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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)

**INTERIM RESULTS ANNOUNCEMENT FOR THE
SIX MONTHS ENDED JUNE 30, 2022**

The board of directors (the “**Board**”) of COFCO Joycome Foods Limited (the “**Company**”, “**we**”, “**our**” or “**us**”) is pleased to announce the unaudited condensed consolidated results and financial position of the Company and its subsidiaries (the “**Group**”) for the six months ended June 30, 2022, together with the comparative figures for the corresponding period in 2021 as follows:

HIGHLIGHTS

| Key Operating Data | Six months ended June 30, | | | |
|------------------------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------------|
| | 2022 | 2021 | year-on-year | |
| Hog production volume (unit: '000 heads) ⁽¹⁾ | 2,268 | 1,672 | 35.7% | |
| Average selling price of finishing hogs (RMB/kg) ⁽¹⁾ | 13.55 | 23.44 | -42.2% | |
| Fresh pork sales volume (unit: '000 tons) ⁽²⁾ | 109 | 65 | 67.7% | |
| Branded small-packed fresh pork sales volume (unit: '000 boxes) | 27,228 | 21,477 | 26.8% | |
| Ratio of revenue from branded business of total fresh pork business ⁽³⁾ | 32.8% | 35.0% | -2.2ppt | |
| Meat import sales volume (unit: '000 tons) ⁽⁴⁾ | 29 | 75 | -61.3% | |
| Key Financial Data | Six months ended June 30, | | | |
| | 2022 | | 2021 | |
| | Before biological assets fair value adjustments RMB'000 | After biological assets fair value adjustments RMB'000 | Before biological assets fair value adjustments RMB'000 | After biological assets fair value adjustments RMB'000 |
| Revenue ⁽⁵⁾ | 5,344,506 | 5,344,506 | 7,502,854 | 7,502,854 |
| (Loss)/Profit for the period ⁽⁶⁾ | (1,399,113) | (468,948) | 1,561,360 | (439,149) |
| (Loss)/Profit attributable to the owners of the Company ⁽⁷⁾ | (1,392,195) | (462,030) | 1,574,919 | (425,590) |
| Basic (loss)/earnings per share ⁽⁸⁾ | RMB (0.3568) | RMB (0.1184) | RMB 0.4036 | RMB (0.1091) |

Notes:

1. As the hog supply across the country recovered, hog price in the industry fell, and the average selling price of finishing hogs of the Group decreased by 42.2% year-on-year during the current period. Benefiting from the improvement in production efficiency and prevention and control of the epidemic, the Group's hog production volume increased by 35.7% year-on-year.
2. The Group capitalized on the opportunity to increase the utilization of slaughtering capacity, leading to an increase in fresh pork sales volume of 67.7% year-on-year. Meanwhile, the Group vigorously developed the community group purchase channels to promote its branded small-packed fresh pork products, as a result of which the sales volume of branded small-packed fresh pork products increased by 26.8% 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.
4. The Group strengthened its risk control and strategically reduced pork imports based on the market trends. The meat import sales volume amounted to 29 thousand tons, representing a year-on-year decrease of 61.3%.
5. Revenue amounted to RMB5,345 million, representing a year-on-year decrease of 28.8%, mainly attributable to, on one hand, a significant year-on-year decrease in the average selling price of hogs in the hog production business, and on the other hand, the strict risk control measures adopted by the import business against market volatility as part of its proactive initiative to reduce procurement of pork.
6. Loss for the period before biological assets fair value adjustments amounted to RMB1,399 million, as compared to the profit of RMB1,561 million for the same period last year, mainly due to the persistently high prices of feed raw materials, the downturn in domestic hog price, and the unrealised loss on fair value changes in respect of commodity future contracts as a result of the surging futures prices in June 2022.
7. Loss attributable to the owners of the Company before biological assets fair value adjustments amounted to RMB1,392 million. The biological assets fair value was adjusted based on the hog price at the end of June 2022.
8. The basic (loss)/earnings per share represent the (loss)/profit attributable to the owners of the Company divided by the weighted average number of ordinary shares for the year.

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2022.

FINANCIAL INFORMATION

The following financial information is a summary of the unaudited condensed consolidated financial statements for the six months ended June 30, 2022 of the Group, which have been reviewed by Baker Tilly Hong Kong Limited, the independent auditor of the Company, and the audit committee of the Board (the “**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2022

(Expressed in Renminbi)

| | | Six months ended June 30, | | | | | |
|--------------------------------------------------------------------------------------------------------------|-------|---------------------------------------------------------------------|---------------------------------------------------|------------------------|---------------------------------------------------------------------|---------------------------------------------------|------------------------|
| | | 2022 | | | 2021 | | |
| | | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total | Results before biological assets fair value adjustments | Biological assets fair value adjustments | Total |
| | NOTES | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| Revenue | 3 | 5,344,506 | - | 5,344,506 | 7,502,854 | - | 7,502,854 |
| Cost of sales | | (6,247,613) | 316,718 | (5,930,895) | (5,539,093) | (1,838,454) | (7,377,547) |
| Gross (loss)/profit | | (903,107) | 316,718 | (586,389) | 1,963,761 | (1,838,454) | 125,307 |
| Other income | 5 | 86,888 | - | 86,888 | 103,536 | - | 103,536 |
| Other gains and losses, net | 6 | (54,629) | - | (54,629) | (39,556) | - | (39,556) |
| Distribution and selling costs | | (211,107) | - | (211,107) | (180,784) | - | (180,784) |
| Administrative expenses | | (151,457) | - | (151,457) | (141,183) | - | (141,183) |
| Gain/(loss) arising from agricultural produce at fair value less costs to sell at the point of harvest | | - | 227,491 | 227,491 | - | (454,852) | (454,852) |
| Gain arising from changes in fair value less costs to sell of biological assets | | - | 385,956 | 385,956 | - | 292,797 | 292,797 |
| Finance costs | 7 | (77,641) | - | (77,641) | (52,325) | - | (52,325) |
| (Loss)/profit before tax | 8 | (1,311,053) | 930,165 | (380,888) | 1,653,449 | (2,000,509) | (347,060) |
| Income tax expense | 9 | (88,060) | - | (88,060) | (92,089) | - | (92,089) |
| (Loss)/profit for the period | | (1,399,113) | 930,165 | (468,948) | 1,561,360 | (2,000,509) | (439,149) |

Six months ended June 30,

| | | 2022 | | 2021 | | |
|-------------------------------------------------------------------------------------------------------------------|--|---------------------------------------------------------------------|----------------|---------------------------------------------------------------------|----------------|---------------------------|
| | | Results before biological assets fair value adjustments | | Results before biological assets fair value adjustments | | Total |
| <i>NOTES</i> | | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Other comprehensive income/(expense), net of income tax: | | | | | | |
| <i>Item that will not be reclassified to profit or loss:</i> | | | | | | |
| Fair value gain on equity instrument at fair value through other comprehensive income (with nil tax effect) | | | | 60,859 | | 103,466 |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | | | | |
| Exchange differences arising on translation of foreign operation (with nil tax effect) | | | | 887 | | (5,114) |
| Other comprehensive income for the period, net of income tax | | | | <u>61,746</u> | | <u>98,352</u> |
| Total comprehensive expense for the period | | | | <u>(407,202)</u> | | <u>(340,797)</u> |
| Loss for the period attributable to: | | | | | | |
| Owners of the Company | | | | (462,030) | | (425,590) |
| Non-controlling interests | | | | <u>(6,918)</u> | | <u>(13,559)</u> |
| | | | | <u>(468,948)</u> | | <u>(439,149)</u> |
| Total comprehensive expense for the period attributable to: | | | | | | |
| Owners of the Company | | | | (400,284) | | (327,238) |
| Non-controlling interests | | | | <u>(6,918)</u> | | <u>(13,559)</u> |
| | | | | <u>(407,202)</u> | | <u>(340,797)</u> |
| Loss per share: | | | | | | |
| Basic | | 10 | | <u>RMB(0.1184)</u> | | <u>RMB(0.1091)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*AS AT JUNE 30, 2022*

(Expressed in Renminbi)

| | June 30, 2022 | December 31, 2021 |
|-------------------------------------------------------------------------------|--------------------------|----------------------|
| <i>NOTES</i> | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Non-current assets | | |
| Goodwill | 100,609 | 100,609 |
| Property, plant and equipment | 9,146,530 | 8,983,145 |
| Right-of-use assets | 659,086 | 691,494 |
| Intangible assets | 8,623 | 7,093 |
| Equity instrument at fair value through other comprehensive income (“FVTOCI”) | 374,410 | 313,551 |
| Biological assets | 470,044 | 296,979 |
| Prepayments for purchase of property, plant and equipment | 16,448 | 30,007 |
| Deferred tax assets | 2,650 | 264 |
| Other prepayments | – | 930 |
| | 10,778,400 | 10,424,072 |
| Current assets | | |
| Inventories | 1,007,813 | 1,287,060 |
| Biological assets | 2,193,842 | 1,556,140 |
| Account receivables | 193,827 | 225,491 |
| Prepayments, deposits and other receivables | 1,162,494 | 782,038 |
| Other current assets | 1,581,751 | 1,556,760 |
| Amounts due from related companies | 1,755,594 | 925,314 |
| Financial assets at fair value through profit or loss | 2,210 | 230,874 |
| Pledged and restricted bank deposits | 89 | 698 |
| Cash and bank balances | 995,931 | 1,040,980 |
| | 8,893,551 | 7,605,355 |

| | <i>NOTES</i> | June 30, 2022 RMB'000 (Unaudited) | December 31, 2021 RMB'000 (Audited) |
|------------------------------------------------------------|--------------|------------------------------------------------------|----------------------------------------------|
| Current liabilities | | | |
| Account and bills payables | <i>14</i> | 418,818 | 573,173 |
| Other payables, accruals and deposits received | | 1,011,401 | 1,077,546 |
| Lease liabilities | | 44,607 | 27,651 |
| Contract liabilities | | 272,808 | 424,338 |
| Bank borrowings | | 7,058,909 | 5,963,713 |
| Amounts due to related companies | <i>13</i> | 130,090 | 120,840 |
| Loans from related companies | | 1,202,500 | 2,500 |
| Financial liabilities at fair value through profit or loss | | 1,020,425 | 29,551 |
| Current tax liabilities | | 142,278 | 289,308 |
| | | 11,301,836 | 8,508,620 |
| Net current liabilities | | (2,408,285) | (903,265) |
| Total assets less current liabilities | | 8,370,115 | 9,520,807 |
| Non-current liabilities | | | |
| Bank borrowings | | 58,576 | 145,361 |
| Loans from a related company | | 98,754 | 97,306 |
| Deferred income | | 131,508 | 133,860 |
| Deferred tax liabilities | | 32,157 | 85,098 |
| Long-term payable | | 87,418 | 84,281 |
| Lease liabilities | | 333,728 | 366,131 |
| | | 742,141 | 912,037 |
| Net assets | | 7,627,974 | 8,608,770 |
| Capital and reserves | | | |
| Share capital | | 1,668,978 | 1,668,978 |
| Reserves | | 5,817,011 | 6,790,889 |
| Equity attributable to the owners of the Company | | 7,485,989 | 8,459,867 |
| Non-controlling interests | | 141,985 | 148,903 |
| Total equity | | 7,627,974 | 8,608,770 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2022
(Expressed in Renminbi)

1 BASIS OF PREPARATION AND PRESENTATION

The unaudited condensed consolidated financial statements of COFCO Joycome Foods Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended June 30, 2022 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended December 31, 2021.

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

As at June 30, 2022, the Group’s current liabilities exceeded its current assets by RMB2,408,285,000. Taking into account the banking facilities available to the Group, the directors of the Company have, at the time of approving the condensed consolidated financial statements, a reasonable expectation that the Group has adequate resources to meet its liabilities as and when they fall due and to continue in operational existence for the foreseeable future. Thus the Group continues to adopt the going concern basis of accounting in preparing its condensed consolidated financial statements.

2 PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2022 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2022 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|------------------------|--------------------------------------------------------------|
| Amendments to HKFRS 3 | Reference to the Conceptual Framework |
| Amendments to HKFRS 16 | Covid-19-Related Rent Concessions beyond June 30, 2021 |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2018-2020 |

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3 REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

| Segments | For the six months ended June 30, 2022 | | | | Total RMB'000 (unaudited) |
|--------------------------------------|----------------------------------------------------|-----------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------|---------------------------------|
| | Hog production and sales RMB'000 (unaudited) | Sales of fresh pork RMB'000 (unaudited) | Sales of processed meat products RMB'000 (unaudited) | Sales of imported meat products RMB'000 (unaudited) | |
| Types of goods | | | | | |
| Hogs | 1,907,492 | – | – | – | 1,907,492 |
| Fresh pork | – | 1,804,592 | – | – | 1,804,592 |
| Processed meat products | – | – | 373,579 | – | 373,579 |
| Imported meat products | – | – | – | 1,258,843 | 1,258,843 |
| Total | 1,907,492 | 1,804,592 | 373,579 | 1,258,843 | 5,344,506 |
| Timing of revenue recognition | | | | | |
| A point in time | 1,907,492 | 1,804,592 | 373,579 | 1,258,843 | 5,344,506 |
| | | | | | |
| Segments | For the six months ended June 30, 2021 | | | | Total RMB'000 (unaudited) |
| | Hog production and sales RMB'000 (unaudited) | Sales of fresh pork RMB'000 (unaudited) | Sales of processed meat products RMB'000 (unaudited) | Sales of imported meat products RMB'000 (unaudited) | |
| Types of goods | | | | | |
| Hogs | 3,374,257 | – | – | – | 3,374,257 |
| Fresh pork | – | 1,830,013 | – | – | 1,830,013 |
| Processed meat products | – | – | 377,580 | – | 377,580 |
| Imported meat products | – | – | – | 1,921,004 | 1,921,004 |
| Total | 3,374,257 | 1,830,013 | 377,580 | 1,921,004 | 7,502,854 |
| Timing of revenue recognition | | | | | |
| A point in time | 3,374,257 | 1,830,013 | 377,580 | 1,921,004 | 7,502,854 |

4 SEGMENT INFORMATION

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

4 SEGMENT INFORMATION (CONTINUED)

| | |
|---------------------------------|-------------------------------------------------------------------------------|
| 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 revenue and segment results

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

| | Hog production RMB'000 (unaudited) | Fresh pork RMB'000 (unaudited) | Processed meat products RMB'000 (unaudited) | Meat import RMB'000 (unaudited) | Segment total RMB'000 (unaudited) | Inter- segment elimination RMB'000 (unaudited) | Total RMB'000 (unaudited) |
|------------------------------------------------|---------------------------------------------|-----------------------------------------|---------------------------------------------------------|------------------------------------------|--------------------------------------------|------------------------------------------------------------|---------------------------------|
| Six months ended June 30, 2022 | | | | | | | |
| Segment revenue | | | | | | | |
| External customers | 1,907,492 | 1,804,592 | 373,579 | 1,258,843 | 5,344,506 | – | 5,344,506 |
| Inter-segment sales | <u>1,208,609</u> | <u>35,776</u> | <u>997</u> | <u>55,862</u> | <u>1,301,244</u> | <u>(1,301,244)</u> | <u>–</u> |
| Segment revenue | <u>3,116,101</u> | <u>1,840,368</u> | <u>374,576</u> | <u>1,314,705</u> | <u>6,645,750</u> | <u>(1,301,244)</u> | <u>5,344,506</u> |
| Segment results | | | | | | | |
| | <u>(1,286,319)</u> | <u>16,449</u> | <u>19,949</u> | <u>92,195</u> | <u>(1,157,726)</u> | | <u>(1,157,726)</u> |
| Unallocated corporate income | | | | | | | 23,847 |
| Unallocated corporate expenses | | | | | | | (99,533) |
| Fair value adjustments on biological assets | | | | | | | 930,165 |
| Finance costs | | | | | | | <u>(77,641)</u> |
| Loss before tax | | | | | | | <u>(380,888)</u> |
| | Hog production RMB'000 (unaudited) | Fresh pork RMB'000 (unaudited) | Processed meat products RMB'000 (unaudited) | Meat import RMB'000 (unaudited) | Segment total RMB'000 (unaudited) | Inter- segment elimination RMB'000 (unaudited) | Total RMB'000 (unaudited) |
| Six months ended June 30, 2021 | | | | | | | |
| Segment revenue | | | | | | | |
| External customers | 3,374,257 | 1,830,013 | 377,580 | 1,921,004 | 7,502,854 | – | 7,502,854 |
| Inter-segment sales | <u>851,809</u> | <u>10,916</u> | <u>1,647</u> | <u>117,584</u> | <u>981,956</u> | <u>(981,956)</u> | <u>–</u> |
| Segment revenue | <u>4,226,066</u> | <u>1,840,929</u> | <u>379,227</u> | <u>2,038,588</u> | <u>8,484,810</u> | <u>(981,956)</u> | <u>7,502,854</u> |
| Segment results | | | | | | | |
| | <u>1,595,769</u> | <u>(9,268)</u> | <u>13,024</u> | <u>132,064</u> | <u>1,731,589</u> | | <u>1,731,589</u> |
| Unallocated corporate income | | | | | | | 9,531 |
| Unallocated corporate expenses | | | | | | | (35,346) |
| Fair value adjustments on biological assets | | | | | | | (2,000,509) |
| Finance costs | | | | | | | <u>(52,325)</u> |
| Loss before tax | | | | | | | <u>(347,060)</u> |

4 SEGMENT INFORMATION (CONTINUED)

Segment revenue and segment results (continued)

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 certain finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

Segment assets and liabilities

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

5 OTHER INCOME

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

| | Six months ended June 30, | |
|----------------------------------------|---------------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Interest income from banks | 895 | 1,997 |
| Interest income from a related company | 4,273 | 4,224 |
| | <u>5,168</u> | <u>6,221</u> |
| Government grants* | 81,720 | 97,315 |
| | <u>86,888</u> | <u>103,536</u> |

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

Government grants related to acquisition of lands use rights and acquisition/construction of property, plant and equipment projects are included in deferred income and are credited to profit or loss on a systematic basis over the useful lives of the related assets. Included in the above balances are government grants released from deferred income of RMB3,857,000 for the six months ended June 30, 2022 (six months ended June 30, 2021: RMB5,454,000).

6 OTHER GAINS AND LOSSES, NET

An analysis of the Group's other gains and losses is as follows:

| | Six months ended June 30, | |
|-----------------------------------------------------------------------------------------------------------------|---------------------------|-----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Exchange (loss)/gain, net | (64,618) | 5,197 |
| Loss on disposal of property, plant and equipment | (7,272) | (4,038) |
| Write-down of inventories | (5,123) | (35,947) |
| Impairment on account receivables, net | (673) | (213) |
| (Provision of)/reversal of impairment on other receivables, net | (32) | 7 |
| Realised and unrealised gain/(loss) on fair value changes in respect of foreign currency forward contracts, net | 23,033 | (4,192) |
| Others | 56 | (370) |
| | <u>(54,629)</u> | <u>(39,556)</u> |

7 FINANCE COSTS

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

| | Six months ended June 30, | |
|--------------------------------------------------------------------|---------------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Interest on: | | |
| – Bank borrowings | 62,038 | 44,769 |
| – Loans from related companies | 7,631 | 3,867 |
| – Lease liabilities from the third parties | 8,096 | 7,538 |
| – Lease liabilities from related companies | 162 | – |
| – Long-term payable | 3,137 | 2,716 |
| | <u>81,064</u> | <u>58,890</u> |
| Total borrowing costs | | |
| | <u>81,064</u> | <u>58,890</u> |
| Less: borrowing costs capitalised in the cost of qualifying assets | (3,423) | (6,565) |
| | <u>77,641</u> | <u>52,325</u> |

8 (LOSS)/PROFIT BEFORE TAX

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

| | Six months ended June 30, | |
|---------------------------------------------------------------------------------------------------------|---------------------------|------------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Cost of inventories recognised as expenses | 5,622,494 | 5,548,556 |
| Realised and unrealised loss/(gain) on fair value changes in respect of commodity future contracts, net | 625,119 | (9,463) |
| Fair value changes in respect of biological assets | (316,718) | 1,838,454 |
| | <u>5,930,895</u> | <u>7,377,547</u> |
| Total cost of sales | | |
| Depreciation of property, plant and equipment | 254,540 | 200,866 |
| Depreciation of right-of-use assets | 26,825 | 19,107 |
| Amortisation of intangible assets | 895 | 880 |
| | <u>282,260</u> | <u>220,853</u> |
| Total depreciation and amortisation | | |
| Less: capitalised in biological assets | (225,759) | (156,228) |
| | <u>56,501</u> | <u>64,625</u> |

9 INCOME TAX EXPENSE

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

| | Six months ended June 30, | |
|--------------------------------------------|---------------------------|---------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Current tax: | | |
| The People's Republic of China (the "PRC") | | |
| – Enterprise Income Tax | 143,387 | 3,226 |
| Deferred tax: | | |
| – Current period | (55,327) | 88,863 |
| Income tax expense | <u>88,060</u> | <u>92,089</u> |

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit generated in Hong Kong for the six months ended June 30, 2022 (six months ended June 30, 2021: nil).

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the six months ended June 30, 2022 (six months ended June 30, 2021: 25%).

Certain subsidiaries operating in the PRC were exempted from PRC income taxes during both 2022 and 2021. 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 agricultural 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.

10 LOSS PER SHARE

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

Loss

| | Six months ended June 30, | |
|---------------------------------------------------------------|---------------------------|------------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Loss for the purpose of basic loss per share | | |
| Loss for the period attributable to the owners of the Company | <u>(462,030)</u> | <u>(425,590)</u> |

Number of shares

| | Six months ended June 30, | |
|------------------------------------------------------------------------------------|---------------------------|------------------|
| | 2022 | 2021 |
| | '000 | '000 |
| Weighted average number of ordinary shares for the purpose of basic loss per share | <u>3,901,998</u> | <u>3,901,998</u> |

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

11 DIVIDEND

During the six months ended June 30, 2022, a final dividend of Hong Kong Dollar (“HKD”) 0.180 (equivalent to RMB0.147) per share, totalling HKD702,360,000 (equivalent to RMB573,594,000), in respect of the year ended December 31, 2021 was declared and approved. The dividend was paid in June 2022.

During the six months ended June 30, 2021, a final dividend of HKD0.206 (equivalent to RMB0.1714) per share, totalling HKD803,812,000 (equivalent to RMB668,836,000), in respect of the year ended December 31, 2020 was declared and approved. The dividend was paid in July 2021.

The board of directors of the Company has resolved not to declare any interim dividend for the six months period ended June 30, 2022 (six months ended June 30, 2021: Nil).

12 ACCOUNT RECEIVABLES

| | June 30, | December 31, |
|---------------------------------------------------|----------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Audited) |
| Account receivables from contracts with customers | 194,723 | 225,714 |
| Less: Allowance for credit losses | <u>(896)</u> | <u>(223)</u> |
| | <u>193,827</u> | <u>225,491</u> |

12 ACCOUNT RECEIVABLES (CONTINUED)

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

| | June 30, 2022 RMB'000 (Unaudited) | December 31, 2021 RMB'000 (Audited) |
|--------------------|------------------------------------------------------|----------------------------------------------|
| Within 90 days | 187,437 | 224,482 |
| 90 to 180 days | 5,720 | 802 |
| 180 days to 1 year | 670 | 22 |
| Over 1 year | – | 185 |
| | <u>193,827</u> | <u>225,491</u> |

13 BALANCES WITH RELATED COMPANIES

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

Included in amounts due from related companies as at June 30, 2022 are receivables in trade nature of RMB10,237,000 (December 31, 2021: RMB9,598,000), which are unsecured, interest-free and repayable according to relevant sales contracts. An aged analysis of these receivables as at the end of the reporting period, based on delivery dates and net of allowance for credit losses, is as follows:

| | June 30, 2022 RMB'000 (Unaudited) | December 31, 2021 RMB'000 (Audited) |
|-----------------------------------|------------------------------------------------------|----------------------------------------------|
| Within 90 days | 1,753 | 1,085 |
| Over 90 days but less than 1 year | – | 8,202 |
| Over 1 year | 8,484 | 311 |
| | <u>10,237</u> | <u>9,598</u> |

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

Included in amounts due to related companies as at June 30, 2022 were payables in trade nature of RMB119,183,000 (December 31, 2021: RMB115,359,000), which are unsecured, interest-free and repayable according to the relevant purchase contracts. An aged analysis of these payables at the end of the reporting period, based on the invoice dates, is as follows:

| | June 30, 2022 RMB'000 (Unaudited) | December 31, 2021 RMB'000 (Audited) |
|-----------------------------------|------------------------------------------------------|----------------------------------------------|
| Within 90 days | 119,183 | 97,301 |
| Over 90 days but less than 1 year | – | 18,058 |
| | <u>119,183</u> | <u>115,359</u> |

The remaining balance of amounts due to related companies include interest payable in respect of loans from related companies and current account balances, which are unsecured, interest-free and repayable on demand.

14 ACCOUNT AND BILLS PAYABLES

| | June 30, 2022 RMB'000 (Unaudited) | December 31, 2021 RMB'000 (Audited) |
|------------------|------------------------------------------------------|----------------------------------------------|
| Account payables | 413,560 | 566,871 |
| Bills payables | 5,258 | 6,302 |
| | <u>418,818</u> | <u>573,173</u> |

The account 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 account payables as at the end of the reporting period, based on the invoice dates, is as follows:

| | June 30, 2022 RMB'000 (Unaudited) | December 31, 2021 RMB'000 (Audited) |
|---------------|------------------------------------------------------|----------------------------------------------|
| Within 1 year | 399,640 | 557,824 |
| 1 to 2 years | 10,171 | 8,257 |
| Over 2 years | 3,749 | 790 |
| | <u>413,560</u> | <u>566,871</u> |

15 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

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 industry 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.

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 four modern slaughtering and processing bases in Jiangsu, Hubei, Jilin and Inner Mongolia (putting into operation in August 2022), and a cutting center in Guangdong (putting into operation in June 2022). 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, Wuhan, Jilin, Guangdong and Inner Mongolia.

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 Price Rebound after Bottoming out

According to the data from the National Bureau of Statistics, hog production volume in China amounted to 366 million heads in the first half of 2022, representing a year-on-year increase of 8.4%; pork output was 29.39 million tons, increasing by 8.2% on a year-on-year basis.

Due to the gradual release of breeding sow capacity, hog price was on a downward trend at the beginning of the year. The average hog price in 22 provinces in China hit a stage low point of RMB12.12/kg at the end of March 2022.

With the effect of capacity reduction gradually manifested, coupled with the influence of short-term market sentiment, hog price continued to rise since the end of March 2022, and the average hog price in 22 provinces reached RMB20.20/kg at the end of June 2022, increasing by nearly 70% from the low level in March 2022. The rise in hog price drove the profit of hog farming to turn positive gradually, and the industry capacity began to rebound: the stock of breeding sow in China ended the decrease for 10 consecutive months since May 2022, and amounted to 42.77 million heads at the end of June 2022, increasing by 2.0% month on month.

Normalization of the African Swine Fever Accelerating the Large-scale Operation

Industry players have accumulated certain experience in response to the African swine fever since it spread into China in 2018 and has lasted for four years. Large-scale enterprises have advantages in terms of hardware and software completeness, further raising the threshold of the industry.

Household Consumption Promoting E-commerce and Branding of Fresh Products under COVID-19 Pandemic

In the first half of 2022, impacted by the COVID-19 pandemic in Jilin and Shanghai, the demand for household consumption increased, driving the rapid development of fresh food e-commerce and community group purchase channels, and food safety and convenience became more and more important. With its advantages of high quality, standardization, hygiene and convenience, branded small-packed fresh pork products responded to the channel development and met the market demand, gaining higher brand recognition and consumer loyalty.

Significant Reduction in Pork Imports and Strong Demand in Beef Imports

Under the sufficient supply of domestic hogs, the prices of imported and domestic pork were inverted. In the first half of 2022, the pork import (excluding by-products) was 0.8 million tons, representing a year-on-year decrease of 74.9%, accounting for 2.7% of domestic pork production. Beef import volume (excluding by-products) amounted to 1.15 million tons in the first half of 2022, representing a year-on-year increase of 1.7%, accounting for 38.1% of domestic beef production.

III. Results of Operation

In the first half of 2022, the international situation was complex and volatile, while the domestic economy faced severe challenges. The Company's loss before fair value adjustment of biological assets for the first half of 2022 amounted to RMB1,399 million due to the persistently high feed raw material prices and the downturn in domestic hog price, among which a loss of RMB1,286 million recorded in the hog production segment was mainly due to a significant decrease in the average selling price of hogs compared with the same period of the previous year, and the unrealised loss on fair value changes in respect of commodity future contracts as a result of the surging futures prices in June 2022. However, the Company stayed committed to focus on production management, strictly implemented cost reduction and efficiency enhancement, and partially offset the adverse impact of market fluctuations by improving production efficiency and production capacity utilization. The results of the fresh pork segment amounted to RMB16.45 million, representing a turnaround from loss to profit as compared with the same period last year. The sales volume of fresh pork increased by 67.7%. Facing the challenge of unexpected pandemic in various regions, the Company took the initiative to assume its social responsibility as a state-owned enterprise, concentrated its efforts and endeavoured to ensure supply, and further improved the Company's brand recognition. The processed meat products business further expanded its business scale through carrying on catering business and vigorously developing retail clients, resulting in a significant year-on-year increase in segment results. The meat import business continued to strengthen risk control and improve its capability in "trading plus processing", which released the upstream and downstream synergies and maintained good profitability.

Hog production business

Significant Year-on-year Growth in Hog Production Volume

In the first half of 2022, the Company's hog production volume reached 2,268 thousand heads representing an increase of 35.7% year-on-year, and the average weight of finishing hogs was 109.3 kg/head. Due to the notable decline in the average selling price of hogs in the first half of the year, the revenue and profit of the production segment both declined. During the period, the Company applied strategies to hedge price fluctuation by using futures contracts and recorded a realised gain on fair value changes in respect of commodity future contracts; however, as a result of the surging futures prices in June 2022, an unrealised loss on fair value changes in respect of commodity future contracts was incurred.

Actively Respond to Changes in Market Conditions, Strengthen Internal Benchmarking, and Improve Production Efficiency

In the face of multiple pressures such as rising global feed raw material prices and low domestic hog price, the Company focused on strengthening internal benchmarking, implementing refined management and improving overall production efficiency. In terms of feed, the Company has strengthened raw material procurement market research and optimization of feed formulation; in terms of production management, the Company has strengthened internal benchmarking and implemented resident management to narrow the gap between internal breeding results; in terms of assessment and incentive, the Company has optimized its management team and implemented precise incentive to fully mobilize the enthusiasm and responsibility of front-line employees.

Adequate Production Capacity Reserve and Comprehensive Upgrade of Breeding System

As at the end of June 2022, the stock of breeding and replacement hogs was 306 thousand heads, representing an increase of over 60 thousand heads as compared with the beginning of the year, safeguarding production capacity for the subsequent production; in terms of breeding, the preliminary establishment of the genome breeding process has further promoted the breeding system construction, which is conducive to the faster realization of breeding herd performance optimization.

Fresh pork business

Significant Growth in Sales Volume of Fresh Pork with a Turnaround from Loss to Profit in Segment Results Achieved and Significant Improvement in Upstream and Downstream Matching

In the first half of 2022, the Company seized the opportunity to enhance its slaughtering capacity utilization rate, leading to a significant year-on-year increase in the sales volume of fresh pork of 67.7% to 109 thousand tons. The segment realized profits of RMB16.45 million.

The commissioning of Jilin Changling Plant and the slaughtering and processing capacity of 1 million heads in Chifeng, Inner Mongolia in August 2022 has accelerated the upstream and downstream matching of the Company. The proportion of internal procurement of hogs of the fresh pork segment recorded a significant increase year-on-year.

Brand Terminal Construction Accelerated, and Sales of Small-Packed Fresh Pork Increased Significantly

During the period, the Company further promoted terminal construction and increased the number of brand outlets. In June 2022, the Company completed the commissioning of Guangdong cutting center, which will support the expansion of the Company's brand business in South China market. During the reporting period, the sales volume of small-packed pork increased by 26.8% year-on-year to 27.23 million boxes, with an average daily sales volume of 149 thousand boxes, of which the sales volume of linseed-fed pork products increased by 202.7% year-on-year.

The Brand Influence of “Joycome” Continues to Expand as We Fulfill Our Responsibilities as a State-owned Enterprise and Strive to Fight against COVID-19 pandemic and Maintain Supply

In the first half of 2022, during the COVID-19 pandemic prevention and control in Jilin, Shanghai and Beijing, etc., the Company responded quickly and proactively, activated the emergency mechanism, and ensured “continuous supply, no drop in quality and stable price” during the pandemic while taking proper prevention and control measures, and truly secured the effective supply of products from the production and logistics ends. In order to meet the needs of consumers’ household consumption, the Company launched the community group purchase business. To ensure that our delivery vehicles were sent out on time, the front-line staff of the Shanghai Transfer Warehouse continued to sort products from the early morning of a day till the early hours of the next day. To ensure that the stores were not out of stock, the staff of the stores in the lockdown and controlled areas in Beijing stayed in the stores for more than ten consecutive days to arrange order taking and delivery for the surrounding community group purchase.

In addition, as an authorized “Sports-Training Bureau National Team Preparation Protection Product” by the General Administration of Sport of China Training Bureau, the Company supplies safe and high quality pork products to the Training Bureau, many national teams, provincial sports units and sports teams all year round. During the 2022 Beijing Winter Olympic Games, the Company further expanded its brand influence as a meat supplier and partner of the “Cross-line and Cross-item Snowboarding National Training Team”.

Meat import business

Accurate Market Research to Maintain Good Profitability

In the first half of 2022, the Company continued to strictly control the risk of import market fluctuations. For pork imports, in view of the abundant supply of domestic hogs and the price of frozen pork products continued to plummet more strongly in China’s domestic market than abroad, the Company took initiative to reduce the volume and implemented back-to-back order locking. For beef imports, as global beef price is in an upward cycle, the Company has strengthened its market research and judgment, implemented opportunistic procurement and actively explored end customers to strengthen the combination of downstream processing and trading.

During the reporting period, the Company’s meat import distribution volume was 29 thousand tons, representing a decrease of 61.3% year-on-year, with end customers (corporate customers, catering customers and retail customers) accounting for 66% of revenue. The segment realized profits of RMB92.20 million.

IV. Financial Review

Overall Performance

In the first half of 2022, the revenue of the Group was RMB5,345 million, representing a decrease of RMB2,158 million as compared with RMB7,503 million for the same period in 2021. Prior to biological assets fair value adjustments, the net loss of the Group was RMB1,399 million, while the net profit for the same period in 2021 was RMB1,561 million.

Revenue

In the first half of 2022, the revenue of the Group was RMB5,345 million, representing a decrease of 28.8% as compared with RMB7,503 million for the same period in 2021, mainly attributable to, on one hand, a significant year-on-year decrease in the average selling price of hogs in the hog production business, and on the other hand, the strict risk control measures adopted by the import business against market volatility as part of its proactive initiative to reduce procurement of pork.

Gross Profit Margin

In the first half of 2022, the gross profit margin before biological assets fair value adjustments of the Group was -16.9%, representing a year-on-year decrease of 43.1 percentage points, mainly attributable to the year-on-year decrease in average selling price of finishing hogs of 42.2% to RMB13.55/kg, as well as the effect of the fluctuation of futures prices and feed raw material prices.

Selling and Distribution Expenses/Administrative Expenses

In the first half of 2022, the total selling and distribution expenses and administrative expenses of the Group amounted to RMB363 million, representing an increase of 12.7% as compared with RMB322 million for the same period last year, mainly due to the increase in selling expenses as a result of the expansion of fresh pork business.

Finance Costs

In the first half of 2022, the Group's finance costs amounted to RMB78 million, representing an increase of RMB26 million as compared with RMB52 million in the same period of 2021, mainly due to the fact that the size of financing increased in response to business expansion, hence resulting in an increase in finance costs.

Other Income, Other Gains and Losses

In the first half of 2022, the Group's other income, other gains and losses amounted to a total gain of RMB32 million, representing a decrease of RMB32 million as compared with that of the same period in 2021.

Loss/Profit for the Period

For the reasons above, the Group recorded a loss of RMB1,399 million before biological assets fair value adjustments during the first half of 2022, as compared with the profit of RMB1,561 million before biological assets fair value adjustments in the same period in 2021.

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 the relevant subsidiaries during the first half of 2022.

Analysis on Capital Resources

Liquidity and Financial Policy

Adhering to the steady financial policy, externally, the Group was committed to expanding financing channels and strengthening financing capability construction, as well as strengthening the cooperation with banks to obtain adequate credit facilities and ensure the capital liquidity. Internally, the Group implemented intensive management for surplus capital to improve the turnover efficiency for inventories and accounts receivables as well as the capability of generating 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 and Hong Kong dollars. We paid close attention to exchange rate fluctuations and adopted currency forward contracts in due course to hedge the majority of exchange rate risks.

As at June 30, 2022, the cash and bank balances owned by the Group amounted to approximately RMB996 million (December 31, 2021: approximately RMB1,041 million). The cash and bank balances remained stable.

As at June 30, 2022, our current ratio was 0.79 (December 31, 2021: 0.89). As at June 30, 2022, our unused bank credit facilities were RMB15,438 million.

EBITDA and Cash Flow

Our operation capital mainly came from cash generated from operation activities, bank borrowings and shareholders’ capital contributions. Our cash demand was mainly borne on production and operation activities, capital expenditure, repayment of matured liabilities, interest payment and unexpected cash needs as well.

In the first half of 2022, the EBITDA of the Group (before biological assets fair value adjustments)¹ was RMB-843 million (same period in 2021: RMB2,043 million). The EBITDA of the Group (after biological assets fair value adjustments)² was RMB-21 million (same period in 2021: RMB-74 million).

Notes:

1. The EBITDA of the Group (before biological assets fair value adjustments) refers to the aggregate amount of profit/(loss) for the period (before biological assets fair value adjustments), income tax expenses, finance costs and depreciation and amortisation, among which depreciation and amortisation refer to the total amount of depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of intangible assets and depreciation provided for productive biological assets before biological assets fair value adjustments.
2. The EBITDA of the Group (after biological assets fair value adjustments) refers to the aggregate amount of profit/(loss) for the period (after biological assets fair value adjustments), income tax expenses, finance costs and depreciation and amortisation, among which depreciation and amortisation refer to the total amount of depreciation of property, plant and equipment, depreciation of right-of-use assets and amortisation of intangible assets.

In the first half of 2022, cash used in our operating activities was RMB1,145 million (generated during the same period in 2021: RMB1,584 million). Cash used in our investment activities was RMB403 million (used during the same period in 2021: RMB614 million), including RMB411 million for the purchase of property, plant and equipment (same period in 2021: RMB588 million). Cash generated from our financing activities was RMB1,503 million (used during the same period in 2021: RMB679 million). In summary, in the first half of 2022, our net decrease in cash and bank balances was RMB45 million.

Capital Structure

As at June 30, 2022, the total number of issued shares of the Company remained unchanged at 3,901,998,323 shares.

As at June 30, 2022, the Group had interest-bearing bank loans of approximately RMB7,117 million (December 31, 2021: approximately RMB6,109 million). The annual interest rate on bank loans ranged from 1.16% to 4.21% (December 31, 2021: from 0.91% to 4.26%). Most of the bank loans were based on fixed interest rates.

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

| <i>Unit: RMB in million</i> | June 30, 2022 | December 31, 2021 |
|-----------------------------|--------------------------|----------------------|
| Within 1 year | 7,059 | 5,964 |
| 1 to 2 years | 11 | 12 |
| 3 to 5 years | 47 | 124 |
| Over 5 years | – | 9 |
| | <hr/> | <hr/> |
| Total | <u>7,117</u> | <u>6,109</u> |

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

| <i>Unit: RMB in million</i> | June 30, 2022 | December 31, 2021 |
|-----------------------------|--------------------------|----------------------|
| Fixed-rate borrowings | 6,068 | 5,608 |
| Variable-rate borrowings | 1,049 | 501 |
| Total | <u>7,117</u> | <u>6,109</u> |

As at June 30, 2022, the Group had loans from related parties of approximately RMB1,301 million (December 31, 2021: approximately RMB100 million).

As at June 30, 2022, the Group had net assets of approximately RMB7,628 million (December 31, 2021: approximately RMB8,609 million). Net debts¹ of the Group amounted to approximately RMB7,423 million (December 31, 2021: approximately RMB5,168 million), while the net debt-to-equity ratio was approximately 97.3% (December 31, 2021: approximately 60.0%).

Note:

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

Contingent Liabilities and Pledge of Assets

As at June 30, 2022 and December 31, 2021, the Group had no significant contingent liabilities.

As at June 30, 2022 and December 31, 2021, the Group had no bank loans pledged 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 the first half of 2022, the Group's capital expenditure was RMB411 million (same period in 2021: RMB593 million). The following table sets forth our capital expenditure for the years indicated:

| <i>Unit: RMB in million</i> | Six months ended June 30, | |
|--------------------------------------------|----------------------------------|-------------------|
| | 2022 | 2021 |
| Payments for property, plant and equipment | 411 | 588 |
| Payments for right-of-use assets | – | 5 |
| Total | <u>411</u> | <u>593</u> |

As of the first half of 2022, our demand for capital expenditure mainly came from the construction of the hog farms in Jilin Province, Henan Province and the Inner Mongolia Autonomous Region, as well as slaughterhouses in the Inner Mongolia Autonomous Region.

Capital Commitment

Capital commitment of the Group is mainly related to the construction of hog farms and other production and ancillary facilities. As at June 30, 2022, capital commitment of the Group was RMB351 million (December 31, 2021: RMB596 million).

Biological Assets

Biological assets of the Group primarily consist of commodity pigs at different growth stages and breeding hogs used to give birth to animals in the future. As at June 30, 2022, we owned 306 thousand heads of breeding and replacement hogs in total, representing an increase of 25.4% as compared with 244 thousand heads as at December 31, 2021. The fair value of our biological assets was RMB2,664 million as at June 30, 2022 and RMB1,853 million as at December 31, 2021. Our results have been and are expected to be affected by changes in fair value of biological assets.

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

During the first half of 2022 and the same period in 2021, such adjustments have resulted in a decrease of RMB317 million and an increase of RMB1,838 million in cost of sales, respectively. Additionally, gains arising from fair value less cost of sales of agricultural products at the point of harvest amounted to RMB227 million (the same period in 2021: losses of RMB455 million); gains arising from changes in fair value of biological assets less cost of sales amounted to RMB386 million (the same period in 2021: gains of RMB293 million). In general, the net effect of adjustment in fair value of biological assets on profit was gains of RMB930 million during the current period and losses of RMB2,001 million during the same period in 2021.

V. Human Resources

The continuing operations of the Group hired 9,490 employees as at June 30, 2022 (June 30, 2021: 8,131 employees). Remuneration for employees was determined according to their job nature, personal performance and the market trends. For the six months ended June 30, 2022, total remuneration of the Group amounted to approximately RMB621 million (the same period in 2021: RMB467 million).

The Group provides basic social insurance and housing accumulation fund for the Company's 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

The major threat to the development of animal husbandry is epidemic risks. 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 the first half of 2022, African swine fever epidemic continued all across the country. There are four 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 outbreak of epidemic will increase daily consumption expenditures in the long run, since it may inhibit hogs' growth, reduce the production efficiency, and increase feed and veterinary drug consumption, all of which will result in higher operating costs. Third, the epidemic will bring phased reduction to production in hog farms because the purification process reduces the production efficiency of the farms in stages and increases the operating costs, resulting in reduced effectiveness. Fourth, 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 Procedure for Biosecurity Control (《生物安全控制程序》), the Contingency Plan for Major Animal Disease Prevention and Control (《重大動物疫情應急預案》) and the Operation Manual of Swine Diseases Prevention and Control (《豬病防控操作手冊》), and constantly improved the level and capacity of biosecurity control, so as to comprehensively prevent and curb major animal diseases such as African swine fever.

In addition, in the first half of 2022, the COVID-19 epidemic continued to spread across the globe. The major risks brought by the COVID-19 epidemic 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 disease may cause a decline in demand for meat in catering channels in the short term, which adversely affected the sales of meat products of the Company. To cope with the risks caused by the COVID-19 epidemic, 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 soy bean meals (which are our primary feed ingredients), live hogs and pork in China, as well as fluctuations in prices of commodity derivative products. 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.

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 the Regulations on Safety Production Management (《安全生產管理規定》), Measures for Administration of Production Safety Accidents (《生產安全事故管理辦法》) and Comprehensive Emergency Plans for Production Safety Accidents (《生產安全事故綜合應急預案》) to standardize safety risks management and prevent accidents. The Group has formulated the early warning indicators and bottom line indicators, and organized all subordinate enterprises to conduct all-round risk identification, evaluation and classification, and formulated corresponding management and control measures; to formulate special risk prevention and control measures for major risks; to organize all subordinate enterprises to perfect inspection system, organize regular safety inspection and confirm the effectiveness of risk management and control measures; and to conduct regular supervision and inspection to evaluate the operation of management system and risk management and control and promote the improvement and development of subordinate enterprises.

Food Safety Risks

Food safety risks refer to risks of severe customer complaints, large-scale product recall and other negative effects resulted from unqualified product and food safety indicators due to deficient food safety management system and unfulfilled management and control measures. To specify various food safety control measures and regulate food safety management, the Group has stipulated management systems, such as, Provisions for the Food Safety Management (《食品安全管理規定》), Food Safety Responsibility System (《食品安全責任制》), Standards for Food Safety of Industry Chain (《產業鏈質量安全標準》) and Prohibition on Food Safety (《食品安全禁令》). The Group organized and carried out food safety training and education and provided guidance for subordinate enterprises on food safety management, conducted regular supervision inspection and supervision examination of subordinate enterprises of samples, and evaluated and reviewed the results. All subordinate enterprises strictly implement the food safety management requirements and actively prevent food safety risks.

Environmental Protection Risks

Environmental protection risks refer to risks of corporate property loss and bad influence on social image due to excessive emission of pollutants and environmental pollution resulted from deficient environmental protection facilities and unstable operation. The Group has formulated standards, such as Regulations of Administration on Energy Conservation and Environmental Protection (《節能環保管理規定》), Measures for Supervision and Administration of “Three Simultaneities” for Construction Projects (《建設項目「三同時」監督管理辦法》) and Emergency Plans for Environmental Pollution Accidents (《環境污染事故應急預案》), which defined the requirements of environmental protection compliance and standardized the management of environmental pollution accidents to effectively carry out environmental protection risk prevention. The Group has established environmental risk warning and monitoring system, formulated specific early warning indicators and bottom line indicators, and regularly carried out environmental inspection, systematically checked the environmental protection problems of its subsidiaries, and followed up the implementation of rectifications, so as to effectively implement the responsibility of environmental protection.

VII. Outlook

The international situation remains uncertain while the downward pressure on the domestic economy still exists. In the second half of 2022, the Company will maintain strategic stability, strictly control various risks and continue the following tasks:

Firstly, we will prevent and control African swine fever, further improve the level of refined management, narrow the gap of the efficiency between internal farms, and consolidate our core competitive advantages.

Secondly, we will optimize the hedging strategies in a dynamic manner, and strictly control the risk of market volatility, to achieve the organic combination of futures and in-stocks.

Thirdly, we will accelerate the matching of upstream and downstream production capacity, and make our best efforts in branding operation and market development after the commissioning of the Guangdong cutting center.

Fourthly, we will continue to promote the differentiation and branding of fresh products, focusing on the promotion of linseed-fed pork products and the development of new products to further enhance the scale of the brand and expand its influence.

Fifthly, we will strengthen the risk control of import business, strengthen the integration of trading and processing, deepen the terminal channels, enhance customer stickiness, and add value to the business.

OTHER EVENTS

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2022 (six months ended June 30, 2021: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board and the management of the Company are committed to achieving and maintaining high standards of corporate governance, which they consider to be essential to safeguard the integrity of the Group's operations and maintain investors' trust in the Company. The management of the Company also actively observes the latest corporate governance requirements in the PRC, Hong Kong and abroad.

Save as disclosed below, in the opinion of the Board, the Company has complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the six months ended June 30, 2022.

Code provision C.2.1 of the CG Code states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. On 10 June 2022, Mr. Xu Jianong ("**Mr. Xu**") resigned as the executive director, managing director, general manager and the authorized representative of the Company. Following the resignation of Mr. Xu, Mr. Jiang Guojin, the chairman of the Board has been appointed as the general manager of the Company and has taken up the roles and functions of the managing director including but not limited to implementation of decisions of the Board, formulation of corporate and business strategies of the Company, supervision of ordinary operation of the Company and making decisions and providing advice relating to the appointment of senior management. The Board believes that Mr. Jiang Guojin's extensive experience and knowledge, together with the support of the management, shall strengthen the solid and consistent leadership of the Group and would allow for efficient business planning and decision, which the Board believes is in the best interest of the overall development of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board currently comprises one executive director (Mr. Jiang Guojin), two non-executive directors and three independent non-executive directors and therefore has a fairly strong independence element in its composition. The Company will keep reviewing the current structure of the Board from time to time.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as a code of conduct for securities transactions by the directors of the Company. The Company has made specific enquiries with each director and each of them confirmed that he or she had complied with all required standards under the Model Code for the six months ended June 30, 2022.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities for the six months ended June 30, 2022.

SUBSEQUENT EVENTS

As at the date of this announcement, the Group has no material subsequent events after June 30, 2022 which are required to be disclosed.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended June 30, 2022. The Audit Committee is of the view that the interim report of the Group is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended June 30, 2022 have been reviewed by the auditor of the Company, Baker Tilly Hong Kong Limited, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM REPORT

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

By order of the Board
COFCO Joycome Foods Limited
Jiang Guojin

Chairman, executive director and general manager

Beijing, PRC, August 23, 2022

As at the date of this announcement, the Board comprises Mr. Jiang Guojin as the chairman of the Board, the executive director and general manager, Mr. Ma Dewei and Dr. Zhao Wei as non-executive directors, and Mr. Fu Tingmei, Mr. Li Michael Hankin and Dr. Ju Jiandong as independent non-executive directors.