import sales volume of the Group increased by 99.1% year-on-year.
5. Revenue amounted to RMB18,922 million, representing a year-on-year increase of 70.8%. Each segment recorded a year-on-year increase in revenue, of which the revenue from the hog production business amounted to RMB6,339 million, representing a year-on-year increase of 80.9%, and the revenue from the meat import business amounted to RMB9,252 million, representing a year-on-year increase of 78.8%.
6. Profit attributable to the owners of the Company before biological assets fair value adjustments amounted to RMB 2,881 million, representing a year-on-year increase of RMB2,456 million. The Group focused on epidemic prevention and control and cost management, substantially increased the results of the hog production segment year on year, and significantly improved the overall performance of the Group.
7. Profit attributable to the owners of the Company after biological assets fair value adjustments amounted to RMB3,995 million. The biological assets fair value was adjusted based on the hog price as of December 31, 2020. Compared to that as of December 31, 2019, the number of our live hogs increased.
8. The basic earnings per share represent the profit attributable to the owners of the Company divided by the weighted average number of ordinary shares for the year.

The Board recommended the payment of a final dividend for 2020 out of the share premium account under reserves of the Company in the amount of HK\$0.206 per share to shareholders. Together with the interim dividend for 2020 in the amount of HK\$0.118 per share, the full-year dividend for 2020 was HK\$0.324 per share. Subject to the approval by the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting of the Company (the "**Annual General Meeting**") to be held on May 12, 2021 and compliance with the Companies Law of the Cayman Islands, the final dividend is expected to be paid on or around June 4, 2021 to the Shareholders whose names appear on the registers of members of the Company on May 21, 2021.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2020

		2020			2019		
		Results before biological assets fair value adjustments RMB'000	Biological assets fair value adjustments RMB'000	Total RMB'000	Results before biological assets fair value adjustments RMB'000	Biological assets fair value adjustments RMB'000	Total RMB'000
	NOTES						
Revenue	2	18,922,112	–	18,922,112	11,078,665	–	11,078,665
Cost of sales		(14,315,334)	(4,420,273)	(18,735,607)	(10,087,973)	(897,894)	(10,985,867)
Gross profit		4,606,778	(4,420,273)	186,505	990,692	(897,894)	92,798
Other income	4	172,195	–	172,195	173,424	–	173,424
Other gains and losses	5	(865,746)	–	(865,746)	(8,831)	–	(8,831)
Selling and distribution expenses		(399,291)	–	(399,291)	(344,697)	–	(344,697)
Administrative expenses		(534,252)	–	(534,252)	(265,945)	–	(265,945)
Share of profit of joint ventures		–	–	–	360	–	360
Gain arising from agricultural produce at fair value less costs to sell at the point of harvest		–	3,241,125	3,241,125	–	867,562	867,562
Gain arising from changes in fair value less costs to sell of biological assets		–	2,293,307	2,293,307	–	1,179,149	1,179,149
Finance costs	6	(156,269)	–	(156,269)	(162,331)	–	(162,331)
Profit before tax	7	2,823,415	1,114,159	3,937,574	382,672	1,148,817	1,531,489
Income tax credit/(expense)	8	87,060	–	87,060	(9,266)	–	(9,266)
Profit for the year		2,910,475	1,114,159	4,024,634	373,406	1,148,817	1,522,223
Other comprehensive (expense)/income, net of income tax:							
<i>Items that will not be reclassified subsequently to profit or loss</i>							
Fair value loss on equity instrument at fair value through other comprehensive income				(73,848)			(193,253)

		2020			2019		
		Results before biological assets fair value adjustments RMB'000	Biological assets fair value adjustments RMB'000	Total RMB'000	Results before biological assets fair value adjustments RMB'000	Biological assets fair value adjustments RMB'000	Total RMB'000
	NOTES						
<i>Items that may be reclassified subsequently to profit or loss</i>							
Exchange differences arising on translation of foreign operations				4,798			375
Other comprehensive expense for the year, net of income tax				(69,050)			(192,878)
Total comprehensive income for the year				3,955,584			1,329,345
Profit for the year attributable to:							
Owners of the Company				3,995,124			1,573,727
Non-controlling interests				29,510			(51,504)
Profit for the year				4,024,634			1,522,223
Total comprehensive income/(expense) for the year attributable to:							
Owners of the Company				3,926,074			1,380,849
Non-controlling interests				29,510			(51,504)
				3,955,584			1,329,345
Earnings per share:	10						
Basic and diluted				RMB1.0239			RMB0.4033

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

		At December 31	
	<i>NOTES</i>	2020	2019
		RMB'000	RMB'000
Non-current assets			
Goodwill		100,609	100,609
Property, plant and equipment		7,908,173	6,668,052
Right-of-use assets		607,045	401,351
Intangible assets		8,727	2,565
Equity instrument at fair value through other comprehensive income		132,121	205,969
Biological assets		961,031	475,706
Prepayments for purchase of property, plant and equipment		66,418	10,515
Deferred tax assets		134,399	15,299
Other prepayments		3,021	2,130
		9,921,544	7,882,196
Current assets			
Inventories		2,324,522	3,180,887
Biological assets		3,164,491	1,449,250
Accounts receivables	<i>11</i>	658,644	182,239
Prepayments, deposits and other receivables		446,419	534,600
Other current assets		3,486,117	2,171,879
Amounts due from related companies		131,952	82,617
Pledged and restricted bank deposits		11,657	9,762
Cash and bank balances		416,650	630,415
		10,640,452	8,241,649

		At December 31	
	<i>NOTES</i>	2020	2019
		RMB'000	RMB'000
Current liabilities			
Accounts and bills payables	12	507,665	462,689
Other payables, accruals and deposits received		962,770	666,867
Lease liabilities		13,709	17,000
Contract liabilities		408,146	324,917
Bank borrowings		8,134,165	6,301,064
Amounts due to related companies		97,923	230,023
Loans from related companies		2,500	113,200
Financial liabilities at fair value through profit or loss		4,889	50,518
Current tax payable		994	17,081
		<u>10,132,761</u>	<u>8,183,359</u>
Net current assets		<u>507,691</u>	<u>58,290</u>
Total assets less current liabilities		<u>10,429,235</u>	<u>7,940,486</u>
Non-current liabilities			
Bank borrowings		171,710	1,332,893
Loans from a related company		94,523	91,869
Deferred income		147,662	153,385
Deferred tax liabilities		31,446	10,108
Long-term payable		86,520	47,000
Lease liabilities		315,094	145,058
		<u>846,955</u>	<u>1,780,313</u>
Net assets		<u>9,582,280</u>	<u>6,160,173</u>
Capital and reserves			
Share capital		1,668,978	1,668,978
Reserves		7,740,295	4,387,615
		<u>9,409,273</u>	<u>6,056,593</u>
Equity attributable to the owners of the Company		173,007	103,580
Non-controlling interests		<u>173,007</u>	<u>103,580</u>
Total equity		<u>9,582,280</u>	<u>6,160,173</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

1. GENERAL INFORMATION

COFCO Joycome Foods Limited (formerly known as COFCO Meat Holdings Company 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 Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The address of its principal place of business is COFCO Fortune Plaza, No.8, Chao Yang Men South Street, Chao Yang District, Beijing, the People’s Republic of China (the “PRC”).

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

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

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

2. REVENUE

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended December 31, 2020				
	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 or services					
Hogs	5,464,723	–	–	–	5,464,723
Fresh pork	–	3,653,584	–	–	3,653,584
Processed meat products	–	–	691,806	–	691,806
Imported meat products	–	–	–	9,111,999	9,111,999
Total	5,464,723	3,653,584	691,806	9,111,999	18,922,112
Geographical markets					
Mainland China	5,464,723	3,653,584	691,806	9,111,999	18,922,112
Total	5,464,723	3,653,584	691,806	9,111,999	18,922,112
Timing of revenue recognition					
A point in time	5,464,723	3,653,584	691,806	9,111,999	18,922,112
Total	5,464,723	3,653,584	691,806	9,111,999	18,922,112

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, 2020		
	Segment revenue <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Hog production and sales	6,338,958	(874,235)	5,464,723
Sales of fresh pork	3,703,975	(50,391)	3,653,584
Sales of processed meat products	692,978	(1,172)	691,806
Imported meat products	9,251,706	(139,707)	9,111,999
Revenue from contracts with customers	19,987,617	(1,065,505)	18,922,112
Total revenue	19,987,617	(1,065,505)	18,922,112

	For the year ended December 31, 2019				
Segments	Hog production and sales <i>RMB'000</i>	Sales of fresh pork <i>RMB'000</i>	Sales of processed meat products <i>RMB'000</i>	Sales of Imported meat products <i>RMB'000</i>	Total <i>RMB'000</i>
Types of goods or services					
Hogs	2,445,353	—	—	—	2,445,353
Fresh pork	—	3,137,058	—	—	3,137,058
Processed meat products	—	—	442,800	—	442,800
Imported meat products	—	—	—	5,053,454	5,053,454
Total	2,445,353	3,137,058	442,800	5,053,454	11,078,665
Geographical markets					
Mainland China	2,445,353	3,137,058	442,800	5,053,454	11,078,665
Total	2,445,353	3,137,058	442,800	5,053,454	11,078,665
Timing of revenue recognition					
A point in time	2,445,353	3,137,058	442,800	5,053,454	11,078,665
Total	2,445,353	3,137,058	442,800	5,053,454	11,078,665

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

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

(ii) Performance obligations for contracts with customers

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

Except for certain reputable customers, the Group requires full 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 the unsatisfied contracts is not disclosed.

3. SEGMENT INFORMATION

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

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

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

Segment revenues and results

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

	Hog production 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
<i>For the year ended December 31, 2020</i>							
Segment revenue							
External customers	5,464,723	3,653,584	691,806	9,111,999	18,922,112	–	18,922,112
Inter-segment sales	<u>874,235</u>	<u>50,391</u>	<u>1,172</u>	<u>139,707</u>	<u>1,065,505</u>	<u>(1,065,505)</u>	<u>–</u>
Segment revenue	<u>6,338,958</u>	<u>3,703,975</u>	<u>692,978</u>	<u>9,251,706</u>	<u>19,987,617</u>	<u>(1,065,505)</u>	<u>18,922,112</u>
Segment results	<u>3,876,606</u>	<u>(118,419)</u>	<u>(71,460)</u>	<u>(535,711)</u>	<u>3,151,016</u>	<u>–</u>	<u>3,151,016</u>
Unallocated corporate income							21,083
Unallocated corporate expenses							(192,415)
Fair value adjustments on biological assets and agricultural produce							1,114,159
Finance costs							<u>(156,269)</u>
Profit before tax							<u>3,937,574</u>
	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
<i>For the year ended December 31, 2019</i>							
Segment revenue							
External customers	2,445,353	3,137,058	442,800	5,053,454	11,078,665	–	11,078,665
Inter-segment sales	<u>1,059,209</u>	<u>80,032</u>	<u>4,214</u>	<u>121,674</u>	<u>1,265,129</u>	<u>(1,265,129)</u>	<u>–</u>
Segment revenue	<u>3,504,562</u>	<u>3,217,090</u>	<u>447,014</u>	<u>5,175,128</u>	<u>12,343,794</u>	<u>(1,265,129)</u>	<u>11,078,665</u>
Segment results	<u>276,776</u>	<u>83,049</u>	<u>(10,679)</u>	<u>103,376</u>	<u>452,522</u>	<u>–</u>	<u>452,522</u>
Unallocated corporate income							165,198
Unallocated corporate expenses							(73,077)
Fair value adjustments on biological assets and agricultural produce							1,148,817
Share of profit of joint ventures							360
Finance costs							<u>(162,331)</u>
Profit before tax							<u>1,531,489</u>

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

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

Segment assets and segment liabilities

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

Other segment information

	Hog production RMB'000	Fresh pork RMB'000	Meat products RMB'000	Meat import RMB'000	Total RMB'000
<i>Year ended December 31, 2020</i>					
<i>Amounts included in the measure of segment profit:</i>					
Depreciation and amortisation*	26,294	26,569	21,793	140	74,796
Impairment/(reversal of impairment) of accounts receivable, net	99	(151)	(20)	–	(72)
Reversal of other receivable, net	–	(104)	–	–	(104)
Loss on disposal of property, plant and equipment, net	38,125	236	36	–	38,397
Write-down/(write-back) of inventories	(143)	40,141	59,196	603,695	702,889
Impairment of property, plant and equipment	111	–	–	–	111

Year ended December 31, 2019

<i>Amounts included in the measure of segment profit:</i>					
Depreciation and amortisation*	57,982	26,786	20,502	441	105,711
Impairment/(reversal of impairment) of accounts receivable, net	20	152	(62)	–	110
Impairment of other receivable, net	–	92	71	–	163
Loss on disposal of property, plant and equipment, net	3,213	118	524	–	3,855
Write-down/(write-back) of inventories	713	(1,892)	5,228	61,241	65,290
Impairment of property, plant and equipment	2,079	–	–	–	2,079

* Depreciation and amortisation not included in the measure of segment profit or loss for the year ended December 31, 2020 amounted to RMB246,000 (2019: RMB344,000).

Geographical information

All of the revenue of the Group is derived from the Mainland China based on location of the operations for both 2020 and 2019.

All the Group's non-current assets at December 31, 2020 and 2019 are located in the Mainland China based on geographical location of the assets.

Information about major customers

No revenue from transaction with single external customer is amounted to 10% or more of the Group's revenue in each of the reporting periods for both 2020 and 2019.

4. OTHER INCOME

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

	Year ended December 31	
	2020	2019
	RMB'000	RMB'000
Interest income from banks	1,220	22,966
Interest income from a related company	4,954	2,055
	6,174	25,021
Dividend income from equity instrument at FVTOCI	42,000	10,552
Government grants	124,021	137,851
	172,195	173,424

5. OTHER GAINS AND LOSSES

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

	Year ended December 31	
	2020	2019
	RMB'000	RMB'000
Exchange gain, net	6,806	5,007
Loss on disposal of property, plant and equipment, net	(38,397)	(3,855)
Write-down of inventories to net realisable value	(702,889)	(65,290)
Reversal/(impairment) on accounts receivable, net	72	(110)
Reversal/(impairment) on other receivables, net	104	(163)
Impairment of property, plant and equipment	(111)	(2,079)
Realised and unrealised loss on fair value changes in respect of foreign currency forward contracts, net	(20,061)	(54,562)
Realised and unrealised (loss)/gain on fair value changes in respect of commodity future, net	(95,691)	128,687
Loss on disposal of joint ventures	–	(2,720)
Others	(15,579)	(13,746)
	(865,746)	(8,831)

6. FINANCE COSTS

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

	Year ended December 31	
	2020	2019
	RMB'000	RMB'000
Interest on:		
Bank borrowings	145,963	166,300
Long term payable	3,720	–
Loans from related companies	11,614	17,409
Lease liabilities from third parties	14,975	7,674
	176,272	191,383
Total borrowing costs	176,272	191,383
Less: Borrowing costs capitalised in the cost of qualifying assets	(20,003)	(29,052)
	156,269	162,331

Borrowing costs capitalised to qualifying assets during the years ended December 31, 2020 and 2019 were based on actual borrowing costs incurred for specific borrowings.

7. PROFIT BEFORE TAX

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

	Year ended December 31	
	2020	2019
	RMB'000	RMB'000
Cost of sales (represented the cost of inventories recognized as expenses during the year)	14,315,334	10,087,973
Gain on fair value changes in respect of biological assets	4,420,273	897,894
	18,735,607	10,985,867
Total cost of sales	18,735,607	10,985,867
Employee benefits expense:		
Salaries and other allowances	1,018,400	634,454
Retirement benefit schemes contributions	28,540	53,667
Less: Capitalised in biological assets and construction in progress	(486,057)	(441,280)
	560,883	246,841
Depreciation of property, plant and equipment	347,548	282,685
Depreciation of right-of-use assets	35,907	26,485
Amortisation of intangible assets	1,201	1,032
	384,656	310,202
Total depreciation and amortisation	384,656	310,202
Less: Capitalised in biological assets	(309,614)	(204,147)
	75,042	106,055
Auditors' remuneration	1,700	1,700

8. INCOME TAX EXPENSE

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

	Year ended December 31	
	2020	2019
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax (the "EIT")	<u>5,537</u>	<u>24,756</u>
Under provision in prior years:		
PRC Enterprise Income Tax	<u>5,165</u>	<u>—</u>
Deferred tax:		
Current year	<u>(97,762)</u>	<u>(15,490)</u>
	<u>(87,060)</u>	<u>9,266</u>

No provision for Hong Kong profits tax during the year have been made as the Group had no assessable profit generated in Hong Kong for the year (2019: 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 (2019: 25%).

Certain operations of the Company's certain subsidiaries were exempted from PRC income taxes during both 2020 and 2019. According to the Implementation Regulation of the EIT Law and the EIT exemptions regulation set out in the Circular of the Ministry of Finance and the State Administration on Releasing the Primary Processing Ranges of Agricultural Products Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149), and the requirements of Article 86 of the Implementation Regulation of the EIT Law, the income from primary processing for agriculture products are exempted from EIT. In addition, pursuant to related regulations in respect of the Implementation Regulation of the EIT Law, the income from projects of animal-husbandry and poultry feeding, is also entitled to exemption from EIT. Accordingly, the income from the above-mentioned operations of certain subsidiaries of the Group were exempted from EIT in the years ended December 31, 2020 and 2019.

9. DIVIDENDS

	Year ended December 31	
	2020	2019
Dividends recognized as distributions during the year	<u>573,394</u>	<u>—</u>

In June 2020, the Company declared a final dividend of Hong Kong Dollar ("HKD") 0.048 (equivalent to RMB0.044) per share with total dividend of HKD187,296,000 (equivalent to RMB171,705,000) to shareholders for the year ended December 31, 2019. The dividend was paid in July 2020.

In August 2020, the Company declared an interim dividend of HKD0.118 (equivalent to RMB0.103) per share with total dividend of HKD460,000,000 (equivalent to RMB401,689,000) out of the Company's share premium account to shareholders for the six months ended June 30, 2020. The dividend was paid in September 2020.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2020 of HKD0.206 (equivalent to RMB0.173) per share with total dividend of HKD803,812,000 (equivalent to RMB674,237,000), has been proposed by the directors of the Company, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on May 12, 2021 and compliance with the Companies Law of the Cayman Islands. Together with the interim dividend for 2020 in the amount of HKD0.118 per share, the full-year dividend for 2020 is HKD0.324 (equivalent to RMB0.276) (2019: HKD0.048) per ordinary share, in an aggregate amount of HKD1,263,812,000 (equivalent to RMB1,075,926,000) (2019: HKD187,296,000 (equivalent to RMB171,705,000)).

10. 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	
	2020	2019
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share		
Profit for the year attributable to owners of the Company	3,995,124	1,573,727

Number of shares

	Year ended December 31	
	2020	2019
	RMB'000	RMB'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,901,998	3,901,998

The calculation of the basic earnings per share attributable to the owners of the Company is based on profit for the year attributable to owners of the Company of RMB3,995,124,000 (2019: RMB1,573,727,000). The denominators used are the same as those detailed above for basic earnings per share.

No diluted earnings per share for both 2020 and 2019 were presented as there were no potential ordinary shares in issue for both 2020 and 2019.

11. ACCOUNTS RECEIVABLES

	At December 31,	
	2020	2019
	RMB'000	RMB'000
Accounts receivables from contracts with customers	659,024	182,691
Less: Allowance for credit losses	(380)	(452)
Total accounts receivables	658,644	182,239

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

	At December 31	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	233,570	178,012
90 to 180 days	1,755	3,382
180 days to 1 year	423,051	472
Over 1 year	268	373
	<u>658,644</u>	<u>182,239</u>

As at December 31, 2020, included in the Group's accounts receivables are debtors with aggregate carrying amount of RMB21,183,000 (2019: RMB13,631,000) which are past due as at the reporting date. Out of the past due balances, RMB694,000 (2019: RMB903,000) has been past due 90 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

12. ACCOUNTS AND BILLS PAYABLES

An analysis of accounts and bills payables is as follows:

	At December 31	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts payables	507,665	460,789
Bills payables	—	1,900
	<u>507,665</u>	<u>462,689</u>

The accounts payables are non-interest-bearing and are normally with credit periods ranging from 15 to 60 days. Bills 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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	484,278	444,973
1 to 2 years	18,901	9,683
Above 2 years	4,486	6,133
	<u>507,665</u>	<u>460,789</u>

MANAGEMENT DISCUSSION AND ANALYSIS

I. Company Profile

Company Introduction

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

The main businesses of the Company include feed production, hog production, slaughtering and cutting, production, distribution and sale of fresh pork and processed meat products, import and distribution of meat products (including pork, beef, poultry and mutton). As a leading meat enterprise with operations covering the integrated value chain in China, the Company seized the opportunity of industrial transformation and upgrading and formed a strategic layout throughout the country, so that the scale of hog production and fresh pork business has been growing rapidly. We adhere to the operation principle of “leading the safety standards in the industry and assuring meat safety for citizens”, and provide 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

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

Fresh Pork

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

Processed Meat Products

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

Meat Import

The 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

Hog production across the country continues to recover, but there are still shortfalls

According to the data from the National Bureau of Statistics, in 2020, hog production in China amounted to 527 million heads, representing a year-on-year decrease of 3.2%; pork output was 41.13 million tons, representing a year-on-year decrease of 3.3%. Comparing with normal years, there are still shortfalls in hog production.

African swine fever prevention and control becoming a norm

In 2020, China has made certain progress in the prevention and control of the African swine fever, but the current situation of the prevention and control is still complicated. As there are various transmission channels while vaccines are still under research and development, the epidemic is expected to become a new normal, and thus higher requirements are placed on the prevention and control capabilities of enterprises. This poses challenges but also presents opportunities to large-scale breeding enterprises.

The COVID-19 pandemic has reshaped consumption patterns, resulting in the popularity of branded small-packed pork products

Pork consumers are becoming more concerned with brand reputation. After the outbreak of the COVID-19 pandemic, higher stress has been placed on food safety, food quality and easiness of food access, and household consumption, especially fresh product online consumption, has grown rapidly. Branded small-packed pork products characterized by safety, freshness and convenience gain higher brand premium and loyalty during the pandemic.

Meat imports continued to grow, but the distribution of imported meat has been impacted by the COVID-19 pandemic

In 2020, China's pork imports (excluding by-products) amounted to 4,392 thousand tons, representing a year-on-year increase of 108.3% and accounting for approximately 10.7% of domestic pork production, while beef imports (excluding by-products) amounted to 2,118 thousand tons, representing a year-on-year increase of 27.7% and accounting for approximately 31.5% of domestic beef production.

Due to the COVID-19 pandemic, distribution of imported frozen meat has encountered many rounds of interruptions. The pandemic broke out in China when the year started, leading to a collapse in consumption after the Lunar New Year and a drop in imported frozen meat prices. At the same time, port logistics was interrupted and related costs surged. As the pandemic broke out overseas, imported cold chain foods and their outer packaging samples were tested positive of COVID-19 after nucleic acid tests, and the nationwide implementation of prevention and control measures such as comprehensive disinfection and sterilisation of imports has once again thwarted the sales of imported frozen meat, depleted inventory value, and sharply lifted port costs. However, no cases of COVID-19 infection caused by direct consumption of cold chain foods have been found.

III. Results of Operation

In 2020, challenges remained with African swine fever prevention and control, and on top of that, the sudden outbreak of COVID-19 pandemic has put tremendous pressure on the Company's production and operation. The Company quickly set up a team to lead disease-prevention work and formulated comprehensive prevention and control measures. Thanks to the diligence and dedication of all employees, all of our business segments remained stable: strong control of the African swine fever has been achieved in the hog production business which saw a boost in results, and highest profits in record; the product mix and channel profile of the fresh pork business have been optimized under the challenges of tight hog supply and weak market demand, maintaining a steady growth of its branded business; processed meat products business has marked breakthroughs in the catering channel. However, with the meat import business being under continuing pressure, the Company continued to reduce inventories to minimize the impact of the COVID-19 pandemic. In October 2020, the Company officially changed its name to "COFCO Joycome Foods Limited" in order to strengthen the association of the company name with the brand and comprehensively enhance brand awareness.

During the reporting period, the Company achieved a net profit of RMB2,910 million before biological assets fair value adjustments, representing a year-on-year increase of 679.4%.

Hog production business

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

In 2020, the Company's hog production volume was 2,046 thousand heads, representing a year-on-year increase of 3.1%; the average price of finishing hogs was RMB32.33/kg, and the average finishing weight was 120 kg/head. Due to efficient cost control and flexible marketing strategies, a record segment performance of RMB3,877 million was achieved, with an industry-leading profit per head throughout the year.

The Company has a clear objective for long-term expansion. Progress of on-going projects shrugged off the negative impact of the epidemic. Total hog production capacity of 5,469 thousand heads was reached by the end of 2020, and part of the production capacity under construction will be successively completed in 2021.

Strictly controlling the African swine fever and increasing incentives to improve production efficiency

During the year, the Company stepped up its effort in prevention and control of the African swine fever. In terms of hardware, the Company has built high-standard decontamination and drying rooms, added ripening devices for feed plants and installed air filters for all farms as well as increased testing frequency and coverage with full application of PCR detectors. In terms of the management of hog farms, vehicles were docked to designated hog farm after thorough decontamination and drying. Personnel must strictly implement off-site and on-site quarantine before entering the production area, while all materials are centrally delivered on site by special vehicles after concentrated disinfection in regional warehouses. In terms of strengthening organization, an expert panel for epidemic prevention and control was established, which collectively formulated epidemic prevention plans.

At the same time, the Company fully stimulated the enthusiasm and responsibility of the production staff through innovative assessment and incentives, such as: implementing batch production in full swing and utilizing the results of batch production to enhance the accuracy of the assessments; increasing the basic salary for front-line employees and increasing batch performance bonuses as timely incentives; setting up major special incentives for management staff for epidemic prevention and control, target-beating hog production volume, and resumption of production, so that a competitive remuneration system has been achieved.

In 2020, benefiting from the measures above, production volume of the Company has shown a clear upward trend while production costs have been under effective control and production efficiency has improved.

Successfully promoting breeding stock introduction to ensure the growth of production volume

During the year, our sow stocks has reached the designed production capacity, ensuring the growth of future production volume.

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

Fresh pork business

Fighting the COVID-19 pandemic to fully safeguard meat supply

Facing the unexpected COVID-19 pandemic, the Company established a coordination group in Hubei to take the lead in promoting the resumption of work and production in Wuhan. During the pandemic, the Company provided fresh pork for Wuhan citizens through over fifty of its stores, and was awarded, among others, the Wuhan “Enterprise with outstanding contribution for safeguarding market supply to support the city’s pandemic prevention and control (全市疫情防控市場保供作出突出貢獻企業)”. The 42 female workers in the small package cutting workshop of the national March 8 Red-banner Group (三八紅旗集體) have defied the frigid cold and traffic suspension, and persisted in fighting on the front line, with daily average working hours per person reaching 14 hours and the production volume reaching 2.4 times of an usual day, continuously setting new record high in daily production volume since the establishment of the factory.

Adapting to changed consumption patterns during the pandemic, the sales of small-packed products showing explosive growth

In 2020, affected by the tightness in hog supply, the Company’s sales volume of fresh pork was 109 thousand tons, representing a decrease year on year.

However, to adapt to changes of consumption patterns during the pandemic, the Company increased its efforts in the development of e-commerce and new retail channels and vigorously promoted its branded small-packed products. During the reporting period, revenue from e-commerce channels increased 143.9% year on year, and sales of branded small-packed products increased 32.2% year on year to 34,942 thousand boxes, while average daily sales exceeded 95 thousand boxes. Revenue from branded business grew by 39.9% to RMB1,437 million, and the ratio of revenue from branded business of total fresh pork revenue increased by 6.9 percentage points year on year to 38.9%.

Speeding up proper appropriation of production capacity to match regional demand; helping branded fresh pork business layout

In 2020, the slaughterhouse with a capacity of 1 million heads in Huanggang, Hubei was successfully put into operation, and slaughter facilities each with a capacity of 1 million heads were under construction in Songyuan, Jilin and Chifeng, Inner Mongolia. The upstream and downstream production capacities of each region were better aligned, helping to accelerate the layout of branded business in Central and North China.

Continuing to strengthen brand influence and building a high-end linseed fed pork product line

COFCO Joycome was awarded the title of “guaranteed preparation product for competition by national team athletes of National Sports Training Center (NSTC) (體育•訓練局國家隊運動員備戰保障產品)” by the Training Bureau of the General Administration of Sport, and has provided safe and high-quality pork products to the Training Center and several national teams, provincial sports units and sports teams for several consecutive years. In June 2020, COFCO Joycome became the Exclusive Meat Products Supplier for the Chinese Weightlifting Team and continued to put effort into providing safe meat products with champion quality.

The Company self-developed a series of small-packed products of linseed fed pork. Linseed fed pork has a tender texture and a fresh and delicious flavour. It has been well-received and has created a loyal consumer group. Examined by the National Non-staple Food Quality Supervision and Inspection Center (國家副食品質量監督檢驗中心), the content of “ α -linolenic acid” in COFCO Joycome’s linseed fed pork products is 6 times more than that of Joycome’s similar ordinary pork (“ α -linolenic acid”, a nutrient that cannot be synthesized in human body, helps vision and brain development in children, and can reduce blood lipids and prevent cardiovascular diseases in adults). COFCO Joycome took the lead to develop the group standard “ α -linolenic acid-rich pork products, linseed fed pork products” (standard number T/CMATB 1002-2020), which was approved and promulgated by China Meat Association at the end of 2020, marking a further upgrade of COFCO Joycome products, and bringing safer and healthier meat products to consumers.

Meat import business

Taking multiple measures to adapt to the changes of market conditions

Under the tight supply of meat in China, the sales volume of the meat import segment was 356 thousand tons, representing a year-on-year increase of 99.1%; revenue from the segment amounted to RMB9,252 million, representing a year-on-year increase of 78.8%.

Due to the cases of COVID 19 positive test results on samples of outer packaging of imported cold chain products amid the pandemic, local governments tightened up cold chain management. Demands were dampened, and the flow of goods was slack. The imported frozen meat market fluctuated strongly throughout the year, and end prices fell to a larger degree. The Company actively bargained with upstream suppliers and successfully reduced procurement costs to some extent, while increasing the proportion of back-to-back lock orders in a bid to contain risks from market fluctuations.

IV. Financial Review

Overall Performance

In 2020, the revenue of the Group was RMB18,922 million, representing a year-on-year increase of RMB7,843 million as compared with RMB11,079 million for the same period in 2019. Prior to the adjustments of fair value of biological assets, the net profit of the Group was RMB2,910 million, representing a year-on-year increase of RMB2,537 million as compared with RMB373 million for the same period in 2019.

Revenue

In 2020, the revenue of the Group was RMB18,922 million, representing an increase of 70.8% as compared with RMB11,079 million for the same period in 2019, mainly due to the year-on-year increase of 99.1% in the sales volume of the meat import business. Meanwhile, the average selling price of finishing hogs in the production business amounted to RMB32.33/kg for the year, representing a year-on-year increase of 100.1%.

Gross Profit Margin

In 2020, the gross profit margin before biological assets fair value adjustments of the Group was 24.3%, representing a year-on-year increase of 15.4 percentage points, mainly due to the hog price remaining at a high level and costs being under effective control.

Selling and Distribution/Administrative Expenses

In 2020, the total selling and distribution expenses and administrative expenses of the Group amounted to RMB934 million, representing a year-on-year increase of 52.9% as compared with RMB611 million for the same period last year, mainly due to rapid business expansion during the year that led to a spike in costs.

Finance Costs

In 2020, the Group's finance costs amounted to RMB156 million, representing a year-on-year decrease of RMB6.06 million as compared with 2019.

Other Income, Other Gains and Losses

In 2020, the Group's other income, other gains and losses amounted to a total loss of RMB694 million, representing a decrease of RMB858 million as compared with that of the same period in 2019, mainly due to strong fluctuations of imported meat prices, greater decline of end prices and inventory impairment provisions made for the import business as a result of the impact of the COVID-19 pandemic.

Profit for the Year

For the reasons above, the Group recorded a profit of RMB2,910 million prior to the adjustments in fair value of biological assets during 2020, representing an increase of RMB2,537 million as compared with RMB373 million for the same period in 2019.

Significant Investments and Significant Acquisitions and Disposals of Subsidiaries

Save as disclosed in this results announcement, the Group had neither any other significant investments nor significant acquisitions and disposals of relevant subsidiaries in 2020.

Major Financial Ratios

The financial ratios of the Group as at December 31, 2020 and December 31, 2019 are set forth below:

	December 31, 2020	December 31, 2019
Return on equity ⁽¹⁾	51.1%	27.8%
Return on assets ⁽²⁾	21.9%	11.5%
Interest coverage ratio ⁽³⁾	23.22 times	8.85 times
Current ratio ⁽⁴⁾	1.05	1.01
Net debt-to-equity ratio ⁽⁵⁾	83.3%	117.0%

Notes:

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

Analysis on Capital Resources

Liquidity and Financial Policy

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

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

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

As at December 31, 2020, the cash and bank balances owned by the Group amounted to approximately RMB417 million (December 31, 2019: approximately RMB630 million).

As at December 31, 2020, our current ratio was 1.05 (December 31, 2019: 1.01). As at December 31, 2020, our unused bank credit facilities were RMB9,845 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 2020, the EBITDA of the Group (before biological assets fair value adjustments) was RMB3,497 million (same period in 2019: RMB929 million). Cash generated from our operating activities was RMB2,962 million (used during the same period in 2019: RMB1,049 million). Cash used in our investment activities was RMB1,722 million (generated during the same period in 2019: RMB4.19 million), including RMB1,713 million for the purchase of property, plant and equipment (same period in 2019: RMB966 million). Cash used in our financing activities was RMB1,456 million (generated during the same period in 2019: RMB1,441 million). In summary, in 2020, our net decrease in cash and bank balances was RMB214 million.

Capital Structure

As at December 31, 2020, the total number of issued shares of the Company remained unchanged at 3,901,998,323 shares.

As at December 31, 2020, the Group had interest-bearing bank loans of approximately RMB8,306 million (December 31, 2019: approximately RMB7,634 million). The annual interest rate on bank loans ranged from 0.91% to 4.36% (December 31, 2019: from 2.58% to 4.99%). Most of the bank loans were based on fixed interest rates.

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

<i>Unit: RMB in million</i>	December 31, 2020	December 31, 2019
Within 1 year	8,134	6,301
1 to 2 years	10	256
3 to 5 years	24	714
Over 5 years	138	363
	<hr/>	<hr/>
Total	8,306	7,634
	<hr/> <hr/>	<hr/> <hr/>

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

<i>Unit: RMB in million</i>	December 31, 2020	December 31, 2019
Fixed-rate borrowings	8,084	5,801
Variable-rate borrowings	222	1,833
	<hr/>	<hr/>
Total	8,306	7,634
	<hr/> <hr/>	<hr/> <hr/>

As at December 31, 2020, the Group had loans from related parties of approximately RMB97 million (December 31, 2019: approximately RMB205 million).

As at December 31, 2020, the Group had net assets of approximately RMB9,582 million (December 31, 2019: approximately RMB6,160 million). Net debts¹ of the Group amounted to approximately RMB7,986 million (December 31, 2019: approximately RMB7,209 million), while the net debt-to-equity ratio was approximately 83.3% (December 31, 2019: approximately 117.0%).

Note:

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

Contingent Liabilities and Pledge of Assets

As at December 31, 2020 and December 31, 2019, the Group had no significant contingent liabilities.

As at December 31, 2020 and December 31, 2019, 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 2020, the Group's capital expenditure was RMB1,744 million (same period in 2019: RMB982 million). The following table sets forth our capital expenditure for the years indicated:

<i>Unit: RMB in million</i>	2020	2019
Payments for property, plant and equipment	1,713	966
Payments for right-of-use assets	24	14
Payments for other intangible assets	7	2
	<hr/>	<hr/>
Total	<u>1,744</u>	<u>982</u>

As of December 31, 2020, our demand for capital expenditure mainly came from the construction of hog production farms and slaughterhouses in Jilin Province and the Inner Mongolia Autonomous Region, as well as slaughterhouses in Hubei Province.

Capital Commitment

Capital commitment of the Group is mainly related to the construction of hog farms, slaughterhouses and other production and ancillary facilities. As at December 31, 2020, capital commitment of the Group was RMB633 million (December 31, 2019: RMB433 million).

Biological Assets

Biological assets of the Group primarily consist of commodity pigs at different growth stages and breeding hogs used to give birth to animals in the future. As at December 31, 2020, we owned 291 thousand heads of breeding and replacement hogs in total, representing an increase of 73.9% as compared with 167 thousand heads as at December 31, 2019. The fair value of our biological assets was RMB4,126 million as at December 31, 2020 and RMB1,925 million as at December 31, 2019. Our results have been and are expected to be affected by changes in fair value of biological assets.

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

During the same period in 2020 and 2019, such adjustments have increased our cost of sales by RMB4,420 million and RMB898 million, respectively. Additionally, gains arising from fair value less cost of sales of agricultural products at the point of harvest amounted to RMB3,241 million (same period in 2019: gains of RMB868 million); gains arising from changes in fair value of biological assets less cost of sales amounted to RMB2,293 million (same period in 2019: gains of RMB1,179 million). In general, the net effect of adjustment in fair value of biological assets on profit was gains of RMB1,114 million during the current period and gains of RMB1,149 million during the same period in 2019.

V. Human Resources

The continuing operations of the Group hired 7,253 employees as at December 31, 2020 (December 31, 2019: 6,442 employees). Remuneration for employees was determined based on their job nature, personal performance and the market trends. For the year ended December 31, 2020, total remuneration amounted to approximately RMB1,047 million (2019: RMB688 million).

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

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

VI. Significant Risks and Uncertainties

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

Epidemic Risks

Epidemic risks are the major risks faced by the development of animal husbandry. The 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 2020, African swine fever epidemic continued all across the country. There are three categories of risks brought about by epidemics. First, the outbreak of epidemic diseases will lead to hog mortalities, which will directly cause a decrease in hog production and result in direct economic losses of the Company. Second, the epidemic diseases will put hog farms under 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.

In addition, in 2020, the COVID-19 pandemic broke out across the globe. The major risks brought by the COVID-19 pandemic are: firstly, the disease is relatively contagious, and could pose threats to the health and safety of employees; secondly, various disease prevention and transportation control measures could affect work resumption of employees, transportation of all sorts of materials for production as well as interprovince (region) sales of products, thus decreasing the production and operation efficiency of the Company; thirdly, the normalized COVID-19 pandemic prevention and control stage may cause a decline in demand for meat in catering channels. Meanwhile, with the global spread of the pandemic, samples of imported cold chain foods and their outer packing may be tested positive for the COVID-19 nucleic acid, which adversely affected the meat import and the sales of meat products of the Company. To cope with the risks caused by the COVID-19 pandemic, the Group set up a team to lead disease-prevention work, formulated a comprehensive and stringent prevention and control plan according to the development trend of the epidemic and national policies, and strived to ensure employee safety, stable production and smooth sales.

Price Risks

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

Food Safety Risks

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

Exchange Rate Risks

The Group collects most of the revenue in RMB and pays most of our expenditures, including costs incurred for sales of goods and capital expenditures, in RMB. However, some of our subsidiaries that are engaged in import of frozen meat products or that own foreign currency borrowings may expose us to exchange rate risks. A substantial portion of our cost of sales denominated in currencies other than RMB was related to our meat import business and was denominated in U.S. dollars. Exchange rate risks arise when commercial sales and purchases transactions or recognized assets or liabilities are denominated in currencies that are not our relevant subsidiaries' functional currencies. We are primarily exposed to exchange rate risks related to U.S. dollars and Hong Kong dollars, which is pegged with U.S. dollars.

The management of the Company paid attention to our prevention against exchange rate risks and have communicated timely on foreign exchange rates and forward prices with COFCO Finance and commercial banks with which we have business relationships. We entered into currency forward contracts to cover the majority of our exchange rate risks for our purchases in the meat import business, and reviewed the contracts and monitored risks on a monthly or semi-monthly basis according to the conditions of foreign exchange market. In addition, we also fixed a foreign exchange rate in advance for the imported meat purchase price with our domestic customers according to market conditions. We also update our exchange rate risks and internal records on a weekly basis and, before making a major foreign exchange decision (including whether to use currency forward contracts to control our exchange rate risks), conduct a sensitivity analysis and stress test.

Safe Production Risks

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

VII. Outlook

In 2020, in the face of the dual pandemic challenges, the Company built on its strengths, executed all measures as planned and firmly grasped opportunities emerged in the industry amid a complex situation. For the coming year, we will put efforts on advancing the following tasks:

Firstly, we will strictly control the African swine fever to ensure the growth of production volume, improve production efficiency, and establish core competitive strengths;

Secondly, we will speed up the building of our hog and fresh pork production capacities to improve the layout of the integrated value chain;

Thirdly, we will continue to forge ahead with differentiated and branded operation of our fresh pork business with a focus on the promotion of linseed fed pork, and further enhance product positioning;

Fourthly, we will strengthen the risk control for our import business by increasing the proportion of back-to-back orders to accelerate inventory turnover; continue to promote the “trading plus processing” model to enhance the loyalty of import business customers;

Fifthly, we will actively prepare for hedging with future contracts.

OTHER EVENTS

Compliance with the Corporate Governance Code

The Board and the management of the Company are committed to achieving and maintaining high standards of corporate governance, which they consider to be essential to safeguard the integrity of the Company's operations and maintain investors' trust in the Company. The management of the Company also actively observes the latest corporate governance requirements in the PRC, Hong Kong and abroad. The Board considers that the Company has complied with the provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules for the year ended December 31, 2020.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as a code of conduct regarding securities transactions by the directors of the Company. The Company has made specific enquiries with each director and each of them confirmed that he or she had complied with all required standards under the Model Code for the year ended December 31, 2020.

Purchase, Sale or Redemption of the Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities for the year ended December 31, 2020.

Subsequent Events

As at the date of this announcement, the Group has no material subsequent events after December 31, 2020 which are required to be disclosed.

Final Dividend

The Board recommended the payment of a final dividend for 2020 out of the share premium account under reserves of the Company in the amount of HK\$0.206 per share (the final dividend for 2019 was HK\$0.048 per share) with an aggregate amount of approximately HK\$804 million (the aggregate amount of the final dividend for 2019 was approximately HK\$187 million) to Shareholders. Together with the interim dividend for 2020 in the amount of HK\$0.118 per share, the full-year dividend for 2020 was HK\$0.324 per share. Subject to the Shareholders' approval at the Annual General Meeting to be held on May 12, 2021 and compliance with the Companies Law of the Cayman Islands, the final dividend is expected to be paid on or around June 4, 2021 to the Shareholders whose names appear on the registers of members of the Company on May 21, 2021.

Closure of Register of Members

The register of members of the Company will be closed from May 7, 2021 to May 12, 2021, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the Annual General Meeting, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all properly completed transfer forms for shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration before 4:30 p.m. on May 6, 2021.

In addition, the registers of members of the Company will also be closed from May 18, 2021 to May 21, 2021, both days inclusive, in order to determine the identity of the Shareholders who are entitled to receive the final dividend, during which period no transfer of shares of the Company will be registered. In order to qualify for the 2020 final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration before 4:30 p.m. on May 17, 2021.

Review of Annual Results

The consolidated financial statements of the Group for the year ended December 31, 2020 were audited by Deloitte Touche Tohmatsu and this results announcement is based on such financial statements which have been agreed by the Company and the auditor. The audit committee of the Company has reviewed the audited annual results of the Company for the year ended December 31, 2020.

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2020 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

Publication of Annual Report

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

By order of the Board
COFCO Joycome Foods Limited
Jiang Guojin
Chairman and executive Director

Beijing, PRC, March 18, 2021

As at the date of this announcement, the Board comprises Mr. Jiang Guojin as the chairman of the Board and the executive director, Mr. Xu Jianong as the executive director, Ms. Yang Hong, Dr. Cui Guiyong and Mr. Zhou Qi as non-executive directors, and Mr. Fu Tingmei, Mr. Li Michael Hankin and Dr. Ju Jiandong as independent non-executive directors.