THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in COFCO Joycome Foods Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

中粮
COFCO
自然之源 重塑你我

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)

(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION: ACQUISITION OF THE TARGET COMPANY; (2) CONTINUING CONNECTED TRANSACTIONS: MUTUAL SUPPLY AGREEMENT AND FINANCIAL SERVICES AGREEMENT; AND (3) NOTICE OF THE EGM

Financial Adviser to the Company

CITIC SECURITIES

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 39 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 40 to 41 of this circular. A letter from Somerley containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 42 to 85 of this circular.

A notice convening the EGM of the Company to be held at 10:00 a.m. on Monday, 16 December 2024 at Conference Room Joycome, 8/F, COFCO Fortune Plaza, No. 8 Chao Yang Men South Street, Chaoyang District, Beijing, the PRC is set out on pages 198 to 200 of this circular. A form of proxy for the use at the EGM is enclosed herewith. Whether or not you are able to attend the EGM in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than 48 hours before the time scheduled for the holding of the EGM (i.e. before 10:00 a.m. on Saturday, 14 December 2024) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

25 November 2024

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

"Acquisition"	the acquisition of 100% equity interest of the Target Company by the Company pursuant to the Acquisition Agreement
"Acquisition Agreement"	the equity purchase agreement entered into between the Company and COFCO Industry Investment on 21 October 2024
"Articles"	the memorandum and articles of association of the Company (as amended from time to time)
"Asset Valuation Report"	the asset valuation report issued by Zhongqihua in connection with the entire equity interest of shareholders of COFCO Jiahua
"associates"	has the meaning as ascribed thereto under the Listing Rules
"Baker Tilly"	Baker Tilly Hong Kong Limited (天職香港會計師事務所有限公司)
"Board"	the board of directors of the Company
"BVI"	the British Virgin Islands
"CITIC Securities"	CITIC Securities (Hong Kong) Limited (中信証券(香港)有限公司), the financial adviser to the Company
"COFCO"	COFCO Corporation* (中糧集團有限公司), a wholly state-owned company established in the PRC in September 1952 which is currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
"COFCO (HK)"	COFCO (Hong Kong) Limited (中糧集團(香港)有限公司), a company incorporated in Hong Kong with limited liability in October 1981, a wholly-owned subsidiary of COFCO and a substantial shareholder of the Company

"COFCO Feed"	COFCO Feed Co., Ltd.* (中糧飼料有限公司), a company established in the PRC with limited liability in June 2003, and a wholly-owned subsidiary of COFCO Jiahua
"COFCO Finance"	COFCO Finance Corporation Limited* (中糧財務有限責任公司), a non-bank financial institution established in the PRC with limited liability in September 2002, and a subsidiary of COFCO
"COFCO Group"	COFCO and its subsidiaries other than the Group
"COFCO Industry Investment"	COFCO Industry Investment Co., Ltd.* (中糧產業投資有限公司), a company established in the PRC with limited liability in June 2023, and a wholly-owned subsidiary of COFCO
"COFCO Jiahua" or "Target Company"	COFCO Jiahua Industrial Limited* (中糧嘉華實業有限公司), a company established in the PRC with limited liability in January 2018, and a wholly-owned subsidiary of COFCO Industry Investment
"COFCO Meat"	COFCO Meat Investments Co., Ltd.* (中糧肉食投資有限公司), a company incorporated under the laws of the PRC with limited liability on 20 March 2009, and an indirect wholly-owned subsidiary of the Company
"Company" or "COFCO Joycome"	COFCO Joycome Foods Limited* (中糧家佳康食品有限公司) (formerly known as COFCO Meat Holdings Limited* (中糧肉食控股有限公司) and Charm Thrive Investments Limited* (燦旺投資有限公司)), a company incorporated in the BVI with limited liability on 11 March 2014 and re-domiciled to the Cayman Islands as an exempted company with limited liability on 4 May 2016, whose issued shares are listed on the Main Board of the Stock Exchange
"connected person(s)"	has the meaning as ascribed thereto under the Listing Rules
"Deposit Services"	the deposit services to be provided by COFCO Finance to the Group under the 2024 Financial Services Agreement
"Director(s)"	the director(s) of the Company

"EGM"	the extraordinary general meeting of the Company to be convened at 10:00 a.m. on Monday, 16 December 2024 at Conference Room Joycome, 8/F, COFCO Fortune Plaza, No. 8 Chao Yang Men South Street, Chaoyang District, Beijing, the PRC to consider and approve the resolutions as set out in the notice of the EGM dated 25 November 2024
"Entrustment Loan Services"	the provision of entrustment loans among members of the Group through COFCO Finance, which will only act as an agent of the Group, under the 2024 Financial Services Agreement
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huashang"	Huashang Reserve Commodity Management Center Co., Ltd.* (華商儲備商品管理中心有限公司), a company incorporated under the laws of the PRC on 21 January 1998, and an indirectly wholly-owned subsidiary of COFCO
"Independent Board Committee"	the independent committee of the Board comprising Mr. Fu Tingmei, Mr. Li Michael Hankin and Dr. Ju Jiandong, being all independent non-executive Directors, which has been established for the purpose of advising the Independent Shareholders in respect of the Acquisition, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps, the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps, the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap

"Independent Shareholder(s)"	Shareholder(s) other than the associates of COFCO
"Independent Third Party(ies)"	to the best of Directors' knowledge, information and belief having made all reasonable enquiries, individual(s) or company(ies) and its/their respective ultimate beneficial owner(s) which is/are third party(ies) independent of the Company and its connected persons (as defined in the Listing Rules)
"Latest Practicable Date"	20 November 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Loan Services"	the loan services to be provided by COFCO Finance to the Group under the 2024 Financial Services Agreement
"Mainfield"	Mainfield International Limited (明暉國際有限公司), a company incorporated in the BVI with limited liability in October 2008, an indirect wholly-owned subsidiary of COFCO and a substantial shareholder of the Company
"Major PRC Commercial Banks"	Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, China Merchants Bank, China CITIC Bank, Agricultural Development Bank of China, Ping An Bank and Postal Savings Bank of China
"PBC"	People's Bank of China (中國人民銀行)
"PRC"	the People's Republic of China, which, for the purpose of this circular only, does not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Proposed Deposit Cap"	the proposed maximum daily deposit amounts placed by the Group with COFCO Finance and interest accrued thereon during the term of the 2024 Financial Services Agreement
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"Share(s)"	ordinary share(s) in the issued share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Valuer" or "Zhongqihua"	Beijing Zhongqihua Assets Appraisal Co., Ltd. (北京中企華資產評估有限責任公司), a qualified evaluation institute in the PRC
"2021 Financial Services Agreement"	the financial services agreement in relation to the deposit services, the loan services, the entrustment loan services and the other financial services entered into between the Company and COFCO Finance on 16 November 2021
"2021 Mutual Supply Agreement"	the mutual supply agreement entered into between the Company and COFCO on 16 November 2021
"2024 Financial Services Agreement"	the financial services agreement in relation to the Deposit Services, the Loan Services and the Entrustment Loan Services entered into between the Company and COFCO Finance on 21 October 2024
"2024 Mutual Supply Agreement"	the mutual supply agreement entered into between the Company and COFCO on 21 October 2024
"%"	per cent

In this circular, the English names of the PRC entities are translation of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

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)

Executive Directors:
Dr. Gao Xiang *(Chairman of the Board)*
Dr. Zhang Nan

Non-executive Directors:
Dr. Zhao Wei
Mr. Chen Zhigang

Independent Non-executive Directors:
Mr. Fu Tingmei
Mr. Li Michael Hankin
Dr. Ju Jiandong

Registered Office:
Second Floor, Century Yard,
Cricket Square, P.O. Box 902,
Grand Cayman, KY1-1103,
Cayman Islands

Principal Place of Business in Hong Kong:
33/F, COFCO Tower,
262 Gloucester Road,
Causeway Bay,
Hong Kong

Head Office in the PRC:
COFCO Fortune Plaza,
No. 8 Chao Yang Men South Street,
Chaoyang District, Beijing, PRC

25 November 2024

To the Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION:
ACQUISITION OF THE TARGET COMPANY;
(2) CONTINUING CONNECTED TRANSACTIONS:
MUTUAL SUPPLY AGREEMENT AND FINANCIAL SERVICES AGREEMENT;
AND
(3) NOTICE OF THE EGM

I. INTRODUCTION

Reference is made to, among others, the announcement of the Company dated 21 October 2024 in relation to, among other things, the proposed (i) acquisition of the Target Company; and (ii) entering into of the 2024 Mutual Supply Agreement and the 2024 Financial Services Agreement by the Company.

The purpose of this circular is to provide you with (i) details of the Acquisition; (ii) details of the 2024 Mutual Supply Agreement and the provision of products and services by COFCO Group to the Group thereunder and its proposed annual caps; (iii) details of the 2024 Financial Services Agreement and the Deposit Services thereunder and its Proposed Deposit Cap; (iv) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Acquisition, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps, the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap; (v) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps, the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap; and (vi) a notice of the EGM.

II. MAJOR TRANSACTION AND CONNECTED TRANSACTION: ACQUISITION OF THE TARGET COMPANY

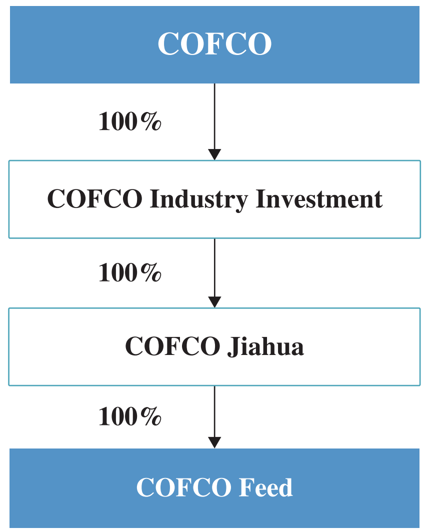
On 21 October 2024 (after trading hours), the Company and COFCO Industry Investment entered into the Acquisition Agreement, pursuant to which COFCO Industry Investment agreed to sell and the Company agreed to acquire 100% equity interest in COFCO Jiahua (being the Target Company). Further details of the Acquisition are set out below.

Information on the Target Company

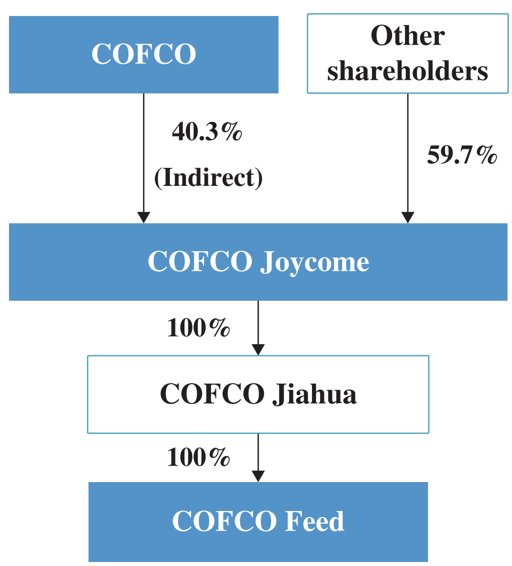
COFCO Jiahua is a company established in the PRC in January 2018 with limited liability and an indirect wholly-owned subsidiary of COFCO. COFCO Jiahua is principally engaged in investment holding and holds 100% equity interest in COFCO Feed. COFCO Feed is committed to providing customers with comprehensive animal nutrition solutions. Its core business covers research and development, production, sales and supporting technical services of feed products such as pig feed, ruminant feed, poultry feed, aquatic feed and premix, and has developed into a national animal nutrition solution provider.

Shareholding Structure of the Target Company

(a) Immediately before the completion of the Acquisition



(b) Immediately after the completion of the Acquisition



Financial Information of the Target Company

The audited financial information of the Target Company for the six months ended 30 June 2024 and the two years ended 31 December 2023 and 2022, prepared in accordance with the Hong Kong Financial Reporting Standards, is as follows:

	For the six months ended 30 June 2024	For the year ended 31 December 2023	For the year ended 31 December 2022
	RMB'000	*RMB'000*	*RMB'000*
Revenue	3,247,473	8,496,194	7,679,488
Profit before tax	96,910	202,138	123,678
Profit after tax	74,521	154,932	95,802
Total assets	2,457,962	2,662,775	2,619,089
Net assets	1,430,848	1,419,288	1,235,949

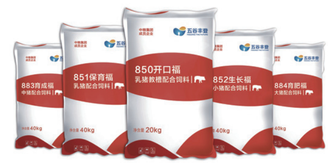
Business Information of the Target Company

COFCO Feed is committed to providing customers with comprehensive animal nutrition solutions. Its core business covers research and development, production, sales and supporting technical services of feed products such as pig feed, ruminant feed, poultry feed, aquatic feed and premix. With high-quality products, sound technical services and corporate reputation, the core brands of COFCO Feed, "FEEDING THE FUTURE (五穀豐登)" and "RANKING (銳科)", have gained increasing brand influence and steadily expanding market scale. COFCO Feed has developed into a national animal nutrition solution provider.

In terms of production capacity layout, as at the end of 2023, COFCO Feed had 21 feed processing plants in the PRC. The extensive production capacity layout enabled COFCO Feed to better serve many leading breeding groups in the PRC. In terms of research and development capabilities, COFCO Feed has a professional feed research and development team capable of tailoring scientific animal nutrition solutions to the needs of breeding customers. In terms of market competitiveness, building on favorable word of mouth from customers accumulated over the years, COFCO Feed produced and sold more than 2 million tons of feed in 2023, steadily escalating its industry ranking.

In the future, COFCO Feed will continue to uphold its strategic core. Internally, it will strengthen its production capacity layout rationally, enhance research and development capabilities, expand its brand recognition, and strengthen group synergies to craft "good products and good services" with high standard. Externally, the focus will be on market cultivation, exploring innovative collaboration models, increasing marketing efforts, and rapidly expanding its size and market influence to achieve "high turnover, high production output and high efficiency".

The main feed products of COFCO Feed are as follows:

Product category	Breeding targets	Product overview	Product illustration
Pig feed	Meat pigs, breeding pigs, etc.	Mainly representing the whole-stage compound feed of meat pigs and breeding pigs	
Ruminant feed	Beef cattle, dairy cattle, sheep, etc.	Mainly representing concentrate supplement and concentrate feed for ruminants	
Poultry feed	Broilers, meat breeding chicken, egg-laying hens, quails, meat geese, meat ducks, meat breeding ducks, laying ducks, egg-laying breeding ducks, etc.	Mainly representing the whole-stage compound feed for egg-laying and meat poultry	
Aquatic feed	Freshwater fish, marine fish, shrimp and crab crustaceans, amphibians, etc.	Mainly representing compound feed for aquaculture animals	

Product category	Breeding targets	Product overview	Product illustration
Premix	Pigs, poultry, aquaculture, ruminants, etc.	Mainly representing an additive premixed feed for livestock, poultry and aquatic animals, which is an intermediate type of compound feed produced by mixing one or more trace elements with a diluent or carrier in a required proportion	

Acquisition Agreement

Date	21 October 2024 (after trading hours)
Parties	The Company (as the buyer); and COFCO Industry Investment (as the seller)
Subject Matter	According to the terms and conditions of the Acquisition Agreement, the seller agreed to sell and the buyer agreed to acquire 100% equity interest in the Target Company.
Consideration	According to the valuation results in the Asset Valuation Report issued by Zhongqihua with 30 June 2024 as the valuation reference date, the consideration for the buyer to acquire 100% equity interest in the Target Company was RMB1,569.0707 million, which was determined after arm's length and amicable negotiation between the parties and on normal commercial terms.

Conditions Precedent to the Closing

The closing shall be conditional upon the following conditions precedent to the closing having been satisfied on or before the date falling 3 months from the date of execution of the Acquisition Agreement (the "**Long Stop Date**", subject to extension by the parties in writing), provided that the buyer shall have the right, at its sole discretion, to waive in writing any of the conditions precedent to the closing set out in (ii) and (iii) at any time on or before the Long Stop Date:

(i) The applicable laws do not prohibit or prevent the completion of this transaction, and no competent government authority has issued a final and non-appealable ruling that prohibits or prevents any party from completing this transaction;

(ii) All the seller warranties made by the seller (including that the seller is the sole legal and beneficial owner of 100% equity interest in the Target Company; that COFCO Jiahua, COFCO Feed and their respective subsidiaries ("**Target Group Companies**") do not have any significant outstanding taxes due and payable under applicable laws; that the business operations of the Target Group Companies are in line with all applicable laws and its constitutional documents in all material respects, and all necessary approvals, licenses, registrations, filings and reports have been completed; that the seller has the right, power and authorization to execute the Acquisition Agreement; and that the entering into of the Acquisition Agreement by the seller shall not conflict with the constitutional documents of the Target Group Companies, etc.) shall be true, accurate, and not misleading in all material respects as of the execution date and the closing date (which shall be the fifth business day following the date on which all conditions precedent to the closing are satisfied or (if applicable) waived by the relevant parties, or such other date as agreed by the parties), as well as at any time between the execution date and the closing date, as if such seller warranties were made on such dates (except for seller warranties that are specifically made as of a particular date, which shall be true and accurate only as of that date);

(iii) As of the closing date, the seller and COFCO Jiahua, COFCO Feed or their respective subsidiaries have complied with and fulfilled, in all material respects, all the agreements, undertakings, obligations, and conditions to which they are parties;

(iv) All terms of the Acquisition Agreement have become effective;

(v) The buyer has obtained an express opinion from the National Development and Reform Commission of the PRC that the transaction is not subject to foreign investment security review or the transaction has passed the foreign investment security review.

Payment

The arrangements for closing and payment of consideration were as follows:

The closing shall take place on the closing date at a place and time agreed by the parties in writing.

Unless otherwise agreed by the parties in writing, each party shall procure the Target Company to apply for registration of change for the equity transfer with the market supervision and administration authority as soon as possible on or after the closing date (no later than ten business days following the closing date), to register the buyer as the sole shareholder of the Target Company holding its 100% equity interest, and obtain the formal written documents issued by the market supervision and administration authority, including the business license certifying that the Target Company has been converted into a foreign-invested enterprise (the "**Business License for Foreign-Invested Enterprise**").

The buyer shall pay the entire transaction consideration to the seller in cash within three months from the date on which the Target Company obtains the Business License for Foreign-Invested Enterprise.

Basis of Determining the Consideration

The consideration for the Acquisition was based on the valuation results in the Asset Valuation Report issued by Zhongqihua with 30 June 2024 as the valuation reference date. The valuation results under the asset-based approach were adopted as the valuation conclusion: the appraised value of the Target Company as at the valuation reference date was RMB1,569.0707 million. The book value of the Target Company's combined net assets attributable to the parent company as at the valuation reference date was RMB1,341.5601 million. For further details of the Asset Valuation Report, please refer to Appendix V to this circular.

Financial Impacts of the Acquisition

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial statements of the Company.

For illustrative purpose only, assuming the Acquisition had been completed on 30 June 2024, upon completion of the Acquisition, the revenue of the Group for the six months ended 30 June 2024 would increase from RMB4,570.8 million to RMB7,483.3 million, representing an increase of approximately 63.7%; and the Group's profit after tax (after biological assets fair value adjustments) for the six months ended 30 June 2024 would increase from RMB249.3 million to RMB323.0 million, representing an increase of approximately 29.6%.

Shareholders and potential investors should note that the above-mentioned financial impacts are for reference only, the actual situation may not be ascertained until the preparation of the consolidated financial statements of the Company, and shall make reference to, among other things, the actual costs and expenses in relation to the Acquisition.

Information on the Parties

The Company

The Company is a meat business platform under COFCO, and its main businesses 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).

COFCO Industry Investment

COFCO Industry Investment is a company established in the PRC in June 2023 with limited liability and a wholly-owned subsidiary of COFCO. COFCO Industry Investment is principally engaged in the investment and corporate management consulting businesses and holds 100% equity interest in COFCO Jiahua.

Reasons for and Benefits of the Acquisition

The Group has strived to improve its strategic layout, adhering to the core strategic directions on cost dominance, technology-driven and brand leadership, and is committed to building a more competitive meat conglomerate with a comprehensive industry value chain. The Acquisition of the Target Company will enable the Group to enhance its value chain, including the feed business, and accelerate the strategic objectives implementation. The specific benefits are set out below:

(i) Align with the Group's development strategy to help further enhance its core competitiveness

The Acquisition is highly aligned with the Group's long-term development strategy. In terms of costs, feed is one of the major components in hog production. The Acquisition will increase the Group's self-sufficiency rate in feed, lowering feed procurement costs and intermediaries expenses, and integrate COFCO Group's sector resources in an in-depth manner, fully leveraging its strengths to realize industrial synergies through market analysis and raw material procurement, thereby effectively reducing breeding costs. In terms of research and development, COFCO Feed has advanced feed processing equipment, a professional research and development team with rich R&D experience, to build good cooperation relations with research institutes. COFCO Feed has precise formulas and proprietary technologies for fine processing to efficiently integrate the evaluation of feed ingredients, optimization of feed formulas and improvement of animal productivity, and is capable of tailoring scientific animal nutrition solutions to the needs of breeding customers. In recent years, COFCO Feed has been committed to the research of new products, processes and ingredients with the aim of quality and efficiency improvement. Various research and development projects have been carried out to apply the results into all types of products and successfully introduced to the market, thus effectively solving the technical problems of breeding customers. The Acquisition will integrate the research and development resources of both parties and further optimize the Group's farming feeds formula by utilizing the research and development experience and capabilities of COFCO Feed, thereby improving breeding efficiency through research and innovation.

Accordingly, the Acquisition will help enhance the core competitiveness of the Group.

(ii) Optimize business structure to enhance the business risk-resilient capability

Before the completion of the Acquisition, the Group's revenue was mainly generated from hogs, fresh pork, processed meat products and imported meat products, which were largely impacted by the cyclical fluctuations of the hog production industry. On the other hand, COFCO Feed's products are diversified, covering various feed categories such as hog, ruminant, poultry and aquatic feeds, and serving many leading breeding groups in the PRC, including Mengniu Dairy, in addition to the Group.

Upon the Acquisition, the Group will be able to further enhance the diversity of its revenue composition. From one end, utilizing different fluctuation cycles of the feed industry and the hog production industry, the Group can effectively reduce the impact of sector cyclicality; on the other end, through the expansion of breeding coverage apart from hog production, such as ruminants, poultry and aquaculture, the Group will further diversify its operational risks and enhance its overall risk-resistant capability.

(iii) Optimize financial indicators and improve profitability

Over the past three years, the annual profit after tax of the Target Company remained within a range of approximately RMB95 million to RMB155 million, with return on equity ranging from 8.1% to 12.1%. Hence, the Acquisition will enhance the profitability of the Group. For illustrative purpose only, upon completion of the Acquisition, the Group's earnings per share (after annualization) and return on equity (after annualization) for the six months ended 30 June 2024 will increase from RMB0.11 to RMB0.14 and from 5.3% to 7.0%, respectively. In addition, the net cash generated from operating activities of the Target Company for the past three years amounted to RMB414 million, RMB145 million and RMB278 million, respectively, maintaining a continuous cash inflow. The Acquisition will further improve the cash flow status of the Group.

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Group. The integration of both parties will further optimize the Group's financial indicators, enhance profitability and cash flow levels, improving the Group's overall competitiveness.

(iv) Enhance the strategic layout of the entire industry value chain, providing momentum to future developments

With its unique advantages in raw material procurement, solid research and development capabilities, stable product quality, professional market-oriented team, good supporting technical services and corporate reputation, as well as influential core brands, namely "FEEDING THE FUTURE (五穀豐登)" and "RANKING (銳科)", COFCO Feed has steadily expanded its market size in recent years and has developed into a national animal nutrition solution provider with promising future development prospects.

Through the Acquisition, the Group will integrate upstream high-quality resources, further improve the strategic layout of the entire industry value chain, strengthen the core strategic directions on cost dominance, technology-driven and brand leadership, gain new development momentum, and accelerate the building of a more competitive meat conglomerate with a comprehensive industry value chain.

The Directors (including the members of the Independent Board Committee, whose views are set out in the letter from the Independent Board Committee) consider that the Acquisition Agreement and the transactions contemplated thereunder are not the ordinary and usual business of the Group, and the terms of the Acquisition Agreement are on normal commercial terms, which are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Implications under the Listing Rules

As at the Latest Practicable Date, each of Mainfield and COFCO (HK) is a substantial shareholder of the Company, directly holding approximately 23.54% and 16.77% of the Shares of the Company, respectively. Both Mainfield and COFCO (HK) are wholly-owned by COFCO, therefore COFCO Industry Investment, which is a subsidiary of COFCO, is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The transaction between the Group and COFCO Industry Investment constitutes a connected transaction under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the transaction contemplated under the Acquisition Agreement are more than 5%, the transaction contemplated under the Acquisition Agreement is subject to the Independent Shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the transaction contemplated under the Acquisition Agreement are higher than 25% but lower than 100%, the transaction contemplated under the Acquisition Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the Shareholders' approval, reporting, annual review and announcement requirements under Chapter 14 of the Listing Rules.

As Dr. Gao Xiang, the chairman of the Board and an executive Director of the Company, is a director of COFCO, and Dr. Zhao Wei, a non-executive Director of the Company, also serves in COFCO Group, they are deemed to be materially interested in the Acquisition Agreement and the transaction contemplated thereunder. They have abstained from voting on the resolution in relation to considering and approving the Acquisition Agreement and the transaction contemplated thereunder at the Board meeting. Save as stated above, none of the Directors has a material interest in the Acquisition Agreement and the transaction contemplated thereunder or is required to abstain from voting on the Board resolution in relation to the Acquisition Agreement and the transaction contemplated thereunder.

III. CONTINUING CONNECTED TRANSACTIONS: MUTUAL SUPPLY AGREEMENT AND FINANCIAL SERVICES AGREEMENT

2024 Mutual Supply Agreement

1. Introduction

As the 2021 Mutual Supply Agreement will expire on 31 December 2024, on 21 October 2024 (after trading hours), the Company and COFCO entered into the 2024 Mutual Supply Agreement, details of which are set out below.

2. Principal Terms

Date

21 October 2024 (after trading hours)

Parties

(i) The Company; and

(ii) COFCO

Details of the Transactions

Under the 2024 Mutual Supply Agreement:

1. COFCO Group provides the Group with the following products and services, including:

   (1) COFCO Group provides the Group with feed ingredients, including but not limited to corn, soybean meal, soybean oil, wheat, grain by-products (such as rice bran meal, ground rice, bran, etc.) and other materials and/or products used for feed production; and

   (2) COFCO Group provides the Group with meat products, warehousing and other products and services; specifically, the meat products provided by COFCO Group to the Group represent central reserved meat.

2. The Group provides COFCO Group with the following products and services, including:

   The Group provides COFCO Group with meat products, agency service and other products and services; specifically, the meat products provided by the Group to COFCO Group mainly include fresh pork, frozen pork and processed meat products (such as ham, sausage and bacon), imported frozen poultry, imported frozen beef and mutton, and central reserved meat; the Group provides COFCO Group with agency purchase services, whereby the Group purchases meat products (mainly pork products and beef products, the ownership of which is vested in the principal) from overseas suppliers. After the agency purchase is completed, COFCO Group or its subsidiaries will pay the agency fee.

Duration

The validity period of the 2024 Mutual Supply Agreement is from 1 January 2025 to 31 December 2027, subject to the Independent Shareholders' approval at the EGM.

Pricing Policy

The prices for the provision of products and services between the Group and COFCO Group were determined with reference to the prevailing market prices of identical or similar products and services by the relevant parties on a fair and reasonable basis after arm's length negotiation.

Pricing Policy for the Purchase of Products and Services by the Group from COFCO Group

When determining the prevailing market prices of products and services provided by COFCO Group to the Group, the Group will obtain the prevailing market prices through various channels, if applicable, including (a) recent comparable transactions involving Independent Third Parties; (b) obtaining quotations on products or parts or processes composing the products from at least two suppliers (including COFCO Group and/or its associates) by making enquiries via e-procurement system, e-mail, telephone, etc.; and (c) the Group will obtain market data through channels such as Dalian Commodity Exchange (www.dce.com.cn), Sublime China Information (www.sci99.com), www.boyar.cn, Wind Data, and National Grain Trade Center (www.grainmarket.com.cn). The Group will compare the quotations, product quality, service quality, technical skill level, delivery speed, qualifications and related experience of the product and service suppliers and conduct negotiation on the contract clauses with them. After comprehensive assessment, the Group will contract with the product and service suppliers who provide the best commercial terms.

When the supply in the hog and pork market is tight and the price rises significantly, the Chinese government will sell central reserved meat to the market through the subsidiaries of COFCO to promptly increase the market supply, and the Group can participate in the bidding and make purchases in a market-oriented manner and at an appropriate price. In respect of the sale of central reserved meat by COFCO Group to the Group, the price is determined upon price bidding by the participating enterprises, including the Group, through the electronic system of Beijing China Merchandise Reserve Exchange and is not higher than the price of identical or similar products purchased from Independent Third Parties by the Group during the same period. During the price bidding process of central reserved meat, Huashang will issue an offer in relation to the main attributes of the central reserved meat and the participating enterprises, including the Group, will enter the bidding price and quantity information etc. into the bidding system. The bid winner, transaction quantity and transaction price will then be determined based on the principle of "priority being first given to the higher price and then to the time under the same conditions".

Pricing Policy for the Provision of Products and Services by the Group to COFCO Group

The Group will sell to COFCO Group various meat products and other related products, including but not limited to fresh pork, frozen pork, processed meat products such as ham, sausages and bacon and imported frozen poultry, beef and mutton at prevailing market prices. Specifically, the Group will adopt following pricing mechanism to determine the prices for the supply of meat products and other products to all customers including COFCO Group: relevant departments of the Group will determine the pricing based on consideration of different factors including but not limited to the cost of raw materials, manufacturing costs, packing materials, exchange rates, taxes and sales expense of different kinds of customers such as the e-commerce platform and food processors. The Group also adjusts the prices based on the current market supply and the prices of identical or similar products provided by Independent Third Parties. For example, the Group will take into consideration the daily hog price to decide whether to adjust the price for supply of fresh pork by the Group. The Group will also research and consider the pricing of identical or similar products from major competitors in the sales area to decide the price adjustment.

When there is an oversupply of hog and pork in the market and the price drops significantly, the Chinese government will purchase central reserved meat from the market through the subsidiaries of COFCO. In respect of the sale of central reserved meat by the Group to COFCO Group in a market-oriented manner, there are generally two ways to purchase and store central reserved meat based on past experience: one is price bidding through the electronic system of Beijing China Merchandise Reserve Exchange; the other is through arm's length negotiation to designate specific enterprises to purchase the pork on its behalf either by direct purchasing or agency purchasing. Pursuant to the 2024 Mutual Supply Agreement, the Group will sell central reserved meat to COFCO Group at prices determined in the following two ways: (a) price bidding. The Group can participate in the bidding and make sales at an appropriate price to promote sales. The supply price of the central reserved meat provided by the Group to COFCO Group through price bidding is determined upon price bidding by the participating enterprises, including the Group, through the electronic system of Beijing China Merchandise Reserve Exchange and is generally not less than the price of identical or similar products supplied to Independent Third Parties by the Group during the same period. During the bidding process of central reserved meat, Huashang will issue an offer in relation to the main attributes of the central reserved meat and the participating enterprises, including the Group, will enter the bidding price and quantity information etc. into the bidding system. The bid winner, transaction quantity and transaction price will then be determined based on the principle of "priority being first given to the higher price and then to the time under the same conditions"; (b) arm's length negotiation. In a tight market for pork supply, COFCO Group is expected to negotiate with the Group for the Group to supply COFCO Group with central reserved meat after arm's length negotiation. The Company is of the view that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In respect of the provision of agency services for purchase of meat products by the Group to COFCO Group, the agency fee payable by COFCO Group to the Group is determined based on a certain percentage of the agency purchasing amount. Such agency rate is determined by COFCO Group and the Group after arm's length negotiation with reference to the known information (especially gross profit margin) of the trading business of agricultural product companies.

As the Group primarily engages in direct sales of meat products, while rarely engages in agency purchasing of meat products, the Group shall adopt the following price determination mechanism in conducting its agency business:

If the Group conducts similar business with Independent Third Parties within three months prior to conducting business with COFCO Group, the agency rate for COFCO Group will not be lower than that for Independent Third Parties. If the Group does not conduct similar business with Independent Third Parties within such three months, the Company will review whether there are listed companies engaged in the same business in the market. If there are such companies, the agency rate for COFCO Group will not be lower than the average rate received by such listed companies in the three months prior to the transaction between the Group and COFCO Group. If there are no such listed companies, in negotiating with COFCO Group, the Group will refer to the gross profit margins of the trading business segments of agricultural product companies meeting the following criteria:

(i) Such companies shall be listed on the Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange;

(ii) Such companies engage only in agricultural product trading business or have a reportable business segment engaged in agricultural product trading business in the PRC;

(iii) If the agricultural product trading business is the sole business of such companies, the financial information on their agricultural product trading business is available in the latest audited financial statements; and

(iv) If the agricultural product trading business is a reportable business segment of such companies, the segment financial information on their agricultural product trading business is available in the latest audited financial statements.

The Group will ensure that the relevant agency rate is within the market range of the gross profit margin of trading business segments of such companies that meet the above criteria.

3. *Proposed Annual Caps and Basis of Determination*

Historical Amounts

Set out below is a summary of the historical transaction amounts and historical annual caps for the transactions carried out for the following periods:

	Historical amounts for the following periods		
	Year ended 31 December 2022 *(RMB'00,000,000) (approx.)*	**Year ended 31 December 2023** *(RMB'00,000,000) (approx.)*	**Nine months ended 30 September 2024** *(RMB'00,000,000) (approx.)*
Provision of products and services by COFCO Group to the Group	19.53	19.08	8.39
Provision of products and services by the Group to COFCO Group	0.27	0.98	0.44

Note: For the nine months ended 30 September 2024 and the two years ended 31 December 2023 and 2022, the lower utilisation rate of the annual caps for the provision of products and services by COFCO Group to the Group was mainly due to (i) the lower than expected purchase prices of corn and soybean meal in both 2022 and 2023 as a result of the continued decline in the price of bulk raw materials in general, further leading to lower than expected actual amounts incurred under the 2021 Mutual Supply Agreement. In addition, taking into account the recent market conditions, the Group implemented the strategy of lower inventory in 2024, resulting in a decrease in procurement volumes, which further resulted in the actual procurement costs in 2024 being lower than that in 2022 and 2023; (ii) in terms of the procurement of feed products, the cost of feed products also decreased due to the decrease in the price of raw materials, resulting in the actual amount of procurement of feed products being lower than expected; (iii) the sale of central reserved meat are determined through bidding to determine the companies, prices and quantities of transactions, and there is uncertainty as to whether the Group will win the bid. In arriving at the annual caps under the 2021 Mutual Supply Agreement, the Group expects that some projects it bid on were not ultimately awarded or were not tendered for, resulting in actual transaction amounts being lower than expected.

	Historical annual caps for the following periods		
	Year ended 31 December 2022 *(RMB'00,000,000)*	**Year ended 31 December 2023** *(RMB'00,000,000)*	**Year ending 31 December 2024** *(RMB'00,000,000)*
Provision of products and services by COFCO Group to the Group	36.32	48.33	55.01
Provision of products and services by the Group to COFCO Group	9.89	25.66	32.27

Proposed Annual Caps

Set out below are the proposed annual cap amounts for the transactions contemplated under the 2024 Mutual Supply Agreement for the following periods:

	Proposed annual caps for the following periods		
	Year ending 31 December 2025 *(RMB'00,000,000)*	**Year ending 31 December 2026** *(RMB'00,000,000)*	**Year ending 31 December 2027** *(RMB'00,000,000)*
Provision of products and services by COFCO Group to the Group	42.80	54.19	62.56
Provision of products and services by the Group to COFCO Group	2.25	2.40	2.65

Basis for Determining the Proposed Annual Caps

Provision of Products and Services by COFCO Group to the Group

In arriving at the above proposed annual cap amounts in respect of the provision of products and services by COFCO Group to the Group, the Directors have considered the following factors:

(a) historical transaction amounts for the period from 1 January 2022 to 30 September 2024;

(b) the scale of hog production in the Group has gradually expanded, leading to a corresponding increase in demand for feed ingredients. In terms of quantity, based on the estimated hog production volume for the three years of 2025, 2026 and 2027, the demand for finished feed for the corresponding years is estimated, which is then used to estimate the quantity of various types of ingredients (including corn and wheat, soybean meal and other materials) to be purchased from COFCO Group (excluding the Target Company and its subsidiaries) by the Group in the corresponding years based on the proportion of feed ingredient formula and the proportion of ingredients to be purchased from COFCO Group. In terms of pricing, the historical unit prices of feed ingredients in 2022, 2023 and the nine months of 2024 have been taken into account and it is assumed that the unit prices of various types of feed ingredients will remain unchanged for the three years ending 31 December 2027;

(c) the Chinese government implements the central reserved meat policy to regulate the price volatility and maintain a stable market. Based on market conditions and rotation requirements for central reserved meat, the Chinese government will sell central reserved meat to the market through the subsidiaries of COFCO in a market-oriented manner, and the Group will participate in the bidding at an appropriate price and increase its income through obtaining a better price than that of third parties. The Group is expected to win the bid for 2,400 tons of central reserved meat on an annual basis for the three years of 2025, 2026 and 2027, representing an increase from the number of bids won in 2022, 2023 and the nine months of 2024;

(d) the demands for other products and services increased due to business development; and

(e) upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company, and the transactions involving the purchase of feed ingredients by the Target Company and its subsidiaries from COFCO Group will constitute continuing connected transactions of the Company, and the transactions involving the purchase of feed ingredients and feed products by the Group from the Target Company and its subsidiaries will no longer constitute continuing connected transactions of the Group. For illustration purpose, for the nine months ended 30 September 2024 and the two years ended 31 December 2023 and 2022, the amount of raw materials purchased by the Target Company and its subsidiaries from COFCO Group amounted to approximately RMB1.640 billion, RMB2.412 billion and RMB1.858 billion, respectively. Upon completion of the Acquisition, the amount of ingredients to be purchased by the Group from COFCO Group will account for a substantial portion in the proposed annual caps.

Provision of Products and Services by the Group to COFCO Group

In arriving at the above proposed annual cap amounts in respect of the provision of products and services by the Group to COFCO Group, the Directors have considered the following factors:

(a) the historical transaction amounts for the period from 1 January 2022 to 30 September 2024;

(b) as the upgrading of products and brands will promote the sale of products, the Group will make further efforts in channel development to increase sales;

(c) the Chinese government implements the central reserved meat policy to regulate the price volatility and maintain a stable market. Based on market conditions and rotation requirements for central reserved meat, the Chinese government will purchase the central reserved meat from the market through the subsidiaries of COFCO in a market-oriented manner, and the Group will participate in the bidding at an appropriate price; in addition, it may directly sell meat products to COFCO Group or purchase meat products as an agent for COFCO Group based on its needs. The Group is expected to win the bid for the sale of 8,400, 9,300 and 10,200 tons of central reserved meat for the three years of 2025, 2026 and 2027; and

(d) the expected price hikes in raw materials taking into account historical price volatility in preparation for any unexpected price hikes.

4. Internal Control Procedures

The Company has established (1) reporting, approval and, if required, selected verification procedures in place to ensure that the agreed price and terms of continuing connected transactions are no less favorable to the relevant member(s) of the Group than those available to or from (as appropriate) Independent Third Parties and also in compliance with the pricing policy; and (2) procedures and policies for identifying connected persons and monitoring the annual caps of continuing connected transactions.

The legal department of the Group is responsible for identifying the Group's connected persons among new customers or suppliers on a monthly basis and updating the list of connected persons in a timely manner. The finance department of the Group will then monitor the actual transaction amounts with connected persons on a monthly basis to ensure that such amounts do not exceed the relevant annual caps. When the actual transaction amounts almost reach the allowable annual caps, the legal department and the finance department will notify all relevant departments and report to the Board when necessary for it to consider revising the annual caps, in order to comply with the relevant provisions of the Listing Rules and the Group's internal policies.

Pursuant to the 2024 Mutual Supply Agreement, at any time during the term thereof, if the cumulative total transaction amounts in the relevant accounting years under the 2024 Mutual Supply Agreement are likely to exceed the respective annual caps of each continuing connected transaction, both parties agree that the Group shall notify the Stock Exchange as soon as possible and fulfill all applicable and mandatory regulatory responsibilities under the Listing Rules. Prior to fulfilling all relevant regulatory requirements, the parties to the 2024 Mutual Supply Agreement agree to strive to control the total transaction amounts in the relevant years. If any such annual cap is exceeded, the 2024 Mutual Supply Agreement will be terminated.

5. Reasons for and Benefits of the Transactions

The provision of products and services by COFCO Group or the provision of products and services by the Group to COFCO Group is conducted in the ordinary and usual course of business of the Group. The products and services that are provided by COFCO Group are used for the production and operation of the Group and the products and services that are provided by the Group are mainly final products.

The Group is expected to obtain a stable supply of raw materials and services required for the production and operation, which will benefit the Group's business development. The provision of products and services by the Group to COFCO Group is expected to add value to the sales and distribution of meat products of the Group. The Group will choose direct sale or agency purchase based on COFCO Group's needs and risk assessment. In respect of the provision of the agency services for purchase of meat products by the Group to COFCO Group, as the Company's subsidiaries possess import purchase qualifications and extensive experience in purchase of frozen meat, COFCO Group, after considering the reasonable allocation of existing resources, efficiency enhancement and cost reduction, has appointed the Group as an agent to carry out frozen meat purchase business. At the same time, by carrying out agency purchase business, the Group can expand its business scale, reasonably control risks, increase its profits and assume appropriate social responsibilities, thereby achieving win-win results for both parties to the transaction. The end customers of the agency purchase business are trading companies that have completed bidding on the Beijing China Merchandise Reserve Exchange.

The Directors (including the members of the Independent Board Committee, whose views are set out in the letter from the Independent Board Committee) are of the view that the 2024 Mutual Supply Agreement is entered into in the ordinary and usual course of business of the Group after arm's length negotiation and on normal commercial terms, and the 2024 Mutual Supply Agreement and the transactions contemplated thereunder (including the related annual caps) are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

2024 FINANCIAL SERVICES AGREEMENT

1. Introduction

As the 2021 Financial Services Agreement will expire on 31 December 2024, on 21 October 2024 (after trading hours), the Company, COFCO Meat and COFCO Finance entered into the 2024 Financial Services Agreement, details of which are set out below.

2. Principal Terms

Date

21 October 2024 (after trading hours)

Parties

(a) The Company;

(b) COFCO Meat; and

(c) COFCO Finance

Details of the Transactions

(a) Deposit Services

COFCO Finance will provide the Deposit Services to the Group pursuant to the 2024 Financial Services Agreement. The Group will open and maintain deposit accounts with COFCO Finance.

The interest rates for the Group's deposits with COFCO Finance will be determined in accordance with the standard RMB deposit rates promulgated by the PBC from time to time. The Company will refer to the standard RMB deposit rates promulgated by the PBC each month, and the interest rates on the Deposit Services to be offered by COFCO Finance to the Group will not be lower than the interest rates offered by the Major PRC Commercial Banks for the same level of deposits of the same period.

The maximum daily deposit amounts placed by the Group with COFCO Finance and the interests on deposits for each year shall not exceed the amounts stated below:

	For the year ending 31 December		
	2025	**2026**	**2027**
	(RMB'00,000,000)	*(RMB'00,000,000)*	*(RMB'00,000,000)*
Maximum daily deposit amounts (including interest accrued thereon)	30	30	30

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

(b) Loan Services

COFCO Finance will provide RMB Loan Services to the Group pursuant to the 2024 Financial Services Agreement. The interest rates on the Loan Services to be offered by COFCO Finance to the Group will not be higher than the interest rates offered by the Major PRC Commercial Banks for the same level of loans of the same period. Moreover, no security over the assets of the Group will be granted in respect of the financial assistance given by COFCO Finance.

(c) Entrustment Loan Services

COFCO Finance will provide the Entrustment Loan Services to the Group. COFCO Finance will only act as an agent of the capital management entity of the Group (i.e. COFCO Meat) and charge handling fees in connection with the Entrustment Loan Services. COFCO Finance will not require the Group to provide any type of guarantees or securities with respect to the Entrustment Loan Services.

The handling fees to be charged by COFCO Finance in connection with the Entrustment Loan Services will not be higher than those charged by the Major PRC Commercial Banks for identical or similar type of services.

Duration

The validity period of the 2024 Financial Services Agreement is from 1 January 2025 to 31 December 2027, of which the Deposit Services are subject to the Independent Shareholders' approval at the EGM.

Pricing Policy

In order to ensure that the pricing terms of individual transactions under the Deposit Services, the Loan Services and the Entrustment Loan Services will be made in accordance with the pricing principles as stated above, the Group and COFCO Finance shall carry out the measures below:

With respect to the Group, an internal integrated assessment mechanism on the deposit and lending rates and handling fees will be established based on fair market principle. The interest rates of deposit and loan of the Major PRC Commercial Banks will change accordingly after a change in the standard interest rates promulgated by the PBC. The interest rates of deposit and loan of the Major PRC Commercial Banks are determined according to the standard rates promulgated by the PBC from time to time which are fairly stable and will fluctuate according to the situations of the customers. The interest rates of deposit and loan of the Major PRC Commercial Banks are displayed on their websites, which are open for public search. Prior to placing deposits to or requesting loans from COFCO Finance, the Company will seek the interest rates quotation from the Major PRC Commercial Banks to make the strategic decisions on the deposits and loans services. The interest rates on the Deposit Services to be offered by COFCO Finance to the Group will not be lower than the interest rates offered by the Major PRC Commercial Banks for the same level of deposits of the same period. The interest rates on the Loan Services to be offered by COFCO Finance to the Group will not be higher than the interest rates offered by the Major PRC Commercial Banks for the same level of deposits of the same period. In determining the handling fees of the Entrustment Loan Services, the Company will seek the rates quotation from the Major PRC Commercial Banks in advance and compare them with the rates charged by COFCO Finance. The handling fees to be charged by COFCO Finance in connection with the Entrustment Loan Services will not be higher than those charged by the Major PRC Commercial Banks for identical or similar type of services.

The internal integrated assessment will be conducted by the treasury cashiers, head of treasury, fund managers and financial managers of the finance department of the Company. The responsible personnel will conduct the pricing comparisons every fortnight and upon relevant policy adjustments being promulgated by the PBC. To ensure that there is no violation of the annual caps, the finance department of the Company will check the utilised annual caps at the end of each month.

With respect to COFCO Finance, a risk management committee and an independent audit department have been established. The risk management committee is responsible for the review of, approval for and decision-making on the pricing policies of deposit and lending business on a quarterly basis. The risk management committee (i) reviews the interest rates proposal on the Deposit Services prepared by Capital Department of COFCO Finance in accordance with the rates offered by the Major PRC Commercial Banks; (ii) reviews and approves the pricing policy of lending business in accordance with the rates offered by the Major PRC Commercial Banks; and (iii) conducts close tracking on the market and implementation of caps set for the deposit and lending business. The independent audit department has a full-time manager to be responsible for the internal audit. The independent audit department would review the implementation of the internal control, the legitimacy, compliance, risk, accuracy, profitability of the deposit and lending business and provide improvement suggestions to the management when there is weakness in internal control. In addition, to ensure that the 2024 Financial Services Agreement is smoothly executed, COFCO Finance has appointed an independent external auditor to carry out a special audit on such connected transaction at the end of each quarter to manage and reduce the risk of the relevant businesses.

Termination

Save as described below, the 2024 Financial Services Agreement shall not be terminated by any party unilaterally. In addition to the default events provided by the Civil Code of the PRC, the 2024 Financial Services Agreement will be terminated with immediate effect if COFCO Finance fails to satisfy any operation condition as follows:

(a) the capital adequacy ratio is not less than 10.5%;

(b) the non-performing assets ratio is not more than 3%;

(c) the non-performing loan ratio is not more than 2%;

(d) the net fixed assets shall not be more than 20% of net capital; or

(e) the ratio of investment balance to net capital is not more than 70%.

COFCO Finance has established a complete internal control system to ensure that it operates properly and its indicators meet relevant requirements. In addition, COFCO Finance will submit monthly regulatory statements to the Beijing Regulatory Bureau of the National Financial Regulatory Administration and prepare monthly accounting statements to ensure that operating conditions are met. The Company also requires COFCO Finance to provide the Company with a quarterly audit report on the internal control for risk management prepared by a Chinese certified public accountant to stay up-to-date on COFCO Finance's operating conditions.

Upon termination of the 2024 Financial Services Agreement, the Group may withdraw all deposits with COFCO Finance at any time.

3. *Proposed Annual Caps and Basis of Determination*

Historical Amounts

Set out below are the historical amounts of Deposit Services between COFCO Finance and the Group and the relevant caps for the following periods:

	Historical amounts *(RMB'00,000,000)*	**Annual cap for the relevant year** *(RMB'00,000,000)*
For the year ended 31 December 2022		
Deposit amounts and interests on deposits	Approximately 12.42	15
For the year ended 31 December 2023		
Deposit amounts and interests on deposits	Approximately 13.32	18
For the nine months ended 30 September 2024		
Deposit amounts and interests on deposits	Approximately 11.92	20

Proposed Annual Caps

Set out below are the maximum daily deposit amounts and the interests on deposits under the 2024 Financial Services Agreement during the following periods:

	For the year ending 31 December		
	2025	**2026**	**2027**
	(RMB'00,000,000)	*(RMB'00,000,000)*	*(RMB'00,000,000)*
Maximum daily deposit amounts (including interest accrued thereon)	30	30	30

Basis for Determining the Proposed Annual Caps

In determining the proposed annual caps for the maximum daily deposit amounts and the interests on deposits under the 2024 Financial Services Agreement, the Directors have considered the following factors:

(a) Historical transaction amounts for the Deposit Services provided by COFCO Finance to the Group;

(b) The Group's expected amounts of cash available for deposits from 2025 to 2027;

(c) Compared with the expected interest rates to be offered by the Major PRC Commercial Banks, whether the deposit interest rate offered by COFCO Finance is equal to or better than such interest rates;

(d) The Group's operating scale continues to expand, the funds required for daily procurement will therefore further increase, and it is expected that the average daily working capital requirement will increase accordingly, thus requiring an increase in the daily reserve limit. Accordingly, from 2025 to 2027, the Group will raise the daily reserve limit to approximately RMB650 million, in order to meet daily business needs;

(e) In terms of financing, from 2025 to 2027, it is expected that the Group's monthly repayment peak will be approximately RMB850 million. The Group needs to reserve repayment funds one or two months in advance;

(f) In terms of project investment, from 2025 to 2027, it is expected that the Group's monthly investment peak will be approximately RMB500 million;

(g) To mitigate liquidity risks, the Group will raise and reserve funds in advance to meet the above business needs;

(h) Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company, and the Deposit Services provided by COFCO Finance to the Target Company and its subsidiaries will constitute continuing connected transactions of the Company. For illustration purpose, for the nine months ended 30 September 2024 and the two years ended 31 December 2023 and 2022, the maximum daily deposit amounts (including interest accrued thereon) placed by the Target Company and its subsidiaries with COFCO Finance amounted to RMB407 million, RMB482 million and RMB257 million, respectively. Taking into account that the total cash and bank balances, current amounts due from related companies and time deposits of the Target Company and its subsidiaries as at 30 June 2024 amounted to approximately RMB1,080 million, the maximum daily deposit amounts (including interest accrued thereon) of the Target Company and its subsidiaries is expected to be approximately RMB1,000 million during the period under the 2024 Financial Services Agreement; and

(i) The Group considered the historical maximum daily deposit amounts (including accrued interest thereon) of RMB1,192 million, RMB1,332 million and RMB1,242 million for the nine months ended 30 September 2024 and the two years ended 31 December 2023 and 2022, respectively, and that the historical annual caps were fully utilized, with a maximum utilization rate of 80%. Taking into account the operational needs of the Group, the maximum daily deposit amounts (including accrued interest thereon) under the 2024 Financial Services Agreement are arrived at by summing up the daily reserve funds required for the daily operation of the existing business, repayment funds required for financing, project investment funds (which is expected to be RMB2,000 million, remaining the same as the historical annual caps) and the proposed annual caps of RMB1,000 million reserved for the Target Company and its subsidiaries.

4. Undertakings

On 21 October 2024, COFCO has provided the undertakings to the Company in connection with the 2024 Financial Services Agreement, pursuant to which COFCO undertakes to the Company that:

(a) it will maintain its actual control over COFCO Finance and ensure that COFCO Finance operates in compliance with regulations;

(b) it shall use its best endeavors and take all possible reasonable means to ensure that COFCO Finance will fulfill its obligations under the 2024 Financial Services Agreement; and

(c) in the event of an urgent situation where COFCO Finance encounters payment difficulties, it undertakes to increase the corresponding capital of COFCO Finance in accordance with the actual needs for resolving the payment difficulties.

5. Internal Control Procedures

The Company has taken the following monitoring controls to ensure that the annual caps set for the Deposit Services, the Loan Services and the Entrustment Loan Services are not exceeded:

(a) a daily funds report will be issued every morning by the treasury cashiers on the amount of deposits and loans and the situation of change in funds. The head of treasury and the financial manager can adjust the funds strategy according to the daily funds report;

(b) the head of treasury will compile a 20-calendar-day rolling capital forecast every week which could reduce the incidence of liquidity excess;

(c) the fund manager will compile the monthly fund plan at the beginning of each month to arrange the monthly fund balance in advance and make arrangements for the Group's deposits, loans and entrustment loans, to make sure that the annual caps will not be exceeded; and

(d) internal control reports on the risk management issued by COFCO Finance quarterly will be reviewed by the Company.

6. Reasons for and Benefits of the Transactions

PRC laws do not permit companies, including subsidiaries and associates, other than regulated financial institutions, to extend intra-group loans directly. Any such loan must be directed through a regulated financial institution. COFCO Finance is a non-banking financial institution approved and regulated by the PBC and the National Financial Regulatory Administration, and is authorised to provide various kinds of financial services to COFCO and its members in the PRC, including deposit-taking and loan services.

The main reasons for the Group to enter into the 2024 Financial Services Agreement with COFCO Finance are as follows:

(a) the use of COFCO Finance as a vehicle to manage the funds of the Group would allow the Group to conduct more efficient deployment of funds among members of the Group;

(b) the interest rates on the Deposit Services and the Loan Services offered, and the handling fees in connection with the Entrustment Loan Services charged, by COFCO Finance to the Group, will be equal to or more favourable than, on a case-by-case basis, those offered to the Group by any third party;

(c) COFCO Finance is regulated by the PBC and the National Financial Regulatory Administration, and it provides services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, capital risk can be controlled through the implementation of the risk control measures as stipulated in the 2024 Financial Services Agreement;

(d) the Group is expected to benefit from COFCO Finance's better understanding of the Group's operations, which should render more expedient and efficient services than other commercial banks in the PRC;

(e) the undertakings from COFCO will provide security and comfort to the Company, and reduce the risks which the Group may be exposed to in the event of default of COFCO Finance under the 2024 Financial Services Agreement;

(f) pursuant to the relevant regulations of the PBC and the National Financial Regulatory Administration, the customers of COFCO Finance are limited to the group members of COFCO, which effectively reduces the risks that COFCO Finance may otherwise be exposed to if its customers include other entities unrelated to COFCO;

(g) the arrangements under the 2024 Financial Services Agreement would promote liquidity among the Group, which will facilitate the settlement business of the members of the Group, enhance the overall ability of the Group to repay debts, and assist in monitoring and controlling financial risks;

(h) the arrangements under the 2024 Financial Services Agreement would help reduce finance costs, accelerate the turnover of capital and reduce trading costs and expenses, thus enhancing the profitability of the Group;

(i) the arrangements under the 2024 Financial Services Agreement would allow for prompt and accurate monitoring and regulation of the application of funds within the Group, thus enhancing the capital management and control of the Group; and

(j) COFCO Finance has maintained good working relationship with the Group and its members over the years and their continuous cooperation can ensure higher work efficiency.

The Directors (including the members of the Independent Board Committee, whose views are set out in the letter from the Independent Board Committee) consider that the transactions under the 2024 Financial Services Agreement are not the ordinary and usual business of the Group, the terms of the 2024 Financial Services Agreement have been negotiated on an arm's length basis and on normal commercial terms, and the transactions contemplated thereunder and the Proposed Deposit Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors (including the members of the Independent Board Committee, whose views are set out in the letter from the Independent Board Committee) also believe that the risk profile of COFCO Finance, as a financial services provider to the Group, is not greater than that of independent commercial banks in the PRC. As far as the Directors are aware, COFCO Finance has established stringent internal control measures to ensure effective risk management and compliance with laws and regulations.

In assessing the financial risks involved in placing deposits with COFCO Finance, the Directors (including the members of the Independent Board Committee, whose views are set out in the letter from the Independent Board Committee) have taken into account the following factors:

(a) the operations of COFCO Finance are subject to the supervision of the PBC and the National Financial Regulatory Administration and are regulated by the relevant PRC financial services rules and regulations;

(b) COFCO Finance has established internal control and risk management systems in accordance with the relevant PRC financial services rules and regulations;

(c) the finance department of the Company will require COFCO Finance to appoint external auditors to audit the internal control, risk management, completeness and impartiality of the operational system in respect of the transactions contemplated under the 2024 Financial Services Agreement and to provide relevant risk management report on a quarterly basis; and

(d) the external auditors of the Company will review the transactions contemplated under the 2024 Financial Services Agreement and report the review results to the audit committee of the Company and the independent non-executive Directors on an annual basis.

INFORMATION ON THE PARTIES

The Company and COFCO Meat

The Company is a meat business platform under COFCO, and COFCO Meat is an indirect wholly-owned subsidiary of the Company. The Group's main businesses 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).

COFCO

COFCO, a wholly state-owned company established in the PRC in September 1952, is currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. COFCO is principally engaged in grain purchase, wholesale of prepackaged food and edible agricultural products, overseas futures business, import and export business, provision of external consulting services, product, exhibition and technical exchange business, hotel investment management, real estate development and management, property management and agency and leasing of self-owned houses.

COFCO Finance

COFCO Finance is a non-banking financial institution established in the PRC since 2002 with the approval of the PBC. It is subject to the supervision of the National Financial Regulatory Administration. COFCO Finance is held as to 83.7436%, 13% and 3.2564% by COFCO, COFCO Trading Co., Ltd.* (中糧貿易有限公司, a wholly-owned subsidiary of COFCO) and COFCO Capital Investment Co., Ltd.* (中糧資本投資有限公司, a wholly-owned subsidiary of COFCO Capital Holdings Co., Ltd.* (中糧資本控股股份有限公司, a company listed on the Shenzhen Stock Exchange with stock code of 002423.SZ)), respectively. According to its business licence, it is authorised to provide to the Group all services set out in the 2024 Financial Services Agreement. According to the business licence, COFCO Finance is authorised to provide services such as (a) the provision of financial and financing consultation services, credit appraisal and relevant consulting services and agency business services; (b) assisting implementation of payables and receivables of the transaction amounts; (c) handling of deposits, loans and bills acceptance and discounting; (d) conducting settlements and other relevant settlements; and (e) the provision of loans.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, each of Mainfield and COFCO (HK) is a substantial shareholder of the Company, directly holding approximately 23.54% and 16.77% of the Shares of the Company, respectively. Both Mainfield and COFCO (HK) are wholly-owned by COFCO, therefore COFCO together with COFCO Finance, which is a subsidiary of COFCO, are connected persons of the Company pursuant to Chapter 14A of the Listing Rules. The transactions between the Group and such parties constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios for the proposed annual caps of the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and the Proposed Deposit Cap of the Deposit Services under the 2024 Financial Services Agreement exceed 5%, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and the Deposit Services under the 2024 Financial Services Agreement will be subject to the Independent Shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios for the Proposed Deposit Cap of the Deposit Services under the 2024 Financial Services Agreement are higher than 25% but lower than 100%, the Deposit Services under the 2024 Financial Services Agreement also constitute major transactions of the Company under Chapter 14 of the Listing Rules. Notwithstanding that the applicable percentage ratios for the proposed annual caps of the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement also exceed 5%, pursuant to Rule 14.04(1)(g) of the Listing Rules, the transactions contemplated under the 2024 Mutual Supply Agreement do not constitute notifiable transactions of the Company since these are transactions of revenue nature in the ordinary and usual course of business of the Company.

Since the Loan Services under the 2024 Financial Services Agreement are on normal commercial terms (or better to the Group) where no security over the assets of the Group will be granted in respect of the financial assistance given by COFCO Finance, the Loan Services under the 2024 Financial Services Agreement are exempt from the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules pursuant to Rule 14A.90 of the Listing Rules.

As each of the applicable percentage ratios in respect of the handling fees in connection with the Entrustment Loan Services under the 2024 Financial Services Agreement is on an annual basis less than 0.1%, the Entrustment Loan Services are exempt from the reporting, announcement, annual review and the Independent Shareholders' approval requirements under the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the proposed annual caps of the provision of products and services by the Group to COFCO Group under the 2024 Mutual Supply Agreement are more than 0.1% but less than 5%, the proposed annual caps of the provision of products and services by the Group to COFCO Group under the 2024 Mutual Supply Agreement will be subject to the reporting, annual review and announcement requirements, but are exempt from the Independent Shareholders' approval requirements, under Chapter 14A of the Listing Rules.

As Dr. Gao Xiang, the chairman of the Board and an executive Director of the Company, is a director of COFCO, and Dr. Zhao Wei, a non-executive Director of the Company, also serves in COFCO Group, they are deemed to be materially interested in the 2024 Mutual Supply Agreement, the 2024 Financial Services Agreement, as well as the transactions contemplated thereunder. They have abstained from voting on the resolutions in relation to the above matters at the Board meeting. Save as stated above, none of the Directors has a material interest in the aforementioned transactions or is required to abstain from voting on the resolutions in relation to the above matters.

IV. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising Mr. Fu Tingmei, Mr. Li Michael Hankin and Dr. Ju Jiandong, being all independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Acquisition, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps, the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap. None of the members of the Independent Board Committee has any material interest in the Acquisition Agreement, the 2024 Mutual Supply Agreement and the 2024 Financial Services Agreement. The letter from the Independent Board Committee is set out on pages 40 to 41 of this circular.

The Company has also appointed Somerley as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps, the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap. The letter from Somerley is set out on pages 42 to 85 of this circular.

V. EGM

The EGM will be convened by the Company at 10:00 a.m. on Monday, 16 December 2024 at Conference Room Joycome, 8/F, COFCO Fortune Plaza, No. 8 Chao Yang Men South Street, Chaoyang District, Beijing, the PRC, at which resolutions will be proposed to consider and, if thought fit, approving by the Independent Shareholders (i) the Acquisition; (ii) the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps; and (iii) the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save and except the substantial shareholders of the Company, Mainfield and COFCO (HK) (both wholly-owned by COFCO), who will abstain from voting on the resolutions in relation to (i) the Acquisition; (ii) the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps; and (iii) the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap to be approved at the EGM as a result of having material interests therein, no other Shareholder is required to abstain from voting on the resolutions to be approved at the EGM. As of the Latest Practicable Date, Mainfield and COFCO (HK) (both wholly-owned by COFCO) held 1,846,681,782 Shares of the Company in aggregate, representing approximately 40.30% of the Shares of the Company.

A notice convening the EGM is set out on pages 198 to 200 of this circular. The EGM will be held at 10:00 a.m. on Monday, 16 December 2024 at Conference Room Joycome, 8/F, COFCO Fortune Plaza, No. 8 Chao Yang Men South Street, Chaoyang District, Beijing, the PRC, at which resolutions will be proposed to consider and, if thought fit, to approve (i) the Acquisition; (ii) the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps; and (iii) the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap. The form of proxy for use by the Shareholders at the EGM is enclosed with this circular.

Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. before 10:00 a.m. on Saturday, 14 December 2024) or any adjournment thereof. Completion and return of a form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

VI. RECOMMENDATIONS

The Directors, including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser, believe that (i) the Acquisition Agreement; (ii) the 2024 Mutual Supply Agreement; and (iii) the 2024 Financial Services Agreement are entered into on normal commercial terms, and the terms of such agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, including the independent non-executive Directors, recommend the Independent Shareholders to vote in favour of the resolutions in respect of the matters mentioned in this circular to be proposed at the EGM.

VII. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of EGM.

Yours faithfully,
By order of the Board
COFCO Joycome Foods Limited
Gao Xiang
Chairman and executive Director

中粮
COFCO
自然之源 重塑你我

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)

25 November 2024

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION: ACQUISITION OF THE TARGET COMPANY AND (2) CONTINUING CONNECTED TRANSACTIONS: MUTUAL SUPPLY AGREEMENT AND FINANCIAL SERVICES AGREEMENT

We refer to the circular of the Company dated 25 November 2024 (the "Circular") of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular. We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the Acquisition, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps, the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap, details of which are set out in the letter from the Board contained in the Circular, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the Acquisition, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps, the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap and the advice of the Independent Financial Adviser in relation thereto as set out on pages 42 to 85 of the Circular, we consider that the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps are the ordinary and usual business of the Group, and the Acquisition, the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap are not the ordinary and usual business of the Group, but the Acquisition, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps, and the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap are on normal commercial terms in the ordinary and usual course of business of the Group after arm's length negotiation, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition, the provision of products and services by COFCO Group to the Group under the 2024 Mutual Supply Agreement and its proposed annual caps, the Deposit Services under the 2024 Financial Services Agreement and its Proposed Deposit Cap.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Fu Tingmei **Mr. Li Michael Hankin** **Dr. Ju Jiandong**

The following is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

25 November 2024

To: the Independent Board Committee and the Independent Shareholders

Dear Sir/Madam,

(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION: ACQUISITION OF THE TARGET COMPANY;
(2) CONTINUING CONNECTED TRANSACTION: PROCUREMENT TRANSACTIONS UNDER THE MUTUAL SUPPLY AGREEMENT; AND
(3) MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTION: DEPOSIT SERVICES UNDER THE FINANCIAL SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment to advise the independent board committee and the independent shareholders of COFCO Joycome Foods Limited (the "**Company**", together with its subsidiaries, the "**Group**") in relation to (i) the acquisition of 100% equity interest in COFCO Jiahua Industrial Limited (the "**Acquisition**"); and (ii) the purchase of products and services by the Group contemplated under the mutual supply agreement and the deposit services contemplated under the 2024 financial services agreement (the "**Continuing Connected Transactions**", together with the Acquisition, the "**Transactions**"). Details of the Acquisition and the Continuing Connected Transactions are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company dated 25 November 2024 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 21 October 2024 (after trading hours), the Company and COFCO Industry Investment entered into the Acquisition Agreement pursuant to which COFCO Industry Investment agreed to sell and the Company agreed to acquire 100% equity interest in the Target Company (i.e. COFCO Jiahua) at the consideration of RMB1,569.0707 million.

In addition, on 21 October 2024 (after trading hours), the Company and COFCO entered into the 2024 Mutual Supply Agreement to carry out the relevant transactions for a term from 1 January 2025 to 31 December 2027, and the Company, COFCO Meat and COFCO Finance entered into the 2024 Financial Services Agreement to carry out the relevant transactions for a term from 1 January 2025 to 31 December 2027.

As set out in the Board Letter, as one or more of the applicable percentage ratio(s) (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition are more than 25% but lower than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. In addition, as at the Latest Practicable Date, each of Mainfield and COFCO (HK) is a substantial Shareholder of the Company, which directly held approximately 23.54% and 16.77% of the Shares of the Company, respectively. Both Mainfield and COFCO (HK) are wholly-owned by COFCO, and COFCO Industry Investment is also a wholly-owned subsidiary of COFCO. Therefore, COFCO Industry Investment is a connected person of the Company according to Chapter 14A of the Listing Rules. The Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to the Independent Shareholders' approval, reporting and announcement requirements under the Listing Rules.

As also mentioned in the Board Letter, COFCO and COFCO Finance, a subsidiary of COFCO, are connected persons of the Company pursuant to Chapter 14A of the Listing Rules, and the transactions between the Group and such parties constitute continuing connected transactions under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios for (i) the proposed annual caps of the provision of products and services by COFCO Group to the Group (the "**Procurement Transactions**") under the 2024 Mutual Supply Agreement and (ii) the Proposed Deposit Cap of the Deposit Services under the 2024 Financial Services Agreement exceed(s) 5%, (a) the Procurement Transactions under the 2024 Mutual Supply Agreement and (b) the Deposit Services under the 2024 Financial Services Agreement will be subject to the Independent Shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Fu Tingmei, Mr. Li Michael Hankin and Dr. Ju Jiandong, has been formed to advise the Independent Shareholders in relation to the Transactions. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard (the "**Engagement**").

During the past two years, Somerley has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the connected transaction in relation to the subscription of shares under specific mandate and the application for whitewash waiver (details of which are set out in the Company's circular dated 17 February 2023). The past engagement was limited to providing independent advisory services to the independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Under the past engagement, Somerley received normal professional fees from the Company. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley and (b) the Group, COFCO, COFCO Industry Investment and COFCO Finance that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Engagement.

In formulating our advice, we have reviewed, among other things, the Acquisition Agreement, the 2024 Mutual Supply Agreement, the 2024 Financial Services Agreement, the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**"), the interim report of the Company for the six months ended 30 June 2024 (the "**2024 Interim Report**"), the audited consolidated financial statements of the Target Group as set out in Appendix II to the Circular, and the Asset Valuation Report of the Target Company prepared by the Valuer, a summary of which is set out in Appendix V to the Circular. We have also discussed the businesses and future prospects of the Group with the management of the Group (the "**Management**"). We have relied on the information as contained in the Circular and the information and facts supplied, and the opinions expressed, by the Directors and the Management, and we have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group, the Target Group, COFCO, COFCO Industry Investment, COFCO Finance and their respective associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the Transactions, we have taken into account the following principal factors and reasons:

A. THE ACQUISITION

1. Information on the Group

The Company is a meat business platform under COFCO, and its main businesses 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).

1.1. Financial performance

Set out below is a summary of the audited consolidated financial information of the Group for each of the year ended 31 December 2022 ("**FY2022**") and 31 December 2023 ("**FY2023**") and the unaudited consolidated financial information of the Group for each of the six months ended 30 June 2023 ("**HY2023**") and 30 June 2024 ("**HY2024**") as extracted from the 2023 Annual Report and the 2024 Interim Report respectively:

	For the six months ended 30 June		**For the year ended 31 December**	
	2024	**2023**	**2023**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	4,570,820	5,818,410	11,568,322	12,900,684
– Hog production and sales	*1,226,591*	*2,071,204*	*4,443,555*	*4,525,875*
– Sales of fresh pork	*2,063,075*	*2,086,701*	*4,141,252*	*4,743,128*
– Sales of processed meat products	*376,803*	*387,853*	*776,505*	*756,433*
– Sales of imported meat products	*904,351*	*1,272,652*	*2,207,010*	*2,875,248*
Gross profit/(loss) before biological assets fair value adjustments	(159,252)	376,377	526,047	475,668
Gross profit margin before biological assets fair value adjustments	(3.48)%	6.47%	4.55%	3.69%
Profit/(loss) before biological assets fair value adjustments	(388,720)	168,426	15,806	(319,778)
Profit/(loss) attributable to owners of the Company	251,445	(469,646)	(135,679)	356,674

FY2023 vs FY2022

During FY2023, the Group recorded revenue of approximately RMB11.57 billion, representing a decrease of approximately 10.33% as compared to that for FY2022. According to the 2023 Annual Report, such decrease in revenue was mainly due to (a) the decrease in revenue from hog production and fresh pork business due to the lower domestic hog price and (b) the decrease in revenue from the meat import business as the Company took initiative to reduce pork imports due to the continuous inverted prices of imported frozen pork, combined with lower beef price. The Group recorded a gross profit before biological assets fair value adjustments of approximately RMB526.05 million in FY2023 with a gross profit margin before biological assets fair value adjustments of approximately 4.55% as compared to a gross profit before biological assets fair value adjustments of approximately RMB475.67 million in FY2022 with a gross profit margin before biological assets fair value adjustments of approximately 3.69%. As set out in the 2023 Annual Report, such increase in gross profit before biological assets fair value adjustments was mainly due to the Company's implementation on cost reduction and efficiency enhancement measures, and reasonable use of the combination of futures and spot commodities business strategy to partially mitigate the adverse effects of spot market downturns. The Group recorded a profit of approximately RMB15.81 million prior to the adjustments in fair value of biological assets for FY2023, as compared to a loss prior to the adjustments in fair value of biological assets of approximately RMB319.78 million for FY2022. As advised by the Management, such turnaround from loss to profit was mainly attributable to the increase in gross profit as discussed above. During FY2023 and FY2022, the adjustment in fair value of biological assets caused the Group's costs of sales to decrease by approximately RMB698.56 million and increase by approximately RMB1,235.73 million respectively. In addition, the impact of agricultural products at fair value less costs to sell at the point of harvest were loss of approximately RMB831.06 million for FY2023 and gain of approximately RMB1,779.94 million for FY2022; and the impact of changes in fair value less costs to sell of biological assets were loss approximately RMB54.31 million for FY2023 and gain of approximately RMB132.50 million for FY2022. Accordingly, the overall net effect of adjustment in fair value of biological assets, which represents impact of the changes in fair value of the biological assets on the financial statements in accordance with the accounting policies of the Company, on profit/(loss) was (i) loss of approximately RMB186.82 million during FY2023 and (ii) gain of approximately RMB676.71 million during FY2022. As a result of the above, the Group recorded a net loss attributable to the owners of the Company of approximately RMB135.68 million for FY2023, as compared to net profit attributable to the owners of the Company of approximately RMB356.67 million recorded for FY2022.

HY2024 vs HY2023

During HY2024, the Group recorded revenue of approximately RMB4.57 billion, representing a decrease of approximately 21.44% as compared to that for HY2023. According to the 2024 Interim Report and as advised by the Management, such decrease in revenue was mainly attributable to the lower year-on-year hog production volume and intentional reduction of meat import business. The Group recorded a gross loss before biological assets fair value adjustments of approximately RMB159.25 million in HY2024 with a negative gross profit margin before biological assets fair value adjustments of approximately 3.48% as compared to a gross profit before biological assets fair value adjustments of approximately RMB376.38 million in HY2023 with a positive gross profit margin before biological assets fair value adjustments of approximately 6.47%. As advised by the Management, such decrease in gross profit margin before biological assets fair value adjustments and the resulting gross loss before biological assets fair value adjustments in HY2024 was mainly due to the hog production business. The Group recorded a loss of approximately RMB388.72 million before biological assets fair value adjustments during HY2024, as compared to the profit of approximately RMB168.43 million before biological assets fair value adjustments during HY2023. As advised by the Management, such change from profit to loss was mainly due to the decrease in revenue and the decrease in profit margin as discussed above. During HY2024 and HY2023, the adjustment in fair value of biological assets caused the Group's costs of sales to decrease by approximately RMB102.50 million and approximately RMB226.79 million respectively. In addition, the impact of agricultural products at fair value less costs to sell at the point of harvest were loss of approximately RMB48.19 million for HY2024 and loss of approximately RMB359.30 million for HY2023; and the impact of change in fair value less costs to sell of biological assets were gain of approximately RMB583.70 million for HY2024 and loss of approximately RMB521.15 million for HY2023. Accordingly, the overall net effect of adjustment in fair value of biological assets on profit/(loss) was (i) gain of approximately RMB638.02 million during HY2024 and (ii) loss of approximately RMB653.66 million during HY2023. As a result of the above, the Group recorded a net profit attributable to owners of the Company of approximately RMB251.45 million for HY2024, as compared to a net loss attributable to the owners of the Company of approximately RMB469.65 million for HY2023.

1.2. Financial position

Set out below is a summary of the financial position of the Group as at 31 December 2022 (audited), 31 December 2023 (audited) and 30 June 2024 (unaudited) as extracted from the 2023 Annual Report and the 2024 Interim Report respectively:

	As at 30 June 2024	**As at 31 December 2023**	**As at 31 December 2022**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	17,039,078	16,230,332	18,394,368
– Current assets	*5,450,974*	*5,120,959*	*7,383,774*
– Non-current assets	*11,588,104*	*11,109,373*	*11,010,594*
Total liabilities	7,548,487	6,984,149	10,131,660
– Current liabilities	*6,014,571*	*6,256,381*	*9,266,042*
– Non-current liabilities	*1,533,916*	*727,768*	*865,618*
Net assets attributable to owners of the Company	9,378,909	9,132,352	8,113,545

31 December 2023 vs 31 December 2022

The Group had net assets attributable to owners of the Company of approximately RMB8.11 billion and RMB9.13 billion as at 31 December 2022 and 31 December 2023 respectively. As advised by the Management, such increase in net assets attributable to owners of the Company from 31 December 2022 to 31 December 2023 was mainly attributable to the share subscription of the Company which took place on 24 March 2023 (details of which are set out in the announcement of the Company dated 24 March 2023).

30 June 2024 vs 31 December 2023

The Group had net assets attributable to owners of the Company of approximately RMB9.38 billion as at 30 June 2024, representing an increase of approximately 2.70% as compared to that as at 31 December 2023. As advised by the Management, such increase in net assets attributable to owners of the Company from 31 December 2023 to 30 June 2024 was mainly attributable to the net profit generated by the Group during the period.

The Group had total assets of approximately RMB17.04 billion as at 30 June 2024, which mainly included (i) approximately RMB9.89 billion of property, plant and equipment; and (ii) approximately RMB3.07 billion of biological assets.

The Company recorded total liabilities of approximately RMB7.55 billion as at 30 June 2024, which mainly included (i) approximately RMB2.93 billion of bank borrowings; and (ii) approximately RMB2.33 billion of loan from related companies.

2. Information on COFCO Industry Investment

As set out in the Board Letter, COFCO Industry Investment is a company established in the PRC in June 2023 with limited liability and a wholly-owned subsidiary of COFCO. COFCO Industry Investment is principally engaged in the investment and corporate management consulting businesses and holds 100% equity interest in COFCO Jiahua (i.e. the Target Company).

3. Information on COFCO

As set out in the Board Letter, COFCO is a wholly state-owned company established in the PRC in September 1952 and is currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. COFCO is principally engaged in grain purchase, wholesale of prepackaged food and edible agricultural products, overseas futures business, import and export business, provision of external consulting services, product, exhibition and technical exchange business, hotel investment management, real estate development and management, property management and agency and leasing of self-owned houses.

4. Information on the Target Company

4.1. Business

The Target Company is a company established in the PRC in January 2018 with limited liability. It is wholly owned by COFCO Industry Investment and is an indirect wholly-owned subsidiary of COFCO. The Target Company is principally engaged in investment holding and holds 100% equity interest in COFCO Feed, which is the principal operating subsidiary of the Target Company.

COFCO Feed is committed to providing customers with comprehensive animal nutrition solutions. Its core business covers research and development, production, sales and supporting technical services of feed products such as pig feed, ruminant feed, poultry feed, aquatic feed and premix. With high-quality products, sound technical services and corporate reputation, the core brands of COFCO Feed, "FEEDING THE FUTURE" (五穀豐登) and "RANKING" (銳科), have gained increasing brand influence, steadily expanding market scale. COFCO Feed has developed into a national animal nutrition solution provider.

In terms of production capacity layout, as at the end of 2023, COFCO Feed has 21 feed processing plants in the PRC. The extensive production capacity layout enables COFCO Feed to better serve many leading breeding groups in the PRC. In terms of research and development strength, COFCO Feed has a professional feed research and development team capable of tailoring scientific animal nutrition solutions to the needs of breeding customers. In terms of market competitiveness, building on favorable word of mouth from customers accumulated over the years, COFCO Feed produced and sold more than 2 million tons of feed in 2023, steadily escalating its industry ranking.

For further details of the Target Company (together with its subsidiaries, the "**Target Group**"), including its main products and future development strategy, please refer to the Board Letter.

4.2. Financial performance

Set out below is a summary of major items from the audited consolidated financial information of the Target Group for each of the year ended 31 December 2021 ("**FY2021**"), FY2022, FY2023, HY2023 (unaudited) and HY2024, prepared in accordance with the Hong Kong Financial Reporting Standards, details of which are included in Appendix II to the Circular:

	For the six months ended 30 June		**For the year ended 31 December**		
	2024	**2023**	**2023**	**2022**	**2021**
	RMB'000	*RMB'000* *(Unaudited)*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	3,247,473	3,922,018	8,496,194	7,679,488	6,980,792
Cost of sales	(2,968,886)	3,658,202	(7,861,607)	(7,219,467)	(6,437,997)
Gross profit	278,587	263,816	634,587	460,021	542,795
Selling and distribution expenses and administrative expenses	(190,614)	(207,059)	(439,256)	(345,295)	(387,523)
Profit before tax	96,910	60,752	202,138	123,678	162,723
Profit and total comprehensive income	74,521	44,145	154,932	95,802	127,924
Attributable to:					
– Owners of the Target Company	65,417	42,899	144,130	94,450	125,361
– Non-controlling interests	9,104	1,246	10,802	1,352	2,563

The following analysis is based on our review of the consolidated financial statements of the Target Group as contained in Appendix II to the Circular and our discussion with the Management and the management of the Target Group.

FY2022 vs FY2021

Revenue of the Target Group increased from approximately RMB6.98 billion in FY2021 to approximately RMB7.68 billion in FY2022, representing an increase of approximately 10.00%. Such increase in revenue was mainly arising from the increase in average selling price of the products. Gross profit of the Target Group of FY2022 amounted to approximately RMB460.02 million, with a decrease of approximately RMB82.77 million from FY2021. Such decrease was mainly due to the rising feed ingredient prices which led to the increase in costs.

The Target Group recorded selling and distribution expenses and administrative expenses of approximately RMB345.30 million during FY2022, representing a decrease of approximately 10.90% as compared to FY2021. The decreases in such expenses during FY2022 was mainly due to the tightening cost control measures implemented by the Target Group.

The Target Group recorded a net profit of approximately RMB95.80 million during FY2022, representing a decrease of approximately 25.11% from FY2021. Such decrease was mainly the result of the increase in raw material price which led to the decrease in gross profit, being partially offset by the better control of selling and distribution expenses and administrative expenses as discussed above.

FY2023 vs FY2022

During FY2023, the Target Group recorded revenue of approximately RMB8.50 billion, with an increase of approximately 10.63% from FY2022. Such increase in revenue was mainly due to the Target Group's development strategies such as "good products and good services" (好產品、好服務) which had good market development effect, leading to the increase in sales volume for the year. Gross profit of the Target Group increased from approximately RMB460.02 million in FY2022 to approximately RMB634.59 million in FY2023. The increase in gross profit during FY2023 was mainly attributable to the increase in revenue as discussed above.

The Target Group recorded selling and distribution expenses and administrative expenses of approximately RMB439.26 million in FY2023, with an increase of approximately 27.21% from FY2022. Such increase was mainly due to the active market development, sales growth and fulfillment of performance incentive plans by the Target Group.

The Target Group recorded a net profit of approximately RMB154.93 million during FY2023, representing an increase of approximately 61.72% from FY2022. Such increase was mainly as a result of the impact of the aforesaid changes.

HY2024 vs HY2023

Revenue of the Target Group amounted to approximately RMB3.25 billion during HY2024, which represents a decrease of approximately 17.20% as compared to revenue of HY2023. Such decrease in revenue was mainly due to the decreases in average selling price and sales volume of the products as a result of sluggish downstream breeding market in HY2024. Gross profit of the Target Group amounted to approximately RMB278.59 million during HY2024, with an increase of approximately RMB14.77 million as compared to HY2023. Such increase was mainly due to the leverage of advantages of raw material procurement and better control of procurement rhythm by the Target Group, which led to the decrease in costs.

The Target Group recorded selling and distribution expenses and administrative expenses of approximately RMB190.61 million in HY2024, representing a decrease of approximately 7.94% as compared to those in HY2023. Such decrease was mainly due to the continuous effort in strengthening cost control by the Target Group.

The Target Group recorded a net profit of approximately RMB74.52 million during HY2024, with an increase of approximately 68.81% as compared to HY2023. Such increase in net profit of the Target Group was mainly due to the overall impact of the increase in gross profit and decrease in selling and distribution expenses and administrative expenses as discussed above.

4.3. Financial position

Set out below is a summary of major items from the audited consolidated statements of financial position of the Target Group as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, prepared in accordance with the Hong Kong Financial Reporting Standards, details of which are included in Appendix II to the Circular:

	As at 30 June	**As at 31 December**		
	2024	**2023**	**2022**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	2,457,962	2,662,775	2,619,089	1,804,899
– Non-current assets	*836,669*	*837,236*	*1,331,738*	*736,318*
– Current assets	*1,621,293*	*1,825,539*	*1,287,351*	*1,068,581*
Total liabilities	1,027,114	1,243,487	1,383,140	682,041
– Current liabilities	*1,024,204*	*1,240,172*	*1,351,497*	*669,576*
– Non-current liabilities	*2,910*	*3,315*	*31,643*	*12,465*
Total equity	1,430,848	1,419,288	1,235,949	1,122,858
– Equity attributable to the owners of the Target Company	*1,341,560*	*1,350,293*	*1,204,332*	*1,109,882*
– Non-controlling interests	*89,288*	*68,995*	*31,617*	*12,976*

The following analysis is based on our review of the consolidated financial statements of the Target Group as contained in Appendix II to the Circular and our discussion with the Management and the management of the Target Group.

31 December 2022 vs 31 December 2021

Total assets of the Target Group amounted to approximately RMB2,619.09 million as at 31 December 2022, representing an increase of approximately 45.11% as compared to that as at 31 December 2021. Such increase was mainly due to (i) the increase in cash and bank balances and time deposits of approximately RMB535.58 million; (ii) the increase in property, plant and equipment of approximately RMB77.64 million; (iii) the increase in inventories of approximately RMB112.13 million; and (iv) the increase in accounts receivable of approximately RMB97.77 million. The increases in cash and bank balances and time deposits (including time deposits of RMB500 million, carrying interest rate of 2.65% per annum, with a term of two years maturing at 28-30 December 2024) were mainly due to the profit position and positive cash flow during FY2022. The increase in property, plant and equipment was mainly due to the setting up of two new production plants during FY2022. The increases in inventories and accounts receivable were mainly due to the increase in price and revenue growth during FY2022.

Total liabilities of the Target Group amounted to approximately RMB1,383.14 million as at 31 December 2022, representing an increase of approximately 102.79% as compared to that as at 31 December 2021. Such increase was mainly due to (i) the increase in account and bills payables of approximately RMB178.27 million which was mainly as a result of the increase in price of raw materials; and (ii) the increase in bank borrowings of approximately RMB535.79 million which was mainly for construction of new production plants and replenishment of short term working capital.

Total equity of the Target Group amounted to approximately RMB1,235.95 million as at 31 December 2022, representing an increase of approximately 10.07% as compared to that as at 31 December 2021. Such increase was mainly due to an increase in equity attributable to the owners of the Target Group of approximately RMB94.45 million mainly because of the profit made by the Target Group during FY2022.

31 December 2023 vs 31 December 2022

Total assets of the Target Group amounted to approximately RMB2,662.78 million as at 31 December 2023, which maintained at a similar level as compared to that as at 31 December 2022.

Total liabilities of the Target Group amounted to approximately RMB1,243.49 million as at 31 December 2023, representing a decrease of approximately 10.10% as compared to that as at 31 December 2022. Such decrease was mainly due to (i) the decrease in account and bills payables of approximately RMB128.19 million as a result of decrease in inventories; and (ii) the decrease in bank borrowings of approximately RMB80.95 million as a result of the repayments during FY2023.

Total equity of the Target Group amounted to approximately RMB1,419.29 million as at 31 December 2023, representing an increase of approximately 14.83% as compared to that as at 31 December 2022. Such increase was mainly due to the increase in equity attributable to the owners of the Target Group of approximately RMB145.96 million mainly because of the profit made by the Target Group during FY2023.

30 June 2024 vs 31 December 2023

Total assets of the Target Group amounted to approximately RMB2,457.96 million as at 30 June 2024, representing a decrease of approximately 7.69% as compared to that as at 31 December 2023. Such decrease was mainly due to (i) the decrease in cash and bank balances of approximately RMB130.13 million as a result of the repayment of loans and distribution of dividends by the Target Company; and (ii) the decrease in receivables (including account receivables and amounts due from related parties) of approximately RMB67.57 million as a result of the strengthened accounts receivable management of the Target Group.

Total liabilities of the Target Group amounted to approximately RMB1,027.11 million as at 30 June 2024, representing a decrease of approximately 17.40% as compared to that as at 31 December 2023. Such decrease was mainly due to (i) the decrease in account and bills payables of approximately RMB50.63 million as a result of decrease in inventories; and (ii) the decrease in bank borrowings of approximately RMB171.17 million as a result of the repayments during HY2024.

Total equity of the Target Group amounted to approximately RMB1,430.85 million as at 30 June 2024, which maintained at a similar level as compared to that as at 31 December 2023.

5. *Reasons for and benefits of the Acquisition*

The Group is one of the leading meat enterprises in the PRC whose business and operation cover the entire industry chain which includes 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 set out in the Board Letter, the Group has strived to improve its strategic layout, adhering to the core strategic directions on cost dominance, technology-driven and brand leadership, and is committed to building a more competitive meat conglomerate with a comprehensive industry value chain. The Acquisition of the Target Company will enable the Group to enhance its value chain, including the feed business, and accelerate the strategic objectives implementation. We are of the view that the Acquisition is in line with the industry development plan of the PRC government and the Company's development strategy:

- According to the "14th Five-Year Plan on National Animal Husbandry and Veterinary Industry Development" 《"十四五"全國畜牧獸醫行業發展規劃》 published by the Ministry of Agriculture and Rural Affairs of the PRC on 14 December 2021, the expansion of production capacity and supply assurance capability is one of the key targets of the PRC animal husbandry during the 14th five-year period. The total meat production volume of the PRC animal husbandry is expected to increase by approximately 15% from approximately 77.48 million tons in 2020 to approximately 89.00 million tons in 2025.

- As further mentioned in the "14th Five-Year Plan on National Animal Husbandry and Veterinary Industry Development" 《"十四五"全國畜牧獸醫行業發展規劃》, the PRC government also calls for the establishment of modern breeding system by constructing a whole industry chain of breeding, slaughtering, processing and cold chain logistics, to enhance the development level of the animal husbandry.

- Under the context of the industry development trend, the Group has made continuous effort in expanding its production capabilities. Upon completion of the Acquisition, the Target Group (which is principally engaged in research and development, production, sales and supporting technical services of feed products, and currently a feed supplier of the Group) is expected to provide the Group with stable source of supply of feed, increase the feed sufficiency rate and improve the operation efficiency of the Group.

- The Target Group has been profit making during FY2021, FY2022, FY2023 and HY2024, and has recorded an increase in both revenue and profit after tax for FY2023. Further details of the information of the Target Group, including the financial information, are set out in the section headed "4. Information on the Target Company" of this letter. Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Group. Having considered the aforesaid operating performance of the Target Group, it is expected that the earnings of the Enlarged Group will be enhanced after the completion of the Acquisition. Further analysis on the financial effect of the Acquisition is included in the section headed "8. Financial effects of the Acquisition" in this letter.

- The Group has made continuous business development effort throughout the industry value chain. As set out in the 2024 Interim Report, the Company continued its construction of new capacities for hog production, which was mainly in the advantageous areas of Jilin. In relation to the fresh pork business of the lower cycle, the Company also optimized production capacity layout, with the Pinggu cutting center in Beijing being put into operation in August 2024. The Company has also been accelerating product research and development and enhance channel promotion in order to continuously expand the brand influence of "Joycome". For further details, please refer to the 2024 Interim Report.

As set out in the Board Letter, the Company considers that the Acquisition will bring in the following benefits:

(i) Align with the Group's development strategy to help further enhance its core competitiveness

The Acquisition is highly aligned with the Group's long-term development strategy. In terms of costs, feed is one of the major components in hog production. The Acquisition will increase the Group's self-sufficiency rate in feed, lowering feed procurement costs and intermediaries expenses, and integrate COFCO Group's sector resources in an in-depth manner, fully leveraging its strengths to realize industrial synergies through market analysis and raw material procurement, thereby effectively reducing breeding costs. In terms of research and development, COFCO Feed has advanced feed processing equipment, a professional research and development team with rich R&D experience, to build good cooperation relations with research institutes. COFCO Feed has precise formulas and proprietary technologies for fine processing to efficiently integrate the evaluation of feed ingredients, optimization of feed formulas and improvement of animal productivity, and is capable of tailoring scientific animal nutrition solutions to the needs of breeding customers. In recent years, COFCO Feed has been committed to the research of new products, processes and ingredients with the aim of quality and efficiency improvement. Various research and development projects have been carried out to apply the results into all types of products and successfully introduced to the market, thus effectively solving the technical problems of breeding customers. The Acquisition will integrate the research and development resources of both parties and further optimize the Group's farming feeds formula by utilizing the research and development experience and capabilities of COFCO Feed, thereby improving breeding efficiency through research and innovation.

Accordingly, the Acquisition will help enhance the core competitiveness of the Group.

(ii) Optimize business structure to enhance the business risk-resilient capability

Before the completion of the Acquisition, the Group's revenue was mainly generated from hogs, fresh pork, processed meat products and imported meat products, which were largely impacted by the cyclical fluctuations of the hog production industry. On the other hand, COFCO Feed's products are diversified, covering various feed categories such as hog, ruminant, poultry and aquatic feeds, and serving many leading breeding groups in the PRC, including Mengniu Dairy, in addition to the Group.

Upon the Acquisition, the Group will be able to further enhance the diversity of its revenue composition. From one end, utilizing different fluctuation cycles of the feed industry and the hog production industry, the Group can effectively reduce the impact of sector cyclicality; on the other end, through the expansion of breeding coverage apart from hog production, such as ruminants, poultry and aquaculture, the Group will further diversify its operational risks and enhance its overall risk-resistant capability.

(iii) Optimize financial indicators and improve profitability

Over the past three years, the annual profit after tax of the Target Group remained within a range of approximately RMB95 million to RMB155 million, with return on equity ranging from 8.1% to 12.1%. Hence, the Acquisition will enhance the profitability of the Group. For illustrative purpose only, upon completion of the Acquisition, the Group's earnings per share (after annualization) and return on equity (after annualization) for the six months ended 30 June 2024 will increase from RMB0.11 to RMB0.14 and from 5.3% to 7.0%, respectively. In addition, the net cash generated from operating activities of the Target Group for the past three years amounted to RMB414 million, RMB145 million and RMB278 million, respectively, maintaining a continuous cash inflow. The Acquisition will further improve the cash flow status of the Group.

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Group. The integration of both parties will further optimize the Group's financial indicators, enhance profitability and cash flow levels, improving the Group's overall competitiveness.

(iv) Enhance the strategic layout of the entire industry value chain, providing momentum to future developments

With its unique advantages in raw material procurement, solid research and development capabilities, stable product quality, professional market-oriented team, good supporting technical services and corporate reputation, as well as influential core brands, namely "FEEDING THE FUTURE (五穀豐登)" and "RANKING (銳科)", COFCO Feed has steadily expanded its market size in recent years and has developed into a national animal nutrition solution provider with promising future development prospects.

Through the Acquisition, the Group will integrate upstream high-quality resources, further improve the strategic layout of the entire industry value chain, strengthen the core strategic directions on cost dominance, technology-driven and brand leadership, gain new development momentum, and accelerate the building of a more competitive meat conglomerate with a comprehensive industry value chain.

Having considered the benefits of the Acquisition as mentioned above and that the Acquisition is in line with the industry development plan of the PRC government and the Company's development strategy, we consider that although the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

6. Principal terms of the Acquisition

Set out below are the principal terms of the Acquisition Agreement, further details of which are set out in the Board Letter.

Date	21 October 2024 (after trading hours)
Parties	The Company (as the buyer); and COFCO Industry Investment (as the seller)
Subject Matter	The seller agreed to sell and the buyer agreed to acquire 100% equity interest in the Target Company.
Consideration	According to the valuation results in the Asset Valuation Report issued by Zhongqihua with 30 June 2024 as the valuation reference date, the consideration for the buyer to acquire 100% equity interest in the Target Company is RMB1,569.0707 million, which was determined after arm's length and amicable negotiation between the parties and on normal commercial terms.
Conditions Precedent to the Closing	The closing shall be conditional upon the following conditions precedent to the closing having been satisfied on or before the date falling 3 months from the date of execution of the Acquisition Agreement (the "**Long Stop Date**", subject to extension by the parties in writing), provided that the buyer shall have the right, at its sole discretion, to waive in writing any of the conditions precedent to the closing set out in (ii) and (iii) at any time on or before the Long Stop Date: (i) the applicable laws do not prohibit or prevent the completion of the transaction, and no competent governmental authority has issued a final and non-appealable ruling that prohibits or prevents any party from completing the transaction; (ii) all the seller warranties (further details of which are set out in the Board Letter) made by the seller shall be true, accurate, and not misleading in all material respects as of the execution date and the closing date (which shall be the fifth business day following the date on which all conditions precedent to the closing are satisfied or (if applicable) waived by the relevant parties, or such other date as agreed by the parties), as well as at any time between the execution date and the closing date, as if such seller warranties were made on such dates (except for seller warranties that are specifically made as of a particular date, which shall be true and accurate only as of that date);

(iii) as of the closing date, the seller and COFCO Jiahua, COFCO Feed or their respective subsidiaries have complied with and fulfilled, in all material respects, all the agreements, undertakings, obligations, and conditions to which they are parties;

(iv) all terms of the Acquisition Agreement have become effective;

(v) the buyer has obtained an express opinion from the National Development and Reform Commission of the PRC that the transaction is not subject to foreign investment security review or the transaction has passed the foreign investment security review.

Payment

The arrangements for closing and payment of consideration were as follows:

The closing shall take place on the closing date at a place and time agreed by the parties in writing.

Unless otherwise agreed by the parties in writing, each party shall procure the Target Company to apply for registration of change for the equity transfer with the market supervision and administration authority as soon as possible on or after the closing date (no later than ten business days following the closing date), to register the buyer as the sole shareholder of the Target Company holding its 100% equity interest, and obtain the formal written documents issued by the market supervision and administration authority, including the business license certifying that the Target Company has been converted into a foreign-invested enterprise (the "**Business License for Foreign-Invested Enterprise**").

The buyer shall pay or procure the payment of the entire transaction consideration to the seller in cash within three months from the date on which the Target Company obtains the Business License for Foreign-Invested Enterprise.

7. Assessment of the consideration of the Acquisition

7.1. Valuation of the Target Company

As set out in the Board Letter, the consideration for the Acquisition was based on the valuation results in the Asset Valuation Report issued by the Valuer, namely Zhongqihua, with 30 June 2024 as the valuation reference date.

According to the Asset Valuation Report, the appraised value of 100% equity interest in the Target Company as at 30 June 2024 (the "**Appraised Value**"), being the valuation reference date, amounted to RMB1,569.0707 million. In preparing the Asset Valuation Report, the Valuer selected the asset-based approach to conclude the Appraised Value.

For due diligence purpose, we have reviewed the Asset Valuation Report prepared by the Valuer and have discussed with the Valuer regarding the valuation of the Target Company with details set out below. In the course of our review, we have discussed with the Valuer its scope of work and expertise, and also the methodologies, bases and assumptions adopted in the Asset Valuation Report. Further details of the Asset Valuation Report are set out in Appendix V to the Circular.

(a) Scope of work and qualifications of the Valuer

The Valuer was engaged to prepare the Asset Valuation Report which sets out an independent valuation on 100% equity interest in the Target Company as at the valuation reference date (the "**Independent Valuation**"). The Asset Valuation Report has been prepared in compliance with the relevant professional standards issued by the Ministry of Finance of the PRC and China Appraisal Society.

We have discussed with the Valuer regarding the expertise of the Valuer and the relevant engagement team members. We understand that the Valuer is a qualified PRC asset valuation agency accredited by China Appraisal Society to perform the Independent Valuation and has experience in handling asset valuation exercises for assets within the PRC and around the world. The two responsible signing persons of the Asset Valuation Report have over 15 and 20 years' industry experience in conducting valuation exercises, respectively. We have also enquired with the Valuer and the Valuer confirmed that it is independent from the Company, the Target Group and COFCO to perform the Independent Valuation under the relevant professional standards.

We have also reviewed the terms of the Valuer's engagement letter and noted that the purpose of the valuation is to perform a valuation of the market value of the equity interest of the Target Company. The Valuer's engagement letter also contains standard valuation scopes that are typical of company valuations carried out by independent valuers.

(b) Valuation methodologies

Based on our discussion with the Valuer and review of the Asset Valuation Report, it is noted that the Valuer has concluded the Appraised Value based on the asset-based approach. We understand that the Valuer has considered the three commonly used valuation approaches for valuation of a company, namely the asset-based approach, the market approach and the income approach:

(1) Asset-based approach: Under the asset-based approach, the value of a company is appraised based on the value of individual assets and liabilities. As the Valuer could obtain the financial and asset information of the Target Group and the required data and information of the asset are readily available, the condition for adopting the asset-based approach is fulfilled. In addition, given that the business of the Target Group would require relatively substantial amount of asset investment, the Valuer has adopted the asset-based approach for the Independent Valuation.

(2) Income approach: Under the income-approach, the value of a company is appraised based on discounted future cash flows. As the Target Group has been operating in the industry for many years with a stable customers base, the future income can be reasonably projected. The Valuer considers that the condition for adopting income approach is fulfilled. However, due to the impact of the macroeconomic situation, intensified competition in the feed industry, and fluctuations in raw materials, the result of the valuation by the income approach is uncertain. Therefore, income approach is not adopted by the Valuer for concluding the Appraised Value in the Independent Valuation.

(3) Market approach: Under the market approach, the value of a company is appraised based on comparison with comparable companies and/or transactions. The Valuer was unable to obtain information regarding comparable transactions of similar corporate scale. In addition, the operations of listed companies in related industries include feed, breeding, fresh food and other industrial chain, while the Target Group only engages in the feed industry. Hence, the market approach was not adopted by the Valuer in the Independent Valuation.

(c) Valuation assumptions

We have reviewed the Asset Valuation Report and discussed with the Valuer in respect of the key assumptions adopted for performing the Independent Valuation. We understand from the Valuer that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Independent Valuation. We also consider that the assumptions adopted in the Asset Valuation Report are general in nature and we are not aware of any material facts which lead us to doubt the reasonableness of the assumptions adopted by the Valuer.

(d) Details of valuation

We have reviewed the Asset Valuation Report and discussed with the Valuer regarding its work done to arrive at the valuation of different items. We understand from the Valuer that when performing the Independent Valuation based on asset-based approach, the Valuer categorised the assets and liabilities of the Target Company into different categories. Since the Target Company is principally engaged in investment holding and the main operations are carried out by COFCO Feed and its subsidiaries, key assets of the Target Company include, among other things, long-term equity investment which represents its investment in COFCO Feed. At the same time, COFCO Feed also owns long-term equity investments, representing interests in other companies such as its subsidiaries and/or associates. We understand from the Valuer that when valuing long-term equity investments under the asset-based approach, the long-term equity investments will be classified into two categories, namely (1) wholly-owned and controlling long-term equity investments; and (2) non-controlling long-term equity investments. In assessing the valuation of wholly-owned and controlling long-term equity investments (i.e. subsidiaries of the Target Company), the Valuer assessed the value of the entire equity of shareholders in the investees, which was derived at based on valuation of the underlying assets and liabilities of such investees, and then multiply such value by the shareholding percentage to arrive at the value of the long-term equity investments. In other words, under such approach, the Independent Valuation of the Target Company was derived from the individual assets and liabilities of the Target Company and its subsidiaries.

According to the summary of Asset Valuation Report as set out in Appendix V to the Circular, the appraised value of the long-term equity investments represented an appreciation of approximately RMB398 million as compared to its book value. The main reasons for the appreciation of long-term equity investments are as follows: (1) the Target Company accounts for its investees under the cost method, and its book value represents static investment costs, after a period of operation and management, the subordinate investees have accumulated certain profits to varying degrees, resulting in their net assets as at the valuation reference date being higher than their original investment costs; (2) each of the subordinate investees is engaged in the production and sales of feed, and the sale price of the inventory to be sold is higher than the book accounting cost of such inventory; therefore, there is a certain appreciation in inventory as at the valuation reference date; and (3) most of the subordinate investees have production facilities, including their own factories, land and equipment, and there is a certain appreciation of these assets after revaluation.

Further details of the Independent Valuation based on asset-based approach are set out below:

(i) Current assets

Cash and cash equivalents, including bank deposits and other cash and cash equivalents were appraised through checking of bank statements and reconciliation statements etc.

For trade debtors and other receivables, including balances due from related companies, the market value was appraised based on the recoverable amounts. For amounts with likelihood of non-recoverable amounts, the Valuer has estimated the non-recoverable amounts through aging analysis after studying the Target Group's credit policy, customer composition and credit status, and the recovery of receivables in previous years.

For prepayments, the Valuer has enquired the details of the prepayments and checked to the underlying contracts on a sampling basis, and market value was appraised based on book values for those with expected receipt of respective goods and rights.

Inventories of the Target Group comprised of raw materials, work in progress and finished goods. Raw materials were valued based on the market value of the raw materials and the relevant expenses that could reasonably be incurred during purchase, such as transportation and inspection costs. Work in progress was valued based on book values plus reasonable margins. Finished goods were valued based on selling prices (net of tax) and reasonable margins.

For other current assets such as value added tax receivables, the Valuer has checked to the underlying documents and appraised them based on book values.

(ii) Non-controlling long-term equity investments

Non-controlling long-term equity investments of the Target Group represented mainly investments in associates. Such items were appraised based on the net assets value of the underlying associates and the shareholding of the Target Group.

(iii) Buildings

For buildings which were self constructed for the purpose of own use (such as production plants), they were appraised based on replacement cost method. Under the replacement cost method, the Valuer took into account the current status of the assets and the cost to be incurred to replicate such assets.

For buildings which were acquired from the market, they were appraised based on market comparison method. In arriving at the valuation, the Valuer has identified comparable properties and made adjustments based on transaction status, transaction time, regional factors and other individual factors.

(iv) Machineries and equipment

The machineries and equipment were mainly appraised by the replacement cost method based on the nature and characteristics of the equipment, data collection and other relevant conditions, while vehicles and electronic equipment with a second-hand market were valued based on the second-hand market price or realizable amount on the valuation reference date.

(v) Construction in progress

For construction-in-progress in which the main equipment or construction had been recognized as fixed assets while some cost items had not been recognized, if the value is already reflected in the assessed value of fixed assets, the appraised value of such construction-in-progress will be zero.

For construction in progress that started construction within six months from the valuation reference date, the appraised value was based on the reported amount of such projects having deducted any unreasonable expenditures after accounts verification.

For construction in progress that started construction more than six months from the valuation reference date and were under normal construction, unless there were significant price changes in equipment, materials, labor, etc. involved in the investment during the period, the appraised value will be based on the book value after deducting any unreasonable expenses. If the prices of equipment, materials, labor, etc. have changed significantly, the replacement value will be determined based on all the costs required to re-establish the completed work of the project under normal circumstances on the valuation reference date. In the case of severe physical obsolescence depreciation, functional obsolescence depreciation and economic obsolescence depreciation, the various depreciation amounts would also be considered.

(vi) Land use rights

The land use rights were valued by the market comparison method and the benchmark land price coefficient correction method according to the land market conditions in each region.

Under the market comparison method, the Valuer has compared transactions of similar land parcels with the recent period, and adjusted the land price based on the differences in transaction status, dates, regions and individual factors.

Under the benchmark land price coefficient correction method, the Valuer referred to the benchmark land price established by the local government and adjusted the land price based on analysis of various factors affecting the land price.

(vii) Intangible assets

The intangible assets mainly included software purchased and software shared within the COFCO Group.

For software shared within the COFCO Group, the appraised value was based on book value. For software purchased, the appraised value was determined with reference to the market price of such software having deducted the fees associated with any updates.

(viii) Long term deferred expenses

For long term deferred expenses, the Valuer selected and checked the original accounting vouchers, contracts, invoices, etc. to verify and arrive at the market value.

(ix) Deferred tax assets

In determining the appraised value of the deferred tax assets, the Valuer has verified the rationality of the Target Group's various provisions and the rationality and correctness of the formation and calculation of deferred tax debits.

(x) Other non-current assets

Other non-current assets mainly included prepayments made for equipment payments and construction projects. The Valuer has checked the general ledger and statement balances and has checked the equipment purchase contracts, original vouchers and other relevant information.

(xi) Liabilities

The Target Company's liabilities included short-term borrowings, notes payable, accounts payable, employee compensation payable, taxes payable, other payables and contract liabilities. The Valuer had verified the book value based on the details and relevant financial information provided by the Target Company.

(e) Conclusion

Having discussed with the Valuer and reviewed with it the reasons for adopting the various valuation methodologies, the bases and assumptions used for the valuation and the valuation result, we are of the opinion that the chosen valuation methodologies, bases and assumptions in establishing the Appraised Value as at the valuation reference date are in line with the industry practice. In assessing the fairness of the consideration, we consider it is appropriate to refer to the Independent Valuation conducted by the Valuer in respect of the Appraised Value.

7.2. Comparable companies

In assessing the fairness and reasonableness of the consideration of the Acquisition, we consider that it is appropriate to perform an analysis of comparable companies based on the trading multiples, such as price to earnings ("**P/E**") ratio and price to book ("**P/B**") ratio which are commonly adopted analysis in analyzing the fairness and reasonableness of consideration. In this regard, we have performed a search on Bloomberg terminal for listed companies which are principally engaged in similar line of business as the Target Group, being the production and sales of feeds in the PRC and derived more than 50% of their revenue from such business based on their respective latest annual reports available as at the date prior to the Latest

Practicable Date. To the best of our knowledge and endeavour and as far as we are aware of, we found 9 listed companies which met our selection criteria (the "**Comparable Companies**") and they are exhaustive. Details of the P/E and P/B ratios of the Comparable Companies are set out below:

Comparable Companies	P/E ratio *(note 1)*	P/B ratio *(note 1)*
Hunan Zhenghong Science and Technology Develop Co., Ltd. (stock code: SZ000702)	N/A *(note 2)*	6.90
Guangdong Yuehai Feeds Group Co. Ltd. (stock code: SZ001313)	126.07	2.00
Boen Group Co., Ltd. (stock code: SZ001366)	38.70	2.28
Guangdong Haid Group Co., Limited (stock code: SZ002311)	28.39	3.51
Beijing Dabeinong Technology Group Co., Ltd. (stock code: SZ002385)	N/A *(note 2)*	2.31
Shenzhen Kingsino Technology Co., Ltd. (stock code: SZ002548)	N/A *(note 2)*	2.27
Tangrenshen Group Co., Ltd. (stock code: SZ002567)	N/A *(note 2)*	1.31
Shandong Teamgene Technology Co., Ltd. (stock code: SH603151)	22.83	1.55
Fujian Tianma Science and Technology Group Co., Ltd. (stock code: SH603668)	N/A *(note 2)*	2.69
Maximum	126.07	6.90
Minimum	22.83	1.31
Median	33.54	2.28
Average	54.00	2.76
The Acquisition	10.89 *(note 3)*	1.17 *(note 4)*

Notes:

1. The P/E ratios of the Comparable Companies are calculated based on their respective closing prices as quoted on the Shenzhen Stock Exchange/the Shanghai Stock Exchange as at the Latest Practicable Date, divided by their respective net profit attributable to the owners of the company for FY2023 per share (based on their total issued shares as at 31 December 2023). The P/B ratios of the Comparable Companies are calculated based on their respective closing prices as quoted on the Shenzhen Stock Exchange/the Shanghai Stock Exchange as at the Latest Practicable Date, divided by their respective net assets to the owners of the company per Share as at 30 September 2024 (based on their total issued shares as at 30 September 2024).

2. The subject company recorded loss attributable to the owners of the company during the latest financial year (i.e. FY2023).

3. The implied P/E ratio of the Acquisition is calculated based on the Acquisition consideration and the audited profit attributable to the owners of the Target Company for FY2023.

4. The implied P/B ratio of the Acquisition is calculated based on the Acquisition consideration and the audited net assets to the owners of the Target Company as at 30 June 2024.

As shown in the table above, 5 out of 9 Comparable Companies have been loss making during the latest financial year. For the remaining 4 Comparable Companies, the P/E ratios vary greatly with a range of approximately 22.83 to approximately 126.07. The implied P/E ratio of the Acquisition is lower than the P/E ratios of the Comparable Companies.

Given the relatively small sample size and wide range of the P/E ratios of the Comparable Companies, we consider that it is more meaningful to consider the P/B ratios of the Comparable Companies for our analysis. The P/B ratios of the Comparable Companies range from approximately 1.31 to approximately 6.90, with a median of approximately 2.28. The implied P/B ratio of the Acquisition of approximately 1.17 is lower than the range of P/B ratios of the Comparable Companies. In this regard, we consider that the consideration of the Acquisition is not over-valued as compared to the Comparable Companies and is favorable to the Company.

7.3. Conclusion

Taking into account (i) that the consideration was based on the valuation results of the Asset Valuation Report issued by the Valuer, (ii) our view regarding the Independent Valuation as concluded in the sub-section 7.1(e) above, and (iii) the implied P/E and P/B ratios of the Acquisition are lower than the range of P/E and P/B ratios of the Comparable Companies respectively, we are of the view that the consideration for the Acquisition is fair and reasonable.

8. Financial effects of the Acquisition

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group, as if the Acquisition had been completed on 30 June 2024, is set out in Appendix IV to the Circular. Set out below is the analysis on the financial effects of the Acquisition on the Group based on the unaudited pro forma financial information of the Enlarged Group and our discussion with the Management.

(i) Assets, liabilities and net assets

As at 30 June 2024, the Group had total assets, total liabilities and net assets of approximately RMB17.04 billion, RMB7.55 billion and RMB9.49 billion respectively. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, as if the Acquisition had been completed on 30 June 2024, the unaudited pro forma total assets and total liabilities of the Enlarged Group would increase to approximately RMB19.11 billion and RMB9.77 billion respectively, while the net assets of the Enlarged Group would decrease to approximately RMB9.34 billion.

(ii) Total liabilities to total assets ratio and liquidity

As at 30 June 2024, the total liabilities to total assets ratio of the Group was approximately 44.30%. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, as if the Acquisition had been completed on 30 June 2024, the liabilities-to-assets ratio of the Enlarged Group would increase to approximately 51.11%.

The Group had cash and bank balances of approximately RMB506.89 million as at 30 June 2024. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, the cash and bank balances would decrease to approximately RMB457.57 million as if the Acquisition had been completed on 30 June 2024 (assuming that the consideration of the Acquisition had been settled in full amount, with no adjustments, on 30 June 2024 and the settlement had been funded by interest-bearing borrowings of RMB1,255 million and internal fund of RMB314 million).

We are aware of the increase in total liabilities to total assets ratio and decrease in cash and bank balances of the Enlarged Group as just mentioned. Nonetheless, we consider that the foregoing should be balanced by the benefits of the Acquisition (details of which are set out in the section headed "5. Reasons for and benefits of the Acquisition" of this letter). As mentioned above, the Target Group has been profit making during FY2021, FY2022 and FY2023; and has recorded an increase in both revenue and profit after tax for FY2023. The Target Group has also generated net cash from operations during each of FY2021, FY2022, FY2023 and HY2024. The operation and financial performance of the Target Group are expected to contribute to the Enlarged Group.

According to the "Working Capital Statement" as contained in Appendix I of the Circular, the Directors are of the opinion that taking into account the Group's internal resources, operating cash flow, financing instruments and the impact of the Acquisition, and in the absence of unforeseen circumstances, the Group will have sufficient working capital to meet its present requirements for a period of 12 months from the date of the Circular.

(iii) Earnings

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the results of the Target Group will be consolidated into that of the Group. As the Target Group has been profit-making for the three years ended 31 December 2021, 2022 and 2023 and for the six months ended 30 June 2024, it is expected that the Acquisition will enhance the profitability of the Group.

B. THE CONTINUING CONNECTED TRANSACTIONS

I. The Procurement Transactions

1. Reasons for and benefits of the Procurement Transactions

The 2024 Mutual Supply Agreement represents a continuation of the 2021 Mutual Supply Agreement. According to the Board Letter, the products and services provided by COFCO Group, which mainly include feed ingredients, feed production material and/or products, meat products, warehousing and other operation related products and services, were used for the production and operation of the Group.

The central reserved meat is one of the products to be provided by COFCO Group to the Group under the 2024 Mutual Supply Agreement. According to the Board Letter, when the supply in the hog and pork market is tight and the price rises significantly, the Chinese government will sell central reserved meat to the market through the subsidiaries of COFCO to promptly increase the market supply, and the Group can participate in the bidding and make purchases in a market-oriented manner and at an appropriate price. When there is an oversupply of hog and pork in the market and the price drops significantly, the Chinese government will purchase central reserved meat from the market through the subsidiaries of COFCO.

We understand from the Management that the Group has maintained good and stable business relationship with COFCO Group in the past few years. The Procurement Transactions are expected to provide the Group with a stable supply of raw materials and services required for the production and operation, which will benefit the Group's business development. In addition, as advised by the Management, the Target Group has also been procuring feed ingredients from COFCO Group. Upon the completion of the Acquisition, the Procurement Transactions will also be vital to the Enlarged Group, in particular in ensuring stable supply of raw material for feed production of the Target Group.

Taking into account the above, in particular that (i) the Procurement Transactions are in line with the Group's principal business; (ii) the products and services provided by COFCO Group enable the Group to obtain stable supply of raw materials and services required for the production and operation; and (iii) the Procurement Transactions would ensure stable supply of raw material for feed production of the Target Group, we concur with the Directors that the Procurement Transactions are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Procurement Transactions

The Procurement Transactions are part of the transactions to be contemplated under the 2024 Mutual Supply Agreement which was entered into between the Company and COFCO on 21 October 2024. The validity period of the 2024 Mutual Supply Agreement is from 1 January 2025 to 31 December 2027, subject to Independent Shareholders' approval at the EGM. Further details of the Procurement Transactions are set out in the section headed "2024 Mutual Supply Agreement" of the Board Letter and the key terms of the Procurement Transactions are set out below:

Details of the transactions:	Under the 2024 Mutual Supply Agreement: COFCO Group provides the Group with the following products and services, including: (1) COFCO Group provides the Group with feed ingredients, including but not limited to corn, soybean meal, soybean oil, wheat, grain by-products (such as rice bran meal, ground rice, bran, etc.) and other materials and/or products used for feed production; and (2) COFCO Group provides the Group with meat products, warehousing and other products and services; specifically, the meat products provided by COFCO Group to the Group represent central reserved meat.
Pricing Policy:	The prices for the provision of the products and services between the Group and COFCO Group were determined with reference to the prevailing market prices of identical or similar products and services by the relevant parties on a fair and reasonable basis after arm's length negotiation.

For the Procurement Transactions, when determining the prevailing market prices of products and services provided by COFCO Group to the Group, the Group will obtain the prevailing market prices through various channels, if applicable, including (a) recent comparable transactions involving Independent Third Parties; (b) obtaining quotations on products or parts or processes composing quotations from at least two suppliers (including COFCO Group and/or its associates) by making enquiries via e-procurement system, e-mail, telephone, etc.; and (c) obtaining market data through channels such as Dalian Commodity Exchange (www.dce.com.cn), Sublime China Information (www.sci99.com), www.boyar.cn, Wind Data and National Grain Trade Center (www.grainmarket.com.cn). In respect of the sale of central reserved meat by COFCO Group to the Group, the price is determined upon price bidding by the participating enterprises, including the Group, through the electronic system of Beijing China Merchandise Reserve Exchange and is not higher than the price of identical or similar products purchased from Independent Third Parties by the Group during the same period.

The specific pricing policies for the purchase of products and services by the Group from COFCO Group are disclosed in the sub-section headed "Pricing Policy" under the section headed "2024 Mutual Supply Agreement" of the Board Letter.

Assessment of the terms of the Procurement Transactions

Based on our discussion with the Management regarding the pricing policies of the Procurement Transactions, we noted that in determining the prices of the products and services to be provided by COFCO Group to the Group, the Group would take into account the prevailing market prices of the products and services obtained from various channels (if applicable); and in particular, the Group would obtain quotations for comparable products/services and launch bidding processes for the selection of suppliers. For our due diligence purpose, we have obtained (a) individual agreements; and (b) the relevant bidding/quotation related documents, regarding the procurement of (i) feed ingredients, (ii) warehousing and other products and services, and (iii) central reserved meat by the Group from COFCO Group during 2022 to 2024. For each of the transaction type, one set of documents, including the individual agreement with COFCO Group together with the corresponding bidding/quotation related documents were obtained for each of 2022, 2023 and 2024. As the relevant documents cover different types of historical Procurement Transactions of the Group throughout the term of the 2021 Mutual Supply Agreement, we consider such documents to be fair and representative. We noted from the said documents that (i) for the purchase of feed ingredients and central reserved meat, the purchase prices of the Group from COFCO Group were determined by the bidding process; (ii) for the procurement of warehousing service (the Group had not procured warehousing from COFCO Group during 2024, only transactions in 2022 and 2023 were reviewed), the price paid by the Group to COFCO Group were lower than the prices quoted by other Independent Third Parties for comparable warehousing facilities for 2022; while the Group could not locate appropriate warehousing facilities from Independent Third Parties for 2023, the pricing terms of the transactions with COFCO Group were determined based on those in 2022 with inflation adjustment; and (iii) for procurement of other products and services, the prices paid by the Group to COFCO Group were lower than the prices quoted by other Independent Third Parties for similar products and services ("**Our Findings on the Historical Procurement Transactions**").

In view of the above, we are of the view that the terms of the Procurement Transactions are on normal commercial terms and are fair and reasonable.

3. Proposed annual caps of the Procurement Transactions

Set out below are (i) the historical annual caps for FY2022, FY2023 and the year ending 31 December 2024; (ii) the historical transaction amounts for FY2022, FY2023 and the nine months ended 30 September 2024; and (iii) the proposed annual caps for each of the three years ending 31 December 2025, 2026 and 2027, for the Procurement Transactions as extracted from the Board Letter:

	For the year ended 31 December 2022	**For the year ended 31 December 2023**	**For the year ending 31 December 2024**
	RMB'00,000,000	*RMB'00,000,000*	*RMB'00,000,000*
Historical annual cap(s)	36.32	48.33	55.01
Historical transaction amounts	19.53	19.08	8.39 *(note)*
Utilisation rate *(%)*	53.77	39.48	N/A

	For the year ending 31 December 2025	**For the year ending 31 December 2026**	**For the year ending 31 December 2027**
	RMB'00,000,000	*RMB'00,000,000*	*RMB'00,000,000*
Proposed annual cap(s) (the "**Proposed Procurement Cap(s)**")	42.80	54.19	62.56

Note: for the nine months ended 30 September 2024

We noted that the utilization rates of the historical annual caps of the Procurement Transactions were relatively low for each of the two years ended 31 December 2022 and 2023. As advised by the Management, the entering into of the Procurement Transactions were determined by the Group based on, among other things, the market conditions and terms of the products and services available. In particular, the suppliers and terms of the procurement of products and services by the Group would be determined through quotation or tender process, and being affected by the then market conditions. The Procurement Transactions would only be entered into by the Group when considered favourable.

In arriving at the Proposed Procurement Caps, the Directors have considered the factors as stated under the sub-section headed "Basis for Determining the Proposed Annual Caps" under the section headed "2024 Mutual Supply Agreement" of the Board Letter. For our due diligence purpose, we have obtained and reviewed the calculation of the Proposed Procurement Caps for each of the three years ending 31 December 2025, 2026 and 2027, and have discussed with the Management regarding the basis of the same.

Based on the calculation, we noted that the Proposed Procurement Caps were determined based on the estimated transaction amounts of different types of transactions (including the procurement of feed ingredients, warehousing service, central reserved meat and other products and services) for the each of the three years ending 31 December 2025, 2026 and 2027. As advised by the Management, the Proposed Procurement Caps had been determined after taking into account the impact of the Acquisition, and the estimated transaction amounts of such transactions were considered and estimated by various business departments of the Group and the Target Group.

(i) Feed ingredients

According to the calculation, majority of the estimated transaction amounts were attributable to the transactions relating to the procurement of feed ingredients, representing over 97% of the purchase under the Procurement Transactions for each of the three years ending 31 December 2025, 2026 and 2027. The transaction amounts of feed ingredients procurement for each of the three years ending 31 December 2025, 2026 and 2027 were determined based on, (a) the estimated quantity for respective types of feed ingredients (such as corn and wheat, soybean meal and other materials) required for the Group's hog production business based on the hog production volume of the Group and the feed ingredients formula (after deducting the amount of external procurement of feeds) and the proportion of feed ingredients to be purchased from the COFCO Group (excluding the Target Group); (b) the estimated quantity for respective types of feed ingredients (such as corn and wheat, soybean meal and other materials) required based on the planned feed sales volume of the Target Group, the feed ingredients formula and the proportion of feed ingredients to be purchased from the COFCO Group (excluding the Group); and (c) the estimated unit prices for the respective types of feed ingredients (which were assumed to be constant during the three years ending 31 December 2027, and were within the range of the historical unit prices of the respective types of feed ingredients purchased by the Group during FY2022 and FY2023).

(ii) The remaining products and services

According to the calculation, the remaining less than 3% of the estimated transaction amounts relate to the procurement of warehousing service, central reserved meat and other products and services.

In determining the estimated transaction amounts for the procurement of warehousing services for each of the three years ending 31 December 2025, 2026 and 2027, the Company took into account (i) the business segment of the Group which requires the warehousing services; (ii) the average historical demand (in terms of quantity) of such services during 2022 to 2024 of such business segment, plus an estimated annual growth rate to cater for the business growth of the segment; and (iii) the historical unit costs of warehousing services during FY2023, plus an estimated annual growth rate to cater for the potential increase in warehousing costs.

In determining the estimated transaction amounts for the purchase of central reserved meat for each of the three years ending 31 December 2025, 2026 and 2027, the Company took into account (i) the historical price range of central reserved meat; and (ii) the estimated quantity of purchase based on the Management's estimation with reference to the government policy and the historical bidding record regarding the purchase of central reserved meat. We understand from the Management that the Group expects to win the tender of 2,400 tons of central reserved meat annually during each of the three years ending 31 December 2025, 2026 and 2027. We have further reviewed and discussed with the Management the Group's participation in tender of central reserved meat and noted that the amount of 2,400 tons was determined based on the Group's tender participation record in the past.

According to the calculation, the estimated transaction amounts for other products and services included testing kits, uniforms and other miscellaneous fees and expenses. As advised by the Management, such amounts were estimated based on the business needs of the relevant business departments.

Taking into account the above, we consider that the Proposed Procurement Caps are fair and reasonable.

II. The Deposit Services

1. Reasons for and benefits of the Deposit Services

According to the Board Letter, COFCO Finance is a non-banking financial institution and an indirect wholly-owned subsidiary of COFCO established in the PRC since 2002 with the approval of PBC. It is subject to the supervision of National Financial Regulatory Administration. According to the business license, COFCO Finance is authorised to provide services such as (a) the provision of financial and financing consultation services, credit appraisal and relevant consulting services and agency business services; (b) assisting implementation of payables and receivables of the transaction amounts; (c) handling of deposits, loans and bills acceptance and discounting; (d) conducting settlements and other relevant settlements; and (e) the provision of loans.

As mentioned in the Board Letter, the PRC laws do not permit companies, including subsidiaries and associates, other than regulated financial institutions, to extend intra-group loans directly. Any such loan must be directed through a regulated financial institution. COFCO Finance is a non-banking financial institution approved and regulated by PBC and National Financial Regulatory Administration, and is authorised to provide various kinds of financial services to COFCO and its members in the PRC, including deposit-taking and loan services. COFCO Finance is also authorised to provide to the Group all services set out in the 2024 Financial Services Agreement.

As confirmed by the Management, COFCO Finance is required to operate in compliance with《企業集團財務公司管理辦法》 (Administrative Measures for the Group Finance Companies*) (the "**Administrative Measures**") promulgated by China Banking and Insurance Regulatory Commission (the role of which is now covered by National Administration of Financial Regulation). The Administrative Measures regulate the operation of non-banking financial institutions which provide financial management services to the enterprise group member entities. The Administrative Measures set out certain compliance and risk control requirements/measures in relation to the operation of group finance companies, including but not limited to maintaining certain financial ratios at all times.

As advised by the Management, thanks to the long-term relationship between COFCO Finance and the Group, COFCO Finance has in-depth understanding about the Group's business and is able to provide high quality services to meet the Group's demand. In addition, COFCO has provided the undertakings to the Company in connection with the 2024 Financial Services Agreement (the "**Undertakings**"), pursuant to which COFCO undertakes to the Company that (a) it will maintain its actual control over COFCO Finance and ensure that COFCO Finance operates in compliance with regulations; (b) it shall use its best endeavors and take all possible reasonable means to ensure that COFCO Finance will fulfill its obligations under the 2024 Financial Services Agreement; and (c) in the event of an urgent situation where COFCO Finance encounters payment difficulties, it undertakes to increase the corresponding capital of COFCO Finance in accordance with the actual needs for resolving the payment difficulties. We consider that the Undertakings provide security and comfort to the Company by reducing the default risks of COFCO Finance under the 2024 Finance Services Agreement.

According to the Board Letter, the main reasons for the Group to procure the Deposit Services from COFCO Finance are as follows:

(a) the use of COFCO Finance as a vehicle to manage the funds of the Group would allow the Group to conduct more efficient deployment of funds among members of the Group;

(b) the interest rates on the Deposit Services offered by COFCO Finance to the Group will be equal to or more favourable than, on a case by case basis, those offered to the Group by any third party;

(c) COFCO Finance is regulated by PBC and National Financial Regulatory Administration, and it provides services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, capital risk can be controlled through the implementation of the risk control measures as stipulated in the 2024 Financial Services Agreement (details of which are set out in the section headed "2. Principal terms of the Deposit Services" below);

(d) the Group is expected to benefit from COFCO Finance's better understanding of the Group's operations, which should render more expedient and efficient services than other commercial banks in the PRC;

(e) the Undertakings from COFCO will provide security and comfort to the Company, and reduce the risks which the Group may be exposed to in the event of default of COFCO Finance under the 2024 Financial Services Agreement;

(f) pursuant to the relevant regulations of PBC and National Financial Regulatory Administration, the customers of COFCO Finance are limited to the group members of COFCO, which effectively reduces the potential risks that COFCO Finance may otherwise be exposed to if its customers include other entities unrelated to COFCO;

(g) the arrangements under the 2024 Financial Services Agreement would promote liquidity among the Group, which will facilitate the settlement business of the members of the Group, enhance the overall ability of the Group to repay debts, and assist in monitoring and controlling financial risks;

(h) the arrangements under the 2024 Financial Services Agreement would help reduce finance costs, accelerate the turnover of capital and reduce trading costs and expenses, thus enhancing the profitability of the Group;

(i) the arrangements under the 2024 Financial Services Agreement would allow for prompt and accurate monitoring and regulation of the application of funds within the Group, thus enhancing the capital management and control of the Group; and

(j) COFCO Finance has maintained good working relationship with the Group and its members over the years and their continuous cooperation can ensure higher work efficiency.

Taking into account the above, we concur with the Directors that, although the Deposit Services are not in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Deposit Services

The Deposit Services are part of the transactions to be contemplated under the 2024 Financial Services Agreement which was entered into among the Company, COFCO Meat and COFCO on 21 October 2024. The validity period of the 2024 Financial Services Agreement is from 1 January 2025 to 31 December 2027, subject to Independent Shareholders' approval at the EGM. Further details of the Deposit Services are set out in the section headed "2024 Financial Services Agreement" of the Board Letter and the key terms of the Deposit Services are set out below:

Details of the transactions:	COFCO Finance will provide Deposit Services to the Group pursuant to the 2024 Financial Services Agreement. The Group will open and maintain deposit accounts with COFCO Finance.

The interest rates for the Group's deposits with COFCO Finance will be determined in accordance with the standard deposit rates promulgated by PBC from time to time. The Company will check for the standard deposit rates promulgated by PBC each month, and the interest rates on the Deposit Services to be offered by COFCO Finance to the Group will not be lower than the interest rates offered by the Major PRC Commercial Banks for the same level of deposits of the same period.

Termination: Save as described below, the 2024 Financial Services Agreement shall not be terminated by any party unilaterally. In addition to the default events provided by the Civil Code of the PRC, the 2024 Financial Services Agreement will be terminated with immediate effect if COFCO Finance fails to satisfy any operation condition as follows:

(a) the capital adequacy ratio is not less than 10.5%;

(b) the non-performing assets ratio is not more than 3%;

(c) the non-performing loan ratio is not more than 2%;

(d) the net fixed assets shall not be more than 20% of net capital; or

(e) the ratio of investment balance to net capital is not more than 70%.

COFCO Finance has established a complete internal control system to ensure that it operates properly and its indicators meet relevant requirements. In addition, COFCO Finance will submit monthly regulatory statements to the Beijing Regulatory Bureau of the National Financial Regulatory Administration and prepare monthly accounting statements to ensure that operating conditions are met. The Company also requires COFCO Finance to provide the Company with a quarterly audit report on the internal control for risk management prepared by a Chinese certified public accountant to stay up-to-date on COFCO Finance's operating conditions.

Upon termination of the 2024 Financial Services Agreement, the Group may withdraw all deposits with COFCO Finance at any time.

Assessment of the terms of the Deposit Services

According to the Board Letter, with respect to the Group, an internal integrated assessment mechanism on the deposit rates will be established based on fair market principle. The rates offered by the Major PRC Commercial Banks will change accordingly after a change in the standard rates promulgated by PBC. The interest rates of deposit of the Major PRC Commercial Banks are determined according to the standard rates promulgated by PBC from time to time which are fairly stable and will fluctuate according to the situations of the customers. The interest rates of deposit of the Major PRC Commercial Banks are displayed on their websites, which are open for public search. Prior to placing deposits to COFCO Finance, the Company will seek the interest rates quotation from the Major PRC Commercial Banks to make the strategic decisions on the deposits services. The interest rates for the Deposit Services offered by COFCO Finance to the Group will be no less favourable than those offered by the Major PRC Commercial Banks.

According to the Board Letter, the Group and COFCO Finance had taken certain specific measures in relation to the Deposit Services. The internal integrated assessment will be conducted by the treasury cashiers, head of treasury, fund managers and financial managers of the finance department of the Company. With respect to COFCO Finance, a risk management committee and an independent audit department have been established to, among other things, review the Deposit Services. Details of the measures were set out under the sub-section headed "Pricing Policy" under the section headed "2024 FINANCIAL SERVICES AGREEMENT" of the Board Letter. We consider the effective implementation of such measures would help to ensure fair pricing of the Deposit Services according to the pricing policy.

For our due diligence purpose, we have also obtained from the Company deposit records regarding deposits by the Group at COFCO Finance (which included both current deposits and term deposits) during 2021 to 2024 and searched for the interest rates offered by certain of the Major PRC Commercial Banks during the relevant period. For each type of deposit, one set of deposit record was obtained during each of 2022, 2023 and 2024. As the deposit records cover different types of previous deposits of the Group throughout the term of the 2021 Financial Services Agreement, we consider such documents to be fair and representative. We noted from the said documents that the interest rates for the Group's deposits were higher than the interest rates offered by the relevant Major PRC Commercial Banks under review for the same type of deposits of the same period ("**Our Findings on the Historical Deposit Records**").

Having consider the above, we are of the view that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable.

3. Proposed annual caps of the Deposit Services

Set out below are (i) the historical annual caps for FY2022, FY2023 and the year ending 31 December 2024; (ii) the historical transaction amount (i.e. the historical maximum daily deposit amounts (including interest accrued thereon)) for FY2022, FY2023 and the nine months ended 30 September 2024; and (iii) the proposed annual caps (i.e. the maximum daily deposit amounts (including interest accrued thereon)) for the three years ending 31 December 2025, 2026 and 2027 for the Deposit Services as extracted from the Board Letter:

	For the year ended 31 December 2022	**For the year ended 31 December 2023**	**For the year ending 31 December 2024**
	RMB'00,000,000	*RMB'00,000,000*	*RMB'00,000,000*
Historical annual cap(s)	15	18	20
Historical amounts	12.42	13.32	*11.92 (note)*
Utilisation rate *(%)*	82.80	74.00	59.55

	For the year ending 31 December 2025	**For the year ending 31 December 2026**	**For the year ending 31 December 2027**
	RMB'00,000,000	*RMB'00,000,000*	*RMB'00,000,000*
Proposed annual cap(s) (the "**Proposed Deposit Cap**(s)")	30	30	30

Note: for the nine months ended 30 September 2024

In arriving at the Proposed Deposit Caps, the Directors have considered the factors as stated under the sub-section headed "Basis for Determining the Proposed Annual Caps" under the section headed "2024 FINANCIAL SERVICES AGREEMENT" of the Board Letter. For our due diligence purpose, we obtained and reviewed the calculation of the Proposed Deposit Caps for each of the three years ending 31 December 2025, 2026 and 2027.

According to the calculation, the Proposed Deposit Caps include the principal component and the interest component. For the principal component, we noted that the estimated maximum balances for each of the three years ending 31 December 2027 were determined with reference to (i) the estimated funds required for the Group's operating, financing and investment activities and (ii) the estimated funds from the Target Group. According to the calculation and as advised by the Management, for each of the three years ending 31 December 2025, 2026 and 2027 (i) the estimated funds required for the Group's operating activities (i.e. the daily reserved funds required to meet the daily business needs of the Group), with a daily reserve limit of approximately RMB650 million, were determined based on (a) the funds required for settlement of products and services as incurred in the previous year, taking into account the potential growth based on the business needs and plan of the Group (the "**Potential Business Growth**") and (b) the expected capital turnover of the Group taking into account the business nature and operation of the Group; (ii) the estimated funds required for the Group's financing activities (i.e. the reserved funds for monthly repayment of the Group's outstanding short term borrowings), with a monthly repayment peak of approximately RMB850 million, were determined with reference to the amount of short term borrowings as at the end of the previous year, taking into account the potential growth based on the business needs and plan of the Group (i.e. the Potential Business Growth); (iii) the estimated funds required for the Group's investment activities, with a monthly investment peak of approximately RMB500 million, were determined based on the estimated annual investment budgets of the Group; and (iv) the estimated funds from the Target Group for each of the three years ending 31 December 2025, 2026 and 2027 which were determined based on the maximum daily balance (including principal and interests) of the deposits of the Target Group and is expected to be approximately RMB1.0 billion. For our due diligence purpose, (i) we have further inquired into the Management on the basis for the Potential Business Growth. As advised by the Management, the Group plans to continue increasing its production capacity and the Potential Business Growth caters for the Group's needs in financing and daily operation; and (ii) for the estimated funds from the Target Group for each of the three years ending 31 December 2025, 2026 and 2027, we have reviewed the amount of liquid current assets of the Target Group as at 30 June 2024 and considered that the estimated funds from the Target Group applied in the calculation is justifiable. Accordingly, we consider the estimation by the Management to be justifiable.

For the interest component, we noted that the estimated transaction amounts for each of the three years ending 31 December 2025, 2026 and 2027 were determined with reference to (i) the maximum daily deposit amount in the year and (ii) estimated interest rate. As advised by the Management, in determining the interest component, the maximum possible interest amounts (based on the highest historical interest rate during the term of the 2021 Finance Services Agreement) were computed for prudence sake. In this regard, we noted that the highest deposit interest rate of the Group at COFCO Finance was in line with the interest rate adopted in the calculation.

Taking into account the above, we consider that the Proposed Deposit Caps are fair and reasonable.

III. Internal Control, Review And Conditions For The Continuing Connected Transactions

According to the Board Letter, the Company has established (1) reporting, approval and, if required, selected verification procedures in place to ensure that the agreed price and terms of continuing connected transactions are no less favorable to the relevant member(s) of the Group than those available to or from (as appropriate) Independent Third Parties and also compliance with the pricing policy; and (2) procedures and policies for identifying connected persons and monitoring the annual caps of the continuing connected transactions. The legal department of the Group is responsible for identifying the Group's connected persons from new customers or suppliers on a monthly basis and updating the list of connected persons in a timely manner. The finance department of the Group will then monitor the actual transaction amounts with connected persons on a monthly basis to ensure that such amounts do not exceed the relevant annual caps. When the actual transaction amounts almost reach the allowable annual caps, the legal department and the finance department will notify all relevant departments and report to the Board when necessary for it to consider revising the annual caps, in order to comply with the relevant provisions of the Listing Rules and the Group's internal policies.

In relation to the Deposit Services, according to the Board Letter, in order to ensure that the annual caps set for the Deposit Services are not exceeded:

(a) a daily funds report will be issued every morning by the treasury cashiers on the amount of deposits and the situation of change in funds. The head of treasury and the financial manager can adjust the funds strategy according to the daily funds report;

(b) the head of treasury will compile a 20-calendar-day rolling capital forecast every week which could reduce the incidence of liquidity excess;

(c) the fund manager will compile the monthly fund plan at the beginning of each month to arrange the monthly fund balance in advance and make arrangements for the Group's deposits, to make sure that the annual caps will not be exceeded; and

(d) internal control reports on the risk management issued by COFCO Finance quarterly will be reviewed by the Company.

As set out in the 2023 Annual Report, the Company attaches great importance to the building and improvement of the risk management and internal control system. The Board reviews and evaluates the effectiveness of the internal control and risk management system of the Company two times a year. For FY2023, the Board completed the review and evaluation of the effectiveness of the internal control and risk management system of the Company and considered it is effective and adequate (the "**Company's Review on Internal Control**").

According to the Company's 2022 annual report and 2023 Annual Report, the independent non-executive Directors have reviewed relevant continuing connected transactions of the Company (including the transactions contemplated under the 2021 Mutual Supply Agreement and the 2021 Financial Services Agreement) during each of the year ended 31 December 2022 and 2023 and confirmed that such continuing connected transactions had been entered into (i) in the ordinary and usual course of the Group's business; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in compliance with fair and reasonable terms regulating various agreements of the continuing connected transactions and in the interest of the Company and the Shareholders of the Company as a whole (the "**INEDs' Confirmation**").

The auditors of the Company have performed a review of the continuing connected transactions of the Group, including, among other things, the transactions contemplated under the 2021 Mutual Supply Agreement and the 2021 Financial Services Agreement for each of the year ended 31 December 2022 and 2023. We noted from the Company's 2022 annual report and 2023 Annual Report that the auditors were engaged to report in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants, and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules". The auditors have issued their unqualified letter in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules confirming that (i) nothing has come to their attention that causes them to believe that the continuing connected transactions have not been approved by the Board; (ii) for transactions involving the provisions of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the continuing connected transactions have exceeded the annual cap as set by the Company (the "**Auditors' Confirmation**").

Having consider Our Findings on the Historical Procurement Transactions, Our Findings on the Historical Deposit Records, the Company's Review on Internal Control, the INEDs' Confirmation and the Auditors' Confirmation, we do not doubt the effectiveness of the internal control for the Procurement Transactions and the Deposit Services under the 2021 Mutual Supply Agreement and the 2021 Financial Services Agreement respectively.

In compliance with the Listing Rules, the Continuing Connected Transactions are also subject to a number of conditions which include, among other things:

(i) the Proposed Procurement Caps and the Proposed Deposit Caps will not be exceeded;

(ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the Procurement Transactions and the Deposit Services and confirm in the Company's annual report whether the Procurement Transactions and the Deposit Services have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the Procurement Transactions and the Deposit Services and they must confirm in a letter to the Board whether anything has come to their attention that causes them to believe that the transactions:

(a) have not been approved by the Board;

(b) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the transactions; and

(c) have exceeded the Proposed Procurement Caps and the Proposed Deposit Caps;

(iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;

(v) the Company must allow, and ensure that COFCO and COFCO Finance allow, the auditors of the Company sufficient access to their records of the transactions for the purpose of the auditors' reporting on the Procurement Transactions and the Deposit Services. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and

(vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the Procurement Transactions and the Deposit Services exceeds the relevant proposed annual cap(s), or that there is any material amendment to the terms of the 2024 Mutual Supply Agreement and the 2024 Financial Services Agreement.

In light of the conditions imposed on the continuing connected transactions, in particular, (1) the limit of the value of the transactions by way of the Proposed Procurement Caps and the Proposed Deposit Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the Procurement Transactions and the Deposit Services; and (3) the on-going review by the auditors of the Company confirming the relevant annual cap(s) not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Procurement Transactions and the Deposit Services and safeguard the interests of the Independent Shareholders.

DISCUSSION

The Acquisition

The Group is one of the leading meat enterprises in the PRC and it has strived to improve its strategic layout, adhering to the core strategic directions on cost dominance, technology-driven and brand leadership, and is committed to building a more competitive meat conglomerate with a comprehensive industry value chain. On the other hand, the Target Group is principally engaged in research and development, production, sales and supporting technical services of feed products, and is currently one of the feed suppliers of the Group. It is expected that the Acquisition will bring in a number of benefits to the Group, including (i) alignment with the Group's development strategy to help further enhance its core competitiveness; (ii) optimizing business structure to enhance the business risk-resilient capability; (iii) optimizing financial indicators and improving profitability; and (iv) enhancing the strategic layout of the entire industry value chain, providing momentum to future developments. Further details of the benefits of the Acquisition are set out in the sub-section headed "5. Reasons for and benefits of the Acquisition" under the section headed "A. THE ACQUISITION" of this letter above.

We have reviewed the audited financial information of the Target Group. The Target Group has been profit making during the past three years of FY2021, FY2022 and FY2023, and also during HY2024. Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company. Based on the pro forma financial information of the Enlarged Group, as if the Acquisition had been completed on 30 June 2024, there would be a slight decrease in the net assets value and an increase in total liabilities to total assets ratio. Nevertheless, we consider it has to be balanced by the benefits of the Acquisition. In respect of earnings, it is expected that the Acquisition will enhance the profitability of the Group after taking into account the financial performance of the Target Group in the recent three years during FY2021, FY2022 and FY2023 and during HY2024.

The consideration for the Acquisition is RMB1,569.0707 million, which was determined based on, among other things, the valuation results in the Asset Valuation Report issued by the Valuer. We have reviewed the Asset Valuation Report and discussed with the Valuer regarding the details of the Independent Valuation. Based on our review, we are of the opinion that the chosen valuation methodologies, bases and assumptions in establishing the Appraised Value as at the valuation reference date are in line with the industry practice, and it is appropriate to refer to the Independent Valuation in assessing the fairness of the consideration. In addition, we have performed an analysis based on Comparable Companies when assessing the fairness of the consideration of the Acquisition. Based on our analysis, the implied P/E and P/B ratios of the Acquisition are lower than the range of P/E and P/B ratios of the Comparable Companies, respectively. We are of the view that the consideration for the Acquisition is fair and reasonable.

The Continuing Connected Transactions

Both the Procurement Transactions and the Deposit Services have been carried out between the Group and COFCO Group under the mutual supply agreement and the financial services agreement since the listing of the Company on the Stock Exchange in 2016, and the 2024 Mutual Supply Agreement and the 2024 Financial Services Agreement represent a continuation of such relationship. The Continuing Connected Transactions will bring in benefits to the Group and further details are discussed under the sub-sections headed "1. Reasons for and benefits of the Procurement Transactions" and "1. Reasons for and benefits of the Deposit Services" under the section headed "B. THE CONTINUING CONNECTED TRANSACTIONS" of this letter above. We concur with the Directors that the Procurement Transactions and the Deposit Services are in the interests of the Company and the Shareholders as a whole.

We have reviewed and performed due diligence work on the terms of the Continuing Connected Transactions. We are of the view that the terms of the Procurement Transactions and the Deposit Services are on normal commercial terms and are fair and reasonable.

We have also reviewed the basis of the proposed annual caps of the Continuing Connected Transactions, and we consider that the Proposed Procurement Caps and the Proposed Deposit Caps are fair and reasonable.

OPINION AND RECOMMENDATION

The Acquisition

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Acquisition are on normal commercial terms and are fair and reasonable; and (ii) although the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution(s) in relation to the Acquisition to be proposed at the EGM.

The Continuing Connected Transactions

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable; (ii) the Procurement Transactions are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) although the Deposit Services are not in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution(s) in relation to the Continuing Connected Transactions to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

* *For identification purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the years ended 31 December 2021, 2022 and 2023, together with the notes to the consolidated financial statements, are disclosed in the following documents, which are published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.cofcojoycome.com):

Annual report of the Company for the year ended 31 December 2021:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042500957.pdf

Annual report of the Company for the year ended 31 December 2022:

https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0425/2023042502897.pdf

Annual report of the Company for the year ended 31 December 2023:

https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0430/2024043002848.pdf

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 September 2024, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this circular, the total indebtedness of the Enlarged Group is summarised as follows:

	RMB'000
Bank borrowings	
– unsecured and unguaranteed	3,415,167
Loans from related companies	
– unsecured and unguaranteed	2,329,369
Lease liabilities	
– unsecured and unguaranteed	388,627
	6,133,163

Save as disclosed above, apart from the internal liabilities of the Enlarged Group and normal payables in the ordinary course of the Enlarged Group's business, the Enlarged Group did not have any other outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank or other borrowings, mortgages, pledges, bonds or other loan capital, bank overdrafts, loans or other similar indebtedness, guarantees, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or other finance lease commitments or other contingent liabilities as at 30 September 2024, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this circular.

3. STATEMENT OF WORKING CAPITAL

The Directors are of the view that, taking into account the Group's internal resources, operating cash flow, financing instruments and the impact of the Acquisition, and in the absence of unforeseen circumstances, the Group will have sufficient working capital to meet its present requirements for a period of 12 months from the date of this circular.

The Company has received a letter of confirmation from Baker Tilly in relation to the statement on the adequacy of the Group's working capital under Rule 14.66(12) of the Listing Rules.

4. FINANCIAL AND BUSINESS OUTLOOK

Currently, the Company focused on production management, vigorously explored channels and expedited to develop new quality productive forces, thereby ensuring steady development of each business: in terms of hog production segment, it worked on improving the level of biological breeding, intelligence and epidemic prevention, empowered its production and operation with technology to reduce cost and increase efficiency; in terms of fresh pork segment, it continued to make efforts into branded business, expanded the sales volume of linseed-fed pork, realizing a substantial decline in losses year on year; and in terms of processed meat products and meat import segment, it deepened internal synergy and gave play to its market analysis and supply chain advantages, significantly enhancing its profitability.

Looking ahead, the Company will continue to stick to its strategic focus through carrying out the following tasks:

Firstly, we will focus on operation to improve livestock output and production efficiency and reduce production cost from each link; and constantly optimize the futures hedging strategies to achieve organic combination of futures and spot commodities.

Secondly, we will strengthen management to systematically build an epidemic prevention system, further improve the level of refined management, narrow the performance gaps between farms, and consolidate the core competitive advantages.

Thirdly, we will optimize the layout to expedite expansion of core business; at the same time, we will improve the quality of layout, fully introduce intelligent breeding technology to new projects, solving the weakness points of hog farm management.

Fourth, we will prevent risks by establishing a safe production system, implementing food safety requirements and improving the green, low-carbon and sustainable development model.

Fifth, we will consolidate our team by improving talent training system and optimizing incentives to boost the team's vitality.

Upon the Acquisition, the Group will be able to further enhance the diversity of its revenue composition. From one end, utilizing different fluctuation cycles of the feed industry and the hog production industry, the Group can effectively reduce the impact of sector cyclicality; on the other end, through the expansion of breeding coverage apart from hog production, such as ruminants, poultry and aquaculture, the Group will further diversify its operational risks and enhance its overall risk-resistant capability. Upon completion of the Acquisition, the integration of both parties will further optimize the Group's financial indicators, enhance profitability and cash flow levels, improving the Group's overall competitiveness. Through the Acquisition, the Group will also integrate upstream high-quality resources, further improve the strategic layout of the entire industry value chain, strengthen the core strategic directions on cost dominance, technology-driven and brand leadership, gain new development momentum, and accelerate the building of a more competitive meat conglomerate with a comprehensive industry value chain.

bakertilly
天職國際

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF COFCO JIAHUA INDUSTRIAL LIMITED* AND ITS SUBSIDIARIES TO THE DIRECTORS OF COFCO JOYCOME FOODS LIMITED

Introduction

We report on the historical financial information of COFCO Jiahua Industrial Limited* (中糧嘉華實業有限公司) (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages 93 to 147, which comprises the consolidated statements of financial position as at 31 December 2021, 2022 and 2023 and 30 June 2024, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2024 (the "Relevant Periods") and material accounting policy information and other explanatory information (the "Historical Financial Information"). The Historical Financial Information set out on pages 93 to 147 forms an integral part of this report, which has been prepared for inclusion in the circular of COFCO Joycome Foods Limited (the "Company") dated 25 November 2024 (the "Circular") in connection with the proposed acquisition of 100% of equity interests of the Target Company by the Company (the "Proposed Acquisition").

Director's responsibility for the Historical Financial Information

The sole director of the Target Company is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 3 to the Historical Financial Information, and for such internal control as the sole director of the Target Company determines is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Group is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 3 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2021, 2022 and 2023 and 30 June 2024 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation set out in Note 3 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2023 and other explanatory information (the "Stub Period Comparative Financial Information"). The sole director of the Target Company is responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review 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 HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 3 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 92 have been made.

Dividends

We refer to Note 14 to the Historical Financial Information which contains information about the dividends declared or paid by the Target Company in respect of the Relevant Periods.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 25 November 2024

Wan Wing Ping
Practising certificate number P07471

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Renminbi)

		Year ended 31 December			Six months ended 30 June	
		2021	**2022**	**2023**	**2023**	**2024**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	*5*	6,980,792	7,679,488	8,496,194	3,922,018	3,247,473
Cost of sales	*10*	(6,437,997)	(7,219,467)	(7,861,607)	(3,658,202)	(2,968,886)
Gross profit		542,795	460,021	634,587	263,816	278,587
Other income	*7*	9,480	7,146	20,941	9,523	11,383
Other gains and losses	*8*	4,187	4,955	(1,239)	1,409	1,507
Selling and distribution expenses		(220,650)	(200,307)	(266,639)	(121,688)	(118,123)
Administrative expenses		(166,873)	(144,988)	(172,617)	(85,371)	(72,491)
Share of results of associates		83	230	932	412	502
Finance costs	*9*	(6,299)	(3,379)	(13,827)	(7,349)	(4,455)
Profit before tax	*10*	162,723	123,678	202,138	60,752	96,910
Income tax expense	*11*	(34,799)	(27,876)	(47,206)	(16,607)	(22,389)
Profit and total comprehensive income for the year/period		127,924	95,802	154,932	44,145	74,521
Profit and total comprehensive income attributable to:						
Owners of the Target Company		125,361	94,450	144,130	42,899	65,417
Non-controlling interests		2,563	1,352	10,802	1,246	9,104
		127,924	95,802	154,932	44,145	74,521

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Renminbi)

		As at 31 December			As at 30 June
		2021	**2022**	**2023**	**2024**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*16*	596,244	673,883	694,240	691,760
Right-of-use assets	*17*	95,712	100,981	90,726	96,761
Intangible assets	*18*	29,042	24,977	21,817	19,884
Investments in associates	*19*	3,771	21,001	21,933	18,610
Prepayments for purchase of property, plant and equipment		2,741	2,083	1,137	1,648
Time deposits	*26*	–	500,000	–	–
Deferred tax assets	*20*	8,808	8,813	7,383	8,006
		736,318	1,331,738	837,236	836,669
Current assets					
Inventories	*21*	470,310	582,439	404,652	376,690
Account receivables	*22*	100,243	198,011	72,604	101,773
Prepayments, deposits and other receivables	*23*	95,450	54,849	41,314	62,726
Financial assets at fair value through profit or loss	*24*	10,623	–	–	–
Amounts due from related companies	*25*	159,163	185,504	412,349	315,615
Restricted bank deposits	*26*	4,216	2,390	–	–
Time deposits	*26*	–	–	500,000	500,000
Cash and bank balances	*26*	228,576	264,158	394,620	264,489
		1,068,581	1,287,351	1,825,539	1,621,293
Current liabilities					
Account and bills payables	*27*	271,247	449,518	321,328	270,700
Other payables, accruals and deposits received	*28*	216,347	193,671	261,715	263,808
Lease liabilities	*29*	12,002	11,371	3,261	2,447
Contract liabilities	*30*	118,928	106,191	77,819	80,897
Bank borrowings	*31*	500	516,010	455,340	284,173
Amounts due to related companies	*25*	39,879	63,458	104,136	109,732
Current tax liabilities		10,673	11,278	16,573	12,447
		669,576	1,351,497	1,240,172	1,024,204

		As at 31 December			As at 30 June
		2021	2022	2023	2024
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net current assets/(liabilities)		399,005	(64,146)	585,367	597,089
Total assets less current liabilities		1,135,323	1,267,592	1,422,603	1,433,758
Non-current liabilities					
Bank borrowings	*31*	–	20,277	–	–
Deferred income	*32*	2,431	2,286	1,154	1,078
Deferred tax liabilities	*20*	67	51	109	114
Lease liabilities	*29*	9,967	9,029	2,052	1,718
		12,465	31,643	3,315	2,910
Net assets		1,122,858	1,235,949	1,419,288	1,430,848
Capital and reserves					
Paid-in capital	*33*	303,000	303,000	303,000	303,000
Reserves		806,882	901,332	1,047,293	1,038,560
Equity attributable to the owners of the Target Company		1,109,882	1,204,332	1,350,293	1,341,560
Non-controlling interests		12,976	31,617	68,995	89,288
Total equity		1,122,858	1,235,949	1,419,288	1,430,848

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Renminbi)

	Attributable to the owners of the Target Company						
	Share capital *RMB'000*	**Capital reserve** *RMB'000*	**Statutory reserve** *RMB'000* *(Note)*	**Retained profits** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2021	303,000	693,030	40,136	(51,645)	984,521	12,807	997,328
Profit and total comprehensive income for the year	–	–	–	125,361	125,361	2,563	127,924
Statutory reserve appropriation	–	–	10,196	(10,196)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	(2,394)	(2,394)
At 31 December 2021 and 1 January 2022	303,000	693,030	50,332	63,520	1,109,882	12,976	1,122,858
Profit and total comprehensive income for the year	–	–	–	94,450	94,450	1,352	95,802
Statutory reserve appropriation	–	–	7,850	(7,850)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	(2,311)	(2,311)
Capital injection from non-controlling interests of subsidiaries	–	–	–	–	–	19,600	19,600
At 31 December 2022 and 1 January 2023	303,000	693,030	58,182	150,120	1,204,332	31,617	1,235,949
Profit and total comprehensive income for the year	–	–	–	144,130	144,130	10,802	154,932
Statutory reserve appropriation	–	–	13,919	(13,919)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	(1,226)	(1,226)
Partial disposal of interests in a subsidiary without loss of control *(Note 38)*	–	1,831	–	–	1,831	27,802	29,633
At 31 December 2023	303,000	694,861	72,101	280,331	1,350,293	68,995	1,419,288

	Attributable to the owners of the Target Company						
	Paid-in capital	**Capital reserve**	**Statutory reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2024	303,000	694,861	72,101	280,331	1,350,293	68,995	1,419,288
Profit and total comprehensive income for the period	–	–	–	65,417	65,417	9,104	74,521
Dividend paid to non-controlling interests	–	–	–	–	–	(8,411)	(8,411)
Dividends recognised as distribution *(Note 14)*	–	–	–	(69,017)	(69,017)	–	(69,017)
Distribution to parent company	–	(5,133)	–	–	(5,133)	–	(5,133)
Capital injection from non-controlling interests of subsidiaries	–	–	–	–	–	19,600	19,600
At 30 June 2024	303,000	689,728	72,101	276,731	1,341,560	89,288	1,430,848
At 1 January 2023 (audited)	303,000	693,030	58,182	150,120	1,204,332	31,617	1,235,949
Profit and total comprehensive income for the period (unaudited)	–	–	–	42,899	42,899	1,246	44,145
Partial disposal of interests in a subsidiary without loss of control (unaudited)	–	1,831	–	–	1,831	27,802	29,633
At 30 June 2023 (unaudited)	303,000	694,861	58,182	193,019	1,249,062	60,665	1,309,727

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended 31 December 2023
(Expressed in Renminbi)

		Year ended 31 December			Six months ended 30 June	
		2021	2022	2023	2023	2024
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Operating activities						
Profit for the year/period		127,924	95,802	154,932	44,145	74,521
Adjustments for:						
Income tax expense		34,799	27,876	47,206	16,607	22,389
Interest income	7	(5,892)	(4,108)	(16,570)	(7,906)	(8,600)
Finance costs	9	6,299	3,379	13,827	7,349	4,455
Depreciation of property, plant and equipment	10	48,443	51,847	63,933	30,419	33,862
Depreciation of right-of-use assets	10	14,858	13,641	14,479	6,962	4,692
Amortisation of intangible assets	10	4,994	4,941	4,947	2,475	2,585
Recognition of deferred income		(446)	(145)	(1,132)	(78)	(76)
Loss on disposal of property, plant and equipment, net	8	68	264	586	112	719
Impairment loss, net of reversal	8					
– account receivables, net		(4,232)	(550)	(2,410)	(59)	(50)
– other receivables, net		219	(3,593)	(114)	(79)	(68)
Waiver of account payables		–	(931)	(1,733)	(181)	(1,175)
Share of results of associates		(83)	(230)	(932)	(412)	(502)
Write-down/(reversal of write-down) of inventories to net realisable value	8	98	(9)	(913)	(737)	–
Unrealised gain on derivative financial instruments, net		10,623	–	–	3,587	–
Operating cash flows before movements in working capital		237,672	188,184	276,106	102,204	132,752
(Increase)/decrease in account receivables		(104,475)	(98,318)	122,997	100,453	(29,219)
(Increase)/decrease in prepayments, deposits and other receivables		(90,249)	44,593	13,534	(69,209)	(21,412)
(Increase)/decrease in inventories		(82,759)	(112,138)	176,874	156,902	27,962
(Increase)/decrease in amounts due from related companies		(159,163)	(26,341)	(226,845)	(231,233)	96,734
Increase/(decrease) in account and bills payables		271,247	202,049	(115,769)	(118,598)	(49,453)
Increase/(decrease) in other payables, accruals and deposits received		211,811	(23,903)	56,958	43,191	(1,763)
Increase in amounts due to related companies		39,879	21,614	42,989	35,417	5,596
Increase/(decrease) in contract liabilities		114,465	(12,737)	(28,371)	(19,669)	3,078
Changes in derivative financial instruments		5,949	(10,623)	–	–	–
Cash generated from/(used in) operations		444,377	172,380	318,473	(542)	164,275
Income tax paid		(29,933)	(27,292)	(40,896)	(17,054)	(27,133)
Net cash generated from/(used in) operating activities		414,444	145,088	277,577	(17,596)	137,142

		Year ended 31 December			Six months ended 30 June	
		2021	2022	2023	2023	2024
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Investing activities						
Interest received		5,892	4,108	16,570	7,906	8,600
Payments for property, plant and equipment		(81,299)	(126,114)	(72,466)	(26,342)	(29,084)
Capital injection on investments in associates		–	(17,000)	–	–	–
Payments for right-of-use assets		–	(21,971)	(8,875)	(36)	(12,027)
Payments for intangible assets		–	(876)	(1,787)	(312)	(652)
Proceeds from disposal of property, plant and equipment		2,952	340	793	310	488
Placement of time deposits with original maturity over three months		–	(500,000)	–	–	–
Placement of restricted bank deposits		(4,216)	–	–	–	–
Withdrawal of restricted bank deposits		–	1,826	2,390	2,390	–
Net cash used in investing activities		(76,671)	(659,687)	(63,375)	(16,084)	(32,675)
Financing activities						
Dividend paid to non-controlling interests		(2,394)	–	(3,538)	–	(8,411)
Dividend paid		–	–	–	–	(69,017)
Interest paid		(4,899)	(2,651)	(12,821)	(6,798)	(4,455)
New bank borrowings		–	536,287	–	184,790	–
Repayments of bank borrowings		(249,267)	(500)	(80,947)	–	(170,528)
Repayments of lease liabilities		(26,634)	(2,549)	(16,093)	(4,902)	(1,787)
Loans from related companies		–	70,000	–	–	–
Repayments of loans from related companies		–	(70,000)	–	–	–
Partial disposal of interest in a subsidiary without losing control		–	–	29,633	29,633	–
Capital injection from non-controlling interests		–	19,600	–	–	19,600
Net cash (used in)/generated from financing activities		(283,194)	550,187	(83,766)	202,723	(234,598)
Net increase/(decrease) in cash and cash equivalents		54,579	35,588	130,436	169,043	(130,131)
Cash and cash equivalents at beginning of the year/period		174,219	228,576	264,158	264,158	394,620
Effect of foreign exchange rate changes		(222)	(6)	26	–	–
Total cash and cash equivalents at end of the year/period		228,576	264,158	394,620	433,201	264,489
Analysis of the balances of cash and cash equivalents						
Cash and bank balances at end of the year/period	*26*	228,576	264,158	394,620	433,201	264,489

NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

(Expressed in Renminbi)

1 GENERAL INFORMATION

The Target Company was established in the PRC as a limited liability company on 3 January 2018. Its registered office is located at Room 1803, No. 8, Chao Yang Men South Street, Chao Yang District, Beijing, the PRC.

The Target Group is principally engaged in manufacture and sales of feed products in the PRC.

The Target Group is controlled by COFCO Industry Investment Co., Ltd.* (中糧產業投資有限公司) ("COFCO Industry"), a subsidiary of COFCO Corporation, which is a state-owned enterprise registered in the PRC. The sole director of the Target Company regards COFCO Industry and COFCO Corporation as the immediate and ultimate holding company of the Target Company.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Group has consistently adopted the HKFRSs issued by the HKICPA which are effective for the Target Group's financial period beginning on 1 January 2024 throughout the Relevant Periods.

New and amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments[3]
Amendment to HKAS 21	Lack of Exchangeability[2]
HKFRS 18	Presentation and Disclosure in Financial Statements[4]
HKFRS 19	Subsidiaries without Public Accountability: Disclosures[4]

1 Effective for annual periods beginning on or after a date to be determined.

2 Effective for annual periods beginning on or after 1 January 2025.

3 Effective for annual periods beginning on or after 1 January 2026.

4 Effective for annual periods beginning on or after 1 January 2027.

The sole director of the Target Company anticipates that the application of the above new and amendments to HKFRSs will have no material impact on the Historical Financial Information in the foreseeable future.

3 BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION AND MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Basis of preparation of Historical Financial Information

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Company Ordinance.

The Historical Financial Information has been prepared under the historical cost convention.

The Stub Period Comparative Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

3.2 Material accounting policy information

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Target Company and entities controlled by the Target Company and its subsidiaries. Control is achieved when the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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

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

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

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

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

Changes in the Target Group's interests in existing subsidiaries

Changes in the Target Group's interests in subsidiaries that do not result in the Target Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Target Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Target Group and the non-controlling interests according to the Target Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Target Company.

When the Target Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Target Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Target Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 "Financial Instruments" ("HKFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates

An associate is an entity over which the Target Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the Historical Financial Information using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Target Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Target Group's share of the profit or loss and other comprehensive income of the associate. When the Target Group's share of losses of an associate exceeds the Target Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Target Group's net investment in the associate), the Target Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Target Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The Target Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Target Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Target Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Target Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Target Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Target Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate. When a Target Group entity transacts with an associate of the Target Group, profits and losses resulting from the transactions with the associate are recognised in the Historical Financial Information only to the extent of interests in the associate that are not related to the Target Group.

Revenue from contracts with customers

Information about the Target Group's accounting policies relating to contracts with customers is provided in Notes 5, 22 and 30.

Leases

Definition of a lease

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

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

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Target Group reasonably expects that the effects on the Historical Financial Information would not differ materially from individual leases within the portfolio.

The Target Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Target Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

The Target Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Target Group applies the short-term lease recognition exemption to leases of lands, offices, warehouses and dormitories that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

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

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

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

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

The Target Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

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

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

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

The Target Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

Foreign currencies

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

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

Borrowing costs

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

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

Government grants

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

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

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

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

Employee benefits

Retirement benefit costs

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

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

Short-term employee benefits

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

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

Taxation

Income tax expense represents the sum of current and deferred income tax expense.

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

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

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

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Target Group applies HKAS 12 Income Taxes requirements to the lease liabilities and the related assets separately. The Target Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or for administrative purposes (other than construction in progress, as described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress, which represents assets in the course of construction for production, supply of goods and services or administrative purposes, is carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs recognised in accordance with the Target Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Target Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on property, plant and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Target Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Target Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Target Group must incur to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when an entity in the Target Group becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for account receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Target Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Target Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Target Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Target Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including account receivables, deposits, other receivables, amounts due from related companies and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Target Group always recognises lifetime ECL for account receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Target Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Target Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Target Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

Irrespective of the above, the Target Group considers that default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Target Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of account receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Target Group uses a practical expedient in estimating ECL on account receivables using a provision matrix taking into consideration historical credit loss experience and forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for account receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Target Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of account receivables, other receivables and amounts due from related parties where the corresponding adjustment is recognised through a loss allowance account.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the "Other gains and losses" line item (Note 8) as part of the foreign exchange gains/(losses), net;
- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the "Other gains and losses" line item as part of the gain/(loss) from realised and unrealised gain/(loss) on fair value charges in respect of commodity futures contracts, net (Note 8).

Derecognition of financial assets

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or it is designated as at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including account and bills payables, other payables, bank borrowings and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the "Other gains and losses" line item in profit or loss (Note 8) as part of foreign exchange gains/(losses), net for financial liabilities that are not part of a designated hedging relationship.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

4 KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in Note 3, the sole director of the Target Company is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of property, plant and equipment and right-of-use assets

The carrying values of property, plant and equipment and right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable or events previously causing the impairment no longer exist in accordance with the accounting policies as disclosed in the relevant parts in Note 3. The recoverable amounts of the property, plant and equipment and right-of-use assets are the higher of the fair value less costs of disposal and value in use.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Target Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the fair value less costs of disposal or the value in use, i.e. the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the carrying amounts of property, plant and equipment are RMB596,244,000, RMB673,883,000, RMB694,240,000 and RMB691,760,000 respectively.

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the carrying amounts of right-of-use assets are RMB95,712,000, RMB100,981,000, RMB90,726,000 and RMB96,761,000 respectively.

5 REVENUE

Disaggregation of revenue from contracts with customers:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Types of goods					
Sales of feed	6,980,792	7,679,488	8,496,194	3,922,018	3,247,473
Geographical market					
Mainland China	6,980,792	7,679,488	8,496,194	3,922,018	3,247,473
Timing of revenue recognition					
A point in time	6,980,792	7,679,488	8,496,194	3,922,018	3,247,473

Performance obligations for contracts with customers and revenue recognition policies

The Target Group sells feed in the Mainland China. Revenue is recognised when control of the goods has transferred, being at the point when the goods have been delivered to the customers at the locations agreed between the Target Group and the customers.

Except for certain reputable customers, the Target Group requires full prepayments from customers. For credit sales, the normal credit term is within 180 days from delivery.

All contracts are for periods of one year or less. As permitted by HKFRS 15, the transaction price allocated to the unsatisfied performance obligations is not disclosed.

6 SEGMENT INFORMATION

Information reported to the sole director of the Target Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods provided. The CODM of the Target Company reviews revenue by respective products and the consolidated financial statements of the Target Group prepared in accordance with HKFRSs as a whole. No further discrete financial information is available. Accordingly, no operating segments information is presented other than entity-wide disclosures.

Geographical information

All of the revenue of the Target Group is derived from Mainland China based on location of the operations for years ended 31 December 2021, 2022 and 2023 and six months ended 30 June 2023 and 2024.

All the Target Group's non-current assets (excluding deferred tax assets) as at 31 December 2021, 2022 and 2023 and 30 June 2024 are located in the Mainland China based on geographical location of the assets.

Information about major customers

No revenue from transactions with any single external customer amounted to 10% or more of the Target Group's revenue for the years ended 31 December 2021, 2022 and 2023 and six months ended 30 June 2023 and 2024.

7 OTHER INCOME

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

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Interest income from banks	5,887	1,238	13,313	6,681	6,653
Interest income from a related company*	5	2,870	3,257	1,225	1,947
	5,892	4,108	16,570	7,906	8,600
Government grants**	3,588	3,038	4,371	1,617	2,783
	9,480	7,146	20,941	9,523	11,383

* The amount represents interest income for deposits placed in a non-banking financial institution, COFCO Finance Corporation Limited ("COFCO Finance"), a subsidiary of COFCO Corporation. Details of the deposits are set out in Note 26 and Note 43.

** Government grants related to acquisition of lands use rights and acquisition/construction of property, plant and equipment projects are included in deferred income and are credited to profit or loss on a systematic basis over the useful lives of the related assets. Further details are disclosed in Note 32. Included in the above balances are government grants released from deferred income of RMB446,000, RMB145,000, RMB1,132,000, RMB78,000 and RMB76,000 for the years ended 31 December 2021, 2022 and 2023 and six months ended 30 June 2023 and 2024 respectively.

8 OTHER GAINS AND LOSSES

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

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Exchange (loss)/gain, net	(222)	(6)	26	–	–
Loss on disposal of property, plant and equipment, net	(68)	(264)	(586)	(112)	(719)
(Write-down)/reversal of write-down of inventories to net realisable value	(98)	9	913	737	–
Reversal of provision of impairment on account receivables, net	4,232	550	2,410	59	50
(Provision of)/reversal of provision of impairment on other receivables, net	(219)	3,593	114	79	68
Waiver of account payables	–	931	1,733	181	1,175
Provision for litigation *(Note 46)*	–	–	(6,910)	–	–
Insurance claims	340	116	977	434	613
Others	222	26	84	31	320
	4,187	4,955	(1,239)	1,409	1,507

9 FINANCE COSTS

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

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Interest on:					
Bank borrowings	4,899	2,305	12,821	6,798	3,816
Loans from related companies *(Note 25)*	–	346	–	–	–
Lease liabilities from related companies	443	227	335	221	–
Lease liabilities from third parties	957	753	671	330	639
Total borrowing costs	6,299	3,631	13,827	7,349	4,455
Less: Borrowing costs capitalised in the cost of qualifying assets	–	(252)	–	–	–
	6,299	3,379	13,827	7,349	4,455

Borrowing costs capitalised during the year ended 31 December 2022 arose on the specific borrowings with interest rates ranging from 3.45% to 3.9% per annum.

10 PROFIT BEFORE TAX

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

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Cost of inventories recognised as expenses	6,460,194	7,241,917	7,868,378	3,658,314	2,980,118
Realised and unrealised gain on fair value changes in respect of commodity futures contracts, net	(22,197)	(22,450)	(6,771)	(112)	(11,232)
Total cost of sales	6,437,997	7,219,467	7,861,607	3,658,202	2,968,886
Employee benefits expenses (including the director's emoluments as disclosed in Note 12):					
Salaries and other allowances	328,757	323,169	377,884	193,095	161,624
Retirement benefit schemes contributions	23,631	25,852	28,785	12,912	15,402
Less: Capitalised in construction in progress	(1,052)	(1,553)	(599)	(187)	(355)
	351,336	347,468	406,070	205,820	176,671

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Depreciation of property, plant and equipment	48,443	51,847	63,933	30,419	33,862
Depreciation of right-of-use assets	14,858	13,641	14,479	6,962	4,692
Amortisation of intangible assets	4,994	4,941	4,947	2,475	2,585
Total depreciation and amortisation	68,295	70,429	83,359	39,856	41,139
Auditors' remuneration	599	700	682	–	–

11 INCOME TAX EXPENSE

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

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Current tax:					
PRC Enterprise Income Tax (the "EIT")	35,979	29,600	47,135	19,636	23,575
Over provision in prior years/periods:					
PRC Enterprise Income Tax	(1,373)	(1,703)	(1,417)	(1,975)	(568)
	34,606	27,897	45,718	17,661	23,007
Deferred tax:					
Current year/period *(Note 20)*	193	(21)	1,488	(1,054)	(618)
	34,799	27,876	47,206	16,607	22,389

No provision for Hong Kong Profits Tax has been made as the Target Group had no assessable profit generated in Hong Kong for the years ended 31 December 2021, 2022, 2023 and six months ended 30 June 2023 and 2024.

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 years ended 31 December 2021, 2022, 2023 and six months ended 30 June 2023 and 2024.

Certain subsidiaries were granted lower tax rates by the state tax bureau in accordance with the EIT Law and the corresponding transitional tax concession policy and "The notice of tax policies relating to the implementation of the western China development strategy" during the years ended 31 December 2021, 2022, 2023 and six months ended 30 June 2023 and 2024.

Income tax expense for the Relevant Periods can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Profit before tax	162,723	123,678	202,138	60,752	96,910
Tax at the domestic income tax rate of 25%*	40,681	30,919	50,535	15,187	24,227
Effect of tax concessions	(1,278)	(1,901)	(5,614)	(127)	(170)
Effect of expenses not deductible for tax purpose	197	2,536	2,181	1,196	836
Tax effect of income not taxable for tax purpose	(897)	(760)	(1,093)	(404)	(696)
Tax effect of share of results of associates	(21)	(57)	(233)	(103)	(125)
Tax losses utilised from previous periods	(3,257)	(1,158)	(3,470)	(73)	(1,115)
Tax effect of tax losses not recognised	747	–	6,317	2,906	–
Over provision in prior years	(1,373)	(1,703)	(1,417)	(1,975)	(568)
Income tax expense for the year/period	34,799	27,876	47,206	16,607	22,389

* The domestic tax rate (which is the EIT rate) in the jurisdiction where the operation of the Target Group is substantially based is used.

12 DIRECTOR'S EMOLUMENTS

Director's emoluments for the years/periods, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, are as follows:

		Other emoluments			
	Directors' fees	**Salaries and other allowances**	**Retirement benefit scheme contributions**	**Bonus**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2021					
QING Lijun *(note (a))*	–	–	–	–	–
DONG Shungang *(note (b))*	–	875	167	796	1,838
	–	875	167	796	1,838

		Other emoluments			
	Directors' fees	**Salaries and other allowances**	**Retirement benefit scheme contributions**	**Bonus**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2022					
DONG Shungang	–	874	186	1,600	2,660

		Other emoluments			
	Directors' fees	Salaries and other allowances	Retirement benefit scheme contributions	Bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2023					
DONG Shungang	–	729	193	1,479	2,401

		Other emoluments			
	Directors' fees	Salaries and other allowances	Retirement benefit scheme contributions	Bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2023 (Unaudited)					
DONG Shungang	–	363	103	960	1,426

		Other emoluments			
	Directors' fees	Salaries and other allowances	Retirement benefit scheme contributions	Bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2024					
DONG Shungang	–	360	90	–	450

The director's emoluments shown above were for his services in connection with the management of the affairs of the Target Company and the Target Group.

Notes:

(a) QING Lijun was resigned as a director of the Target Company on 25 February 2021.

(b) DONG Shungang was appointed as a director of the Target Company on 25 February 2021.

Bonus, including annual performance bonus and tenure incentive, is determined by reference to the market, individual performance and director's respective contribution to the Target Group. For the years ended 31 December 2021, 2022, 2023 and six months ended 30 June 2023 and 2024, the Target Company focused on the payment of tenure incentive.

During the years ended 31 December 2021, 2022 and 2023 and six months ended 30 June 2023 and 2024, no director of the Target Company waived or agreed to waive any emoluments, and no emoluments was paid to the sole director of the Target Company as an inducement to join or upon joining the Target Group or as compensation for loss of office.

13 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Target Group for the years ended 31 December 2021, 2022 and 2023 and six months ended 30 June 2023 and 2024 included 1, 1, 1, 1 and nil director of the Target Company, details of whose emoluments are set out in Note 12 above. Details of the emoluments of the 4, 4, 4, 4 and 5 highest paid employees for the years ended 31 December 2021, 2022 and 2023 and six months ended 30 June 2023 and 2024 who are not the sole director of the Target Company are as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	1,823	1,836	1,009	478	816
Bonus	3,639	3,858	4,612	3,300	3,699
Retirement benefit schemes contributions	218	229	156	53	142
	5,680	5,923	5,777	3,831	4,657

The number of the highest paid employees who are not the sole director of the Target Company whose emoluments fell within the following bands is as follows:

	Number of individual				
	Year ended 31 December			**Six months ended 30 June**	
	2021	**2022**	**2023**	**2023**	**2024**
				(Unaudited)	
Hong Kong Dollar ("HKD") Nil to HKD1,000,000	–	–	–	1	1
HKD1,000,001 to HKD1,500,000	2	2	3	3	4
HKD1,500,001 to HKD2,000,000	1	1	1	–	–
HKD2,000,001 to HKD2,500,000	1	1	–	–	–
	4	4	4	4	5

14 DIVIDENDS

	Year ended 31 December			**Six months ended 30 June**	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Dividends recognised as distributions during the year/period	–	–	–	–	69,017

15 EARNINGS PER SHARE

No earnings per share information for the Relevant Periods are presented as its inclusion, for the purpose of this report, is not meaningful.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2021	441,937	9,548	337,829	46,776	25,043	415	861,548
Additions	4,604	5,427	22,490	6,164	8,447	32,068	79,200
Disposal	(36)	(1,034)	(2,110)	(7,052)	(3,744)	–	(13,976)
At 31 December 2021 and 1 January 2022	446,505	13,941	358,209	45,888	29,746	32,483	926,772
Additions	5,270	4,688	25,316	7,394	2,518	84,904	130,090
Transfer	85,816	–	31,264	–	–	(117,080)	–
Disposals	–	(2,249)	(607)	(834)	(683)	(138)	(4,511)
At 31 December 2022 and 1 January 2023	537,591	16,380	414,182	52,448	31,581	169	1,052,351
Additions	9,996	6,280	34,866	11,023	2,412	21,092	85,669
Transfer	11,479	–	85	–	–	(11,564)	–
Disposals	(350)	(899)	(2,267)	(4,067)	(1,575)	–	(9,158)
At 31 December 2023 and 1 January 2024	558,716	21,761	446,866	59,404	32,418	9,697	1,128,862
Additions	1,558	2,510	8,758	2,504	126	17,133	32,589
Transfer	–	–	2,066	–	–	(2,066)	–
Disposals	(1,166)	(225)	(2,556)	(568)	(1,515)	–	(6,030)
At 30 June 2024	559,108	24,046	455,134	61,340	31,029	24,764	1,155,421
Depreciation and impairment:							
At 1 January 2021	113,251	2,667	131,506	30,037	15,580	–	293,041
Depreciation charge for the year	15,110	2,414	23,425	5,235	2,259	–	48,443
Eliminated on disposals	(32)	(962)	(1,475)	(5,264)	(3,223)	–	(10,956)
At 31 December 2021 and 1 January 2022	128,329	4,119	153,456	30,008	14,616	–	330,528
Depreciation charge for the year	15,274	4,122	24,472	4,829	3,150	–	51,847
Eliminated on disposals	–	(2,209)	(319)	(754)	(625)	–	(3,907)
At 31 December 2022 and 1 January 2023	143,603	6,032	177,609	34,083	17,141	–	378,468
Depreciation charge for the year	19,432	5,157	29,833	5,851	3,660	–	63,933
Eliminated on disposals	(39)	(899)	(1,615)	(3,801)	(1,425)	–	(7,779)
At 31 December 2023 and 1 January 2024	162,996	10,290	205,827	36,133	19,376	–	434,622
Depreciation charge for the period	9,937	3,096	16,214	3,060	1,555	–	33,862
Eliminated on disposals	(470)	(225)	(2,172)	(540)	(1,416)	–	(4,823)
At 30 June 2024	172,463	13,161	219,869	38,653	19,515	–	463,661

	Buildings	Leasehold improvements	Equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying values:							
At 31 December 2021	318,176	9,822	204,753	15,880	15,130	32,483	596,244
At 31 December 2022	393,988	10,348	236,573	18,365	14,440	169	673,883
At 31 December 2023	395,720	11,471	241,039	23,271	13,042	9,697	694,240
At 30 June 2024	386,645	10,885	235,265	22,687	11,514	24,764	691,760

The above items of property, plant and equipment, except for construction in progress, after taking into account any residual value, are depreciated on a straight-line basis at the following rates per annum:

Buildings	1.8% to 19%
Leasehold improvements	10% to 25% (over the shorter of the term of the lease and estimated useful life)
Equipment	4.5% to 47.5%
Furniture and fixtures	9% to 19%
Motor vehicles	9% to 19%

17 RIGHT-OF-USE ASSETS

	Lands	Properties	Total
	RMB'000	*RMB'000*	*RMB'000*
Carrying amounts			
As at 31 December 2021	75,557	20,155	95,712
As at 31 December 2022	79,455	21,526	100,981
As at 31 December 2023	83,369	7,357	90,726
As at 30 June 2024	92,434	4,327	96,761
Depreciation charges			
For the year ended 31 December 2021	3,163	11,695	14,858
For the year ended 31 December 2022	3,332	10,309	13,641
For the year ended 31 December 2023	3,529	10,950	14,479
For six months ended 30 June 2023	1,668	5,294	6,962
For six months ended 30 June 2024	1,662	3,030	4,692

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Expense relating to short-term leases	3,103	4,282	4,250	4,381	3,367
Variable lease payments not included in the measurement of lease liabilities	10,445	12,326	12,156	3,697	3,583
Total cash outflow for leases	26,635	51,099	25,499	10,898	7,302
Additions to right-of-use assets	–	21,971	8,875	36	12,027

The Target Group leases lands and buildings for its operations. Lease contracts are entered into for fixed term of 1 to 50 years for the years ended 31 December 2021, 2022 and 2023 and six months ended 30 June 2024. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Target Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Target Group owns several industrial buildings where its feed storage facilities are primarily located and office buildings. The Target Group is the registered owner of these property interests, including the underlying leasehold lands. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Target Group regularly entered into short-term leases for buildings. As 31 December 2021, 2022 and 2023 and six months ended 30 June 2024, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Leases of industrial buildings and office buildings contain variable lease payments that are based on production volume. The payment terms are common in industrial buildings and office buildings in the PRC where the Target Group operates. The overall financial effect of using variable payment terms is that higher rental costs are incurred by feed storage facilities with higher production volume. Variable rent expenses are expected to continue to represent a similar proportion of production volume in future years.

18 INTANGIBLE ASSETS

The Target Group's intangible assets comprise purchased computer software.

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At beginning of the reporting period	52,754	51,964	52,840	54,627
Additions	–	876	1,787	652
Disposals	(790)	–	–	–
At end of the reporting period	51,964	52,840	54,627	55,279
Accumulated amortisation:				
At beginning of the reporting period	18,032	22,922	27,863	32,810
Amortisation provided during the year/period	4,994	4,941	4,947	2,585
Eliminated on disposals	(104)	–	–	–
At end of the reporting period	22,922	27,863	32,810	35,395
Carrying values:				
At end of the reporting period	29,042	24,977	21,817	19,884

Purchased computer software is stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 10 years.

19 INVESTMENTS IN ASSOCIATES

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of investments in associates	8,500	25,500	25,500	17,000
Share of undistributed post-acquisition reserves	(4,729)	(4,499)	(3,567)	1,610
	3,771	21,001	21,933	18,610

Details of the Target Group's associates as at the end of each reporting period are as follows:

		Attributable Interest held by the Target Group				
		At 31 December			At 30 June	
Name of entity	Place of incorporation/ establishment and principal country of operations	2021	2022	2023	2024	Principal activities
中糧生物科技(北京)有限公司 (COFCO Biotechnology (Beijing) Co., Ltd.*)	PRC/PRC	37.78%	37.78%	37.78%	– *(Note (ii))*	Technology development of feed products
現代飼料(天津)有限公司 Modern Feed (Tianjin) Co., Ltd.*)	PRC/PRC	–	34.00% *(Note (i))*	34.00%	34.00%	Sales of feed

Notes:

(i) Modern Feed (Tianjin) Co., Ltd. was incorporated in 2022. The Target Group injected capital of RMB17,000,000 and held 34.00% equity interest of Modern Feed (Tianjin) Co., Ltd.

(ii) On 27 June 2024, the Target Group's equity interest 37.78% of COFCO Biotechnology (Beijing) Co., Ltd. was disposed of to a fellow subsidiary through gratuitous transfer.

The above associates were not individually material to the Target Group.

20 DEFERRED TAX ASSETS/LIABILITIES

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	8,808	8,813	7,383	8,006
Deferred tax liabilities	67	51	109	114

The following are the major deferred tax assets/(liabilities) recognised and movements thereon during each reporting period:

	Impairment for account and other receivables	Tax losses	Fair value adjustment	Others	Write-down of inventories	Right-of-use assets	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	6,641	1,224	–	1,069	–	(3,361)	3,361	8,934
Credited/(charged) to profit or loss	(1,986)	(1,044)	(51)	2,827	–	77	(16)	(193)
At 31 December 2021 and 1 January 2022	4,655	180	(51)	3,896	–	(3,284)	3,345	8,741
Credited/(charged) to profit or loss	1,598	(180)	51	(1,413)	39	(39)	(35)	21
At 31 December 2022 and 1 January 2023	6,253	–	–	2,483	39	(3,323)	3,310	8,762
Credited/(charged) to profit or loss	(2,123)	–	–	440	279	(26)	(58)	(1,488)
At 31 December 2023 and 1 January 2024	4,130	–	–	2,923	318	(3,349)	3,252	7,274
Credited/(charged) to profit or loss	–	271	–	15	348	(11)	(5)	618
At 30 June 2024	4,130	271	–	2,938	666	(3,360)	3,247	7,892

The Target Group has unrecognised tax losses of RMB335,376,000, RMB120,303,000, RMB73,071,000 and RMB66,176,000 for the years ended 31 December 2021, 2022, 2023 and six-months ended 30 June 2024 in the PRC which will expire during the financial years 2024 to 2029 and unrecognised deductible temporary differences in relation to impairment of account receivables, other receivables and write-down of inventories to net realisable values of RMB4,654,000, RMB6,293,000, RMB4,450,000 and RMB4,796,000 available for offset against future taxable income for the years ended 31 December 2021, 2022, 2023 and six-months ended 30 June 2024.

As at 31 December 2021, 2022, 2023 and 30 June 2024, deferred tax assets of RMB3,345,000, RMB3,310,000, RMB3,252,000 and RMB3,247,000 have been recognised in respect of deductible temporary differences associated with lease liabilities. As at 31 December 2021, 2022, 2023 and 30 June 2024, no deferred tax assets have been recognised in respect of the tax losses and deductible temporary differences, as they have arisen in subsidiaries that it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

As at 31 December 2021, 2022, 2023 and as at 30 June 2024, deferred tax liabilities of RMB51,000, RMBNil, RMBNil and RMBNil has been recognised in respect of taxable temporary differences on fair value adjustment on derivative financial instruments, deferred tax liabilities of RMB16,000, RMB51,000, RMB109,000 and RMB114,000 has been recognised in respect of taxable temporary differences associated with right-of-use assets and deferred tax assets of RMB180,000, RMBNil, RMBNil and RMB271,000 has been recognised in respect of the tax losses and deductible temporary differences.

The unrecognised tax losses will expire in the following years:

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
To be expired on:				
31 December 2022	102,114	–	–	–
31 December 2023	126,964	67,409	–	–
31 December 2024	80,561	37,920	35,167	32,449
31 December 2025	19,162	9,520	9,520	6,184
31 December 2026	6,575	2,949	1,925	1,084
31 December 2027	–	2,505	1,191	1,191
31 December 2028	–	–	25,268	25,268
Total unused tax losses not recognised as deferred tax assets	335,376	120,303	73,071	66,176

21 INVENTORIES

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials and consumables	362,742	435,358	281,617	273,202
Work in progress	8,014	11,863	6,690	5,583
Finished goods	99,554	135,218	116,345	97,905
	470,310	582,439	404,652	376,690

22 ACCOUNT RECEIVABLES

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Account receivables from contracts with customers	142,005	239,223	98,072	127,191
Less: Allowance for credit losses	(41,762)	(41,212)	(25,468)	(25,418)
Total account receivables	100,243	198,011	72,604	101,773

As at 1 January 2021, account receivables from contracts with customers amounted to RMB116,200,000 (net of allowance for credit losses of RMB45,994,000).

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

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	97,085	198,008	71,630	96,545
90 to 180 days	3,158	–	–	60
180 days to 1 year	–	3	–	5,168
Over 1 year	–	–	974	–
	100,243	198,011	72,604	101,773

As at 31 December 2021, 2022, 2023 and 30 June 2024, included in the Target Group's account receivables balance are debtors with aggregate carrying amount of RMBNil, RMB3,000, RMB974,000 and RMB5,168,000 which are past due as at the reporting date respectively. Out of the past due balances, RMBNil, RMB3,000, RMB974,000 and RMB5,168,000 has been past due 90 days or more and is not considered as in default taking into account the historical repayment records from the customer respectively. The Target Group does not hold any collateral over these balances.

Details of impairment assessment of account receivables are set out in Note 41.

23 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

An analysis of the prepayments, deposits and other receivables are as follows:

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Value-added tax recoverable	3,206	1,365	1,699	996
Prepayments	42,856	43,428	22,252	25,032
Other receivables	63,696	30,200	35,745	43,196
Deposits	11,293	1,864	3,432	15,248
	121,051	76,857	63,128	84,472
Less: Allowance for credit losses	(25,601)	(22,008)	(21,814)	(21,746)
	95,450	54,849	41,314	62,726

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Commodity futures contracts *(Note)*	10,623	–	–	–

Note: The Target Group has entered into commodity futures contracts to manage its price exposures in future price risks for corn and soybean meal. These futures are measured at FVTPL. Net fair value gain on commodity futures contracts for the years ended 31 December 2021, 2022 and 2023 and six months ended 30 June 2023 and 2024 amounting of RMB22,197,000, RMB22,450,000, RMB6,771,000, RMB112,000 and RMB11,232,000, respectively was recognised in "cost of sales" in the consolidated statement of profit or loss and other comprehensive income during the Relevant Periods.

25 BALANCES WITH RELATED COMPANIES

Included in amounts due from related companies as at 31 December 2021, 2022 and 2023 and 30 June 2024 were receivables in trade nature of RMB1,376,000, RMB98,623,000, RMB343,997,000 and RMB244,401,000 respectively. These receivables are unsecured, interest-free and repayable according to the relevant sales contracts. An aged analysis of these receivables as at the end of the reporting period, based on the delivery dates and net allowance for credit losses, is as follows:

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	89,644	98,323	343,697	242,455
90 days to 1 year	450	–	–	1,646
Over 1 year	300	300	300	300
	90,394	98,623	343,997	244,401

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

Details of impairment assessment of amounts due from related companies (excluding prepayments to related companies) for the years ended 31 December 2021, 2022, 2023 and six months ended 30 June 2024 are set out in Note 41.

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.

26 RESTRICTED BANK DEPOSITS, TIME DEPOSITS AND CASH AND BANK BALANCES

(a) Restricted bank deposits

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Restricted bank deposit for court case *(Note (i))*	2,218	2,390	–	–
Restricted bank deposit for issue of bank acceptance note *(Note (ii))*	1,998	–	–	–
	4,216	2,390	–	–

Notes:

(i) The amount represents cash held at banks as security in relation to the court cases between COFCO Feed Co., Ltd., COFCO Jiahua Industrial Limited and/or certain vendors, which carried interest at rates ranging from 0% to 1.73% per annum for the years ended 31 December 2021 and 2022.

(ii) The amount represents deposits pledged as guarantee deposit for issuance of bank acceptance notes to suppliers, which carried interest at rates ranging from 0% to 1.73% per annum and had maturity within 1 year.

(b) Cash and bank balances and time deposits

Cash and bank balances

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	12,426	42,206	6,202	3,213
Deposits with a non-banking financial institution*	216,150	221,952	388,418	261,276
	228,576	264,158	394,620	264,489

* The amount represents deposits placed with COFCO Finance, and earns interest at market rates.

Time deposits

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Time deposits with original maturity over three months when acquired	–	500,000	500,000	500,000
Less: amount included under current assets	–	–	(500,000)	(500,000)
	–	500,000	–	–

As at 31 December 2021, 2022, 2023 and 30 June 2024, cash at banks earns interest at rates based on daily bank deposit rates ranging from 0% to 1.73% respectively. As at 31 December 2022, 2023 and 30 June 2024, time deposits are made for varying periods depending on the immediate cash requirements of the Target Group, and earn interest at a market rate at 2.65%, 2.65% and 2.65%. The bank balances and time deposits are deposited with creditworthy banks with no history of default.

27 ACCOUNT AND BILLS PAYABLES

An analysis of account and bills payables is as follows:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Account payables	271,247	429,518	288,328	270,700
Bills payables	–	20,000	33,000	–
	271,247	449,518	321,328	270,700

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 date, is as follows:

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	258,670	425,185	287,731	270,474
1 to 2 years	11,181	2,948	182	215
Above 2 years	1,396	1,385	415	11
	271,247	429,518	288,328	270,700

28 OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

An analysis of other payables, accruals and deposits received is as follows:

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Construction costs payables	3,603	6,323	10,770	19,769
Deposits received	17,973	15,142	25,546	31,827
Salaries and wages payables	70,986	69,878	100,974	90,986
Accruals	119,335	96,959	112,687	109,806
Other tax payables	4,450	5,369	4,828	4,510
Provision for litigation *(Note 46)*	–	–	6,910	6,910
	216,347	193,671	261,715	263,808

29 LEASE LIABILITIES

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Lease liabilities payable:				
Within one year	12,002	11,371	3,261	2,447
Within a period of more than one year but not more than two years	5,711	7,311	2,052	1,718
Within a period of more than two years but not more than five years	4,256	1,718	–	–
	21,969	20,400	5,313	4,165
Less: Amount due for settlement within 12 months shown under current liabilities	(12,002)	(11,371)	(3,261)	(2,447)
Amount due for settlement after 12 months shown under non-current liabilities	9,967	9,029	2,052	1,718

As at 31 December 2021, 2022, 2023 and 30 June 2024, the weighted average incremental borrowing rates applied to lease liabilities range from 3.65% to 4.9% respectively.

30 Contract liabilities

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sales of feed	118,928	106,191	77,819	80,897
Total – current	118,928	106,191	77,819	80,897

As at 1 January 2021, contract liabilities amounted to RMB152,882,000.

The following table shows the amount of the revenue recognised in the Relevant Periods relates to carried-forward contract liabilities. Generally, contract liabilities are recognised as revenue within 1 year.

For the year ended 31 December 2021	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	152,882

For the year ended 31 December 2022	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	118,928

For the year ended 31 December 2023	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	106,191

For the period ended 30 June 2024	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	77,819

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

For sales of feed, the Target Group may grant credits to certain reputable corporate customers and requires 100% advance payments from the remaining customers before the Target Group delivers the products. The advance payments schemes result in contract liabilities being recognised when the advance payments are received but the controls of the goods have not been transferred.

31 BANK BORROWINGS

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unsecured bank loans	500	536,287	455,340	284,173
The carrying amounts of the above borrowings are repayable*:				
Within one year**	500	516,010	455,340	284,173
Within a period of more than five years	–	20,277	–	–
	500	536,287	455,340	284,173
Less: Amounts due within one year shown under current liabilities	(500)	(516,010)	(455,340)	(284,173)
Amounts shown under non-current liabilities	–	20,277	–	–

* The amounts due are based on scheduled repayment dates set out in the respective loan agreements.

** As at 31 December 2021, 2022, 2023 and 30 June 2024, the bank loan balances include bank loans from a designated bank as set out in Note 26 amounting to RMB500,000, RMB536,287,000, RMB455,340,000 and RMB284,173,000 respectively, which bear interest from 2.05% to 3.85%, from 1.9% to 3.9%, from 1.9% to 2.7% and from 1.9% to 2.7% per annum respectively.

The exposure of the Target Group's borrowings are as follows:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fixed-rate borrowings	500	536,287	455,340	284,173

The range of effective interest rates (which are also equal to contracted interest rates) on the Target Group's bank borrowings is as follows:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Effective interest rate:				
Fixed-rate borrowings	2.05% to 3.85%	1.9% to 3.9%	1.9% to 2.7%	1.9% to 2.7%

32 DEFERRED INCOME

Deferred income represents PRC government subsidies obtained in relation to acquisition of land use rights and property, plant and equipment and certain logistics and technology improvement projects, which is included in the consolidated statement of financial position as deferred income and is credited to profit or loss on a systematic basis over the useful lives of the related assets.

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the reporting period	2,877	2,431	2,286	1,154
Credited to profit or loss during the year	(446)	(145)	(1,132)	(76)
At end of the reporting period	2,431	2,286	1,154	1,078

33 PAID-IN CAPITAL

	RMB'000
At 1 January 2021, 31 December 2022, 2023 and 30 June 2024	303,000

34 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE TARGET COMPANY

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Investments in subsidiaries	938,441	938,441	954,196	954,196
Intangible assets	–	–	780	741
Investment properties	17,630	16,512	–	–
Time deposits	–	180,000	–	–
	956,071	1,134,953	954,976	954,937
Current assets				
Amounts due from subsidiaries	75,745	667,121	383,777	361,000
Cash and bank balances	214,375	219,525	568,417	441,097
	290,120	886,646	952,194	802,097
Current liabilities				
Bank borrowings	–	500,000	280,148	180,000
Amounts due to subsidiaries	287,892	561,736	647,673	402,711
Other payables, accruals and deposits received	–	60	17,249	1,172
Current tax liabilities	1	238	266	524
	287,893	1,062,034	945,336	584,407

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net current assets/(liabilities)	2,227	(175,388)	6,858	217,690
Net assets	958,298	959,565	961,834	1,172,627
Capital and reserves				
Paid-in capital	303,000	303,000	303,000	303,000
Reserves	655,298	656,565	658,834	869,627
Total equity	958,298	959,565	961,834	1,172,627

Movements of reserves of the Target Company are as follows:

	Capital reserve	Statutory reserve	(Accumulated losses)/retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	655,296	–	(1,259)	654,037
Profit and total comprehensive income for the year	–	–	1,261	1,261
At 31 December 2021 and 1 January 2022	655,296	–	2	655,298
Profit and total comprehensive income for the year	–	–	1,267	1,267
Statutory reserve appropriation	–	127	(127)	–
At 31 December 2022 and 1 January 2023	655,296	127	1,142	656,565
Profit and total comprehensive income for the year	–	–	2,269	2,269
Statutory reserve appropriation	–	227	(227)	–
At 31 December 2023 and 1 January 2024	655,296	354	3,184	658,834
Profit and total comprehensive income for the period	–	–	210,793	210,793
At 30 June 2024	655,296	354	213,977	869,627

	Capital reserve	Statutory reserve	(Accumulated losses)/retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2023 (audited)	655,296	127	1,142	656,565
Profit and total comprehensive income for the period	–	–	502	502
At 30 June 2023 (unaudited)	655,296	127	1,644	657,067

35 CAPITAL COMMITMENTS

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for in respect of:				
Purchase of property, plant and equipment	59,302	159,914	25,188	29,180

36 RETIREMENT BENEFIT SCHEME

The employees of the Target Group in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The Target Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Target Group with respect to the retirement benefit plan is to make the specified contributions. For the years ended 31 December 2021, 2022, 2023 and six months ended 30 June 2023 and 2024, the total expenses recognised in the consolidated statement of profit or loss and other comprehensive income amounted to approximately RMB23,631,000, RMB25,852,000, RMB28,785,000, RMB12,912,000 and RMB15,402,000 respectively.

37 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Group's consolidated statements of cash flows as cash flows from financing activities.

	At 1 January 2021	Financing cash flows	Interest accrual	At 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings*	249,767	(254,166)	4,899	500
Lease liabilities	47,203	(26,634)	1,400	21,969
	296,970	(280,800)	6,299	22,469

	At 1 January 2022 *RMB'000*	Financing cash flows *RMB'000*	Interest accrual *RMB'000*	At 31 December 2022 *RMB'000*
Bank borrowings*	500	533,482	2,305	536,287
Loans from related companies	–	(346)	346	–
Lease liabilities	21,969	(2,549)	980	20,400
	22,469	530,587	3,631	556,687

	At 1 January 2023 *RMB'000*	Financing cash flows *RMB'000*	Interest accrual *RMB'000*	At 31 December 2023 *RMB'000*
Bank borrowings*	536,287	(93,768)	12,821	455,340
Lease liabilities	20,400	(16,093)	1,006	5,313
	556,687	(109,861)	13,827	460,653

	At 1 January 2024 *RMB'000*	Financing cash flows *RMB'000*	Interest accrual *RMB'000*	At 30 June 2024 *RMB'000*
Bank borrowings*	455,340	(174,983)	3,816	284,173
Lease liabilities	5,313	(1,787)	639	4,165
	460,653	(176,770)	4,455	288,338

	At 1 January 2023 *RMB'000*	Financing cash flows *RMB'000*	Interest accrual *RMB'000*	At 30 June 2023 *RMB'000*
Bank borrowings*	536,287	177,992	6,798	721,077
Lease liabilities	20,400	(4,902)	551	16,049
	556,687	173,090	7,349	737,126

* balances include both the principals and interests accrued.

38 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In 2022, 現代牧業(集團)有限公司, a non-controlling shareholder, and the Target Group jointly established COFCO Feed (Hohhot) Co., Ltd.. 現代牧業(集團)有限公司 invested RMB19,600,000 and held 49% equity interest of COFCO Feed (Hohhot) Co., Ltd..

In 2023, 現代牧業(集團)有限公司 invested RMB29,633,000 to acquire 49% of the equity of COFCO Feed (Yinchuan) Co., Ltd. held by the Target Group. After the transaction, 現代牧業(集團)有限公司 share the net assets of COFCO Feed (Yinchuan) Co., Ltd. amounting of RMB27,802,000, and the Target Group share of RMB1,831,000 of capital reserve.

In 2024, 現代草業有限公司, a subsidiary of 現代牧業(集團)有限公司, and the Target Group jointly established COFCO Feed (Xinji) Co., Ltd.. 現代草業有限公司 invested RMB19,600,000 and held 49% equity interest in COFCO Feed (Xinji) Co., Ltd..

39 CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Target Group's overall strategy remains unchanged from prior years.

The capital structure of the Target Group consists of net debt, which includes bank borrowings disclosed in Note 31, net of cash and bank balances and equity attributable to owners of the Target Company, comprising issued paid-in capital and reserves as disclosed in consolidated statements of changes in equity.

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Target Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debts.

40 CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments at the end of each reporting period are as follows:

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Financial assets at FVTPL	10,623	–	–	–
Financial assets at amortised cost	555,894	693,491	1,401,825	1,206,909
	566,517	693,491	1,401,825	1,206,909
Financial liabilities				
Financial liabilities at amortised cost	375,495	1,111,456	943,597	740,724

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's major financial instruments include derivative financial instruments, account receivables, deposits and other receivables, account and bills payables, other payables, lease liabilities, bank borrowings, loans from related companies, amounts due from/to related companies, restricted bank deposits and cash and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Target Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Target Group's activities expose the Target Group primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Currency risk

The Target Group has most sales and purchases, bank balances and bank borrowings denominated as RMB which expose the Target Group has minimal foreign currency risk.

No sensitivity analysis has been presented for the exposure to foreign currencies as the management of the Target Group considers that, taking into account that the fluctuation in exchange rates on foreign currencies is minimal, the impact on profit or loss for each of the reporting periods is insignificant.

Interest rate risk

The Target Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 31 for details of these borrowings) and lease liabilities (see Note 29 for details). The Target Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and deposits (see Note 26 for details). The Target Group's cash flow interest rate risk relates primarily to the Target Group's bank balances (see Note 26 for details). The Target Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

No sensitivity analysis has been presented for the exposure to interest rates for bank balances as the management of the Target Group considers that, taking into account that the fluctuation in interest rates on bank balances is minimal, the impact on profit or loss for the Relevant Periods is insignificant.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Group's counterparties default on their contractual obligations resulting in financial losses to the Target Group. As at 31 December 2021, 2022 and 2023 and 30 June 2024, the Target Group's credit risk is primarily attributable to its account receivables, deposits and other receivables, amounts due from related companies, restricted bank deposits and bank balances. The Target Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis with the result that the Target Group's exposure to bad debts is not significant.

Account receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Target Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Target Group uses an internal system to assess the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group performs impairment assessment under lifetime ECL model on trade balances based on provision matrix. In this regard, the sole director of the Target Company considers that the Target Group's credit risk is significantly reduced.

The Target Group's account receivables relate to a large number of diversified customers, there is no significant concentration of credit risk by geographical location.

Deposits and other receivables/amounts due from related parties/other current assets/bank balances

For deposits and other receivables and amounts due from related companies, the sole director of the Target Company make periodic individual or collective assessment on the recoverability of the deposits and other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The sole director of the Target Company believes that there is no significant increase in credit risk of these amounts since initial recognition and the Target Group provided impairment based on 12m ECL. For the years ended 31 December 2021, 2022 and 2023, and the six months ended 30 June 2023 and 2024, the Target Group assessed the ECLs for these financial assets and recorded an additional on ECLs of RMB219,000, a net of reversal on ECLs of RMB3,593,000, RMB114,000, RMB79,000 and RMB68,000, respectively.

The credit risks of the Target Group's restricted bank deposits and bank balances are limited as these balances are placed with reputable financial institutions.

The tables below detail the credit risk exposures of the Target Group's financial assets, which are subject to ECL assessment:

31 December 2021	**12-month or lifetime ECL**	**Gross carrying amount**
		RMB'000
Financial assets at amortised costs		
Other receivables	12-month ECL	63,696
Related companies	12-month ECL	162,671
Account receivables	Lifetime ECL (not credit impaired) (provision matrix)	142,005

31 December 2022	**12-month or lifetime ECL**	**Gross carrying amount**
		RMB'000
Financial assets at amortised costs		
Other receivables	12-month ECL	43,428
Related companies	12-month ECL	188,971
Account receivables	Lifetime ECL (not credit impaired) (provision matrix)	239,223

31 December 2023	**12-month or lifetime ECL**	**Gross carrying amount**
		RMB'000
Financial assets at amortised costs		
Other receivables	12-month ECL	22,252
Related companies	12-month ECL	415,856
Account receivables	Lifetime ECL (not credit impaired) (provision matrix)	98,072

30 June 2024	**12-month or lifetime ECL**	**Gross carrying amount**
		RMB'000
Financial assets at amortised costs		
Other receivables	12-month ECL	25,032
Related companies	12-month ECL	319,123
Account receivables	Lifetime ECL (not credit impaired) (provision matrix)	127,191

Note: For account receivables, the Target Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Target Group determines the ECL on these items by using a provision matrix, grouped by debtors' aging.

For bank balances, the expected credit risk exposures are very low.

Provision matrix – debtors' aging

As part of the Target Group's credit risk management, the Target Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. During the years ended 31 December 2021, 2022, 2023 and six months ended 30 June 2024, the Target Group provided RMB4,232,000, RMB550,000, RMB2,410,000 and RMB50,000 impairment allowance for account receivables, based on the provision matrix. The average loss rate of the Target Group's account receivable is very low and is not significant to the Target Group.

The Target Group writes off an account receivable or other receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

Liquidity risk

In the management of liquidity risk, the Target Group monitors and maintains a level of cash and bank balances deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. The Target Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2021, 2022, 2023 and 30 June 2024, the Target Group has available unutilised short-term bank loan facilities of approximately RMB1,950,590,000, RMB1,987,820,000, RMB1,866,530,000 and RMB1,897,759,000, respectively.

The following table details the Target Group's remaining contractual maturity for its financial liabilities and derivative financial instruments. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

The amounts included below for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of the reporting period.

Liquidity tables

	Effective interest rate	On demand or within 1 year	1 – 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2021						
Account and bills payables	–	271,247	–	–	271,247	271,247
Other payables, accruals and deposits received	–	41,900	–	–	41,900	41,900
Bank borrowings	2.05%-3.85%	503	–	–	503	500
Amounts due to related companies	–	39,879	–	–	39,879	39,879
Lease liabilities	3.65%-4.9%	12,002	11,773	–	23,775	21,969
		365,531	11,773	–	377,304	375,495

	Effective interest rate	On demand or within 1 year	1 – 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2022						
Account and bills payables	–	449,518	–	–	449,518	449,518
Other payables, accruals and deposits received	–	44,104	–	–	44,104	44,104
Bank borrowings	1.9%-3.9%	525,838	–	25,551	551,389	536,287
Amounts due to related companies	–	61,147	–	–	61,147	61,147
Lease liabilities	3.65%-4.9%	11,371	10,051	–	21,422	20,400
		1,091,978	10,051	25,551	1,127,580	1,111,456

	Effective interest rate	On demand or within 1 year	1 – 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2023						
Account and bills payables	–	321,328	–	–	321,328	321,328
Other payables, accruals and deposits received	–	57,480	–	–	57,480	57,480
Bank borrowings	1.9%-2.7%	458,640	–	–	458,640	455,340
Amounts due to related companies	–	104,136	–	–	104,136	104,136
Lease liabilities	3.65%-4.9%	3,261	2,376	–	5,637	5,313
		944,845	2,376	–	947,221	943,597

	Effective interest rate %	On demand or within 1 year *RMB'000*	1 – 5 years *RMB'000*	Over 5 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Total carrying amount *RMB'000*
At 30 June 2024						
Account and bills payables	–	270,700	–	–	270,700	270,700
Other payables, accruals and deposits received	–	71,954	–	–	71,954	71,954
Bank borrowings	1.9%-2.7%	286,894	–	–	286,894	284,173
Amounts due to related companies	–	109,732	–	–	109,732	109,732
Lease liabilities	3.65%-4.9%	2,447	1,898	–	4,345	4,165
		741,727	1,898	–	743,625	740,724

The following table details the Target Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Target Group's derivative financial instruments is prepared based on the contractual settlement dates as the management of the Target Group considers that the settlement dates are essential for an understanding of the timing of the cash flows of derivatives.

	Inflow/(outflow)		
	On demand or within 1 year *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount assets/ (liabilities) *RMB'000*
At 31 December 2021			
Derivatives – net settlement			
Commodity futures contracts	10,623	10,623	10,623

42 FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Target Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Target Group uses market-observable data to the extent it is available. The management reports to the sole director of the Target Group semi-annually to explain the cause of significant fluctuations in the fair value.

Fair value of financial instruments that are measured at fair value on a recurring basis

Some of the Target Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined.

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
At 31 December 2021				
Financial assets at FVTPL				
Commodity futures contracts	10,623	–	–	10,623

Financial assets/ financial liabilities	Fair value as at 31 December 2021	2022	2023	Fair value as at 30 June 2024	Fair value hierarchy	Valuation technique(s) and key input(s)
1) Commodity futures contracts	Assets – RMB10,623,000 Liabilities – RMBnil	Assets – RMBnil Liabilities – RMBnil	Assets – RMBnil Liabilities –RMBnil	Assets – RMBnil Liabilities – RMBnil	Level 1	Quoted bid prices in an active market

There were no transfers between Level 1, 2 and 3 fair value during the Relevant Periods.

The sole director of the Target Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statements of financial position approximate their respective fair values at the end of each reporting period.

43 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the Historical Financial Information, the Target Group had the following material transactions with related parties during the year:

	Year ended 31 December			Six months ended 30 June	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Transactions with COFCO Corporation and its subsidiaries:					
Sales of goods	825,368	1,176,105	1,252,835	349,624	343,448
Purchases of goods	1,979,758	1,945,086	2,262,955	1,095,947	1,016,990
Short-term warehouse rental expense	13,629	23,875	18,693	9,257	9,603
Interest income	5	2,870	3,257	1,225	1,947
Interest expense	–	346	–	–	–
Administrative expense	–	3,302	6,644	–	5
Transactions with an associate	1,372	542,614	1,969,012	795,092	833,960

The interest expense to related companies arose from the loans advanced therefrom. Details of the terms of these loans are set out in Note 25.

The above sale and purchase transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

In addition, certain deposits included in cash and bank balances are placed with COFCO Finance, which is a non-banking financial institution regulated by the People's Bank of China ("PBC") and the China Banking and Insurance Regulatory Commission. In the PRC, deposit rates are set by the PBC which is applicable to all financial institutions. The interest rates offered by COFCO Finance are the same as the rates promulgated by the PBC. As at 31 December 2021, 2022, 2023 and 30 June 2024, the deposits placed with COFCO Finance by the Target Group amounted to RMB216,150,000, RMB221,952,000, RMB388,418,000 and RMB261,276,000, see Note 26.

Transactions with other government-related entities in the PRC

The Target Group is ultimately controlled by COFCO Corporation (see Note 1), which is a state-owned enterprise in the PRC. In addition, the Target Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("PRC government-related entities"). Apart from the transactions with related companies controlled by COFCO Corporation as disclosed above and balances with them as disclosed in respective notes, the Target Group also conducts businesses with other PRC government-related entities in the ordinary course of business. Certain of the Target Group's bank deposits and bank borrowings are entered into with certain banks, which are PRC government-related entities in its ordinary course of business. In view of the nature of those banking transactions, the sole director of the Target Company is of the opinion that separate disclosures would not be meaningful. In addition, the Target Group entered into various transactions, including sales of goods, purchases of land use rights, construction of properties and other operating expenses with other PRC government-related entities in the ordinary course of business. The pricing and the selection of suppliers and service providers are not dependent on whether the counterparties are PRC government-related entities or not. In the opinion of the management of the Target Group, the above transactions are collectively significant transactions of the Target Group with PRC government-related entities.

Compensation of key management personnel of the Target Group

	Year ended 31 December			Six months ended 30 June	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries, allowances and other benefits	1,671	2,474	2,208	1,323	360
Retirement benefit scheme contributions	167	186	193	103	90
	1,838	2,660	2,401	1,426	450

The key management personnel of the Target Group includes the sole director of the Target Company and top executives of the Target Company. Further details of emoluments of the Target Company's directors are included in Note 12.

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE TARGET COMPANY

Particulars of the principal subsidiaries as at 31 December 2021, 2022, 2023 and 30 June 2024 are as follows:

			As at 31 December 2021 Proportion of ownership interest		As at 31 December 2022 Proportion of ownership interest		As at 31 December 2023 Proportion of ownership interest		As at 30 June 2024 Proportion of ownership interest		
Name of subsidiaries	Place of incorporation/ establishment and principal country of operations	Issue and fully paid up capital	Held by the Target Company	Held by the subsidiaries	Held by the Target Company	Held by the subsidiaries	Held by the Target Company	Held by the subsidiaries	Held by the Target Company	Held by the subsidiaries	Principal activities
中糧飼料有限公司 (COFCO Feed Co., Ltd.*)	PRC/PRC	RMB1,068,245,280	100%	–	100%	–	100%	–	100%	–	Sale of feed
中糧(北京)飼料科技有限公司 (COFCO (Beijing) Feed Technology Co., Ltd.*)	PRC/PRC	RMB90,000,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧東大(黑龍江)飼料科技有限公司 (COFCO DongDa (Heilongjiang) Feed Technology Co., Ltd.*)	PRC/PRC	RMB30,000,000	–	67%	–	67%	–	67%	–	67%	Manufacture and sale of feed
中糧飼料(茂名)有限公司 (COFCO Feed (Maoming) Co., Ltd.*)	PRC/PRC	RMB2,000,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(張家港)有限公司 (COFCO Feed (Zhangjiagang) Co., Ltd.*)	PRC/PRC	RMB10,000,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(銀川)有限公司 (COFCO Feed (Yinchuan) Co., Ltd.*)	PRC/PRC	RMB50,000,000	–	100%	–	100%	–	51%	–	51%	Manufacture and sale of feed
中糧飼料(孝感)有限公司 (COFCO Feed (Xiaogan) Co., Ltd.*)	PRC/PRC	RMB39,724,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed

Name of subsidiaries	Place of incorporation/ establishment and principal country of operations	Issue and fully paid up capital	As at 31 December 2021 Proportion of ownership interest		As at 31 December 2022 Proportion of ownership interest		As at 31 December 2023 Proportion of ownership interest		As at 30 June 2024 Proportion of ownership interest		Principal activities
			Held by the Target Company	Held by the subsidiaries	Held by the Target Company	Held by the subsidiaries	Held by the Target Company	Held by the subsidiaries	Held by the Target Company	Held by the subsidiaries	
中糧飼料(日照)有限公司 (COFCO Feed (Rizhao) Co., Ltd.*)	PRC/PRC	RMB10,000,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(荊州)有限公司 (COFCO Feed (Jingzhou) Co., Ltd.*)	PRC/PRC	RMB10,000,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(佛山)有限公司 (COFCO Feed (Foshan) Co., Ltd.*)	PRC/PRC	RMB26,604,600	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(成都)有限公司 (COFCO Feed (Chengdu) Co., Ltd.*)	PRC/PRC	RMB10,000,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(巢湖)有限公司 (COFCO Feed (Chaohu) Co., Ltd.*)	PRC/PRC	RMB10,000,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(黃岡)有限公司 (COFCO Feed (Huanggang) Co., Ltd.*)	PRC/PRC	RMB10,000,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(呼和浩特)有限公司 (COFCO Feed (Hohhot) Co., Ltd.*)	PRC/PRC	RMB40,000,000	–	–	–	51%	–	51%	–	51%	Manufacture and sale of feed
中糧飼料(唐山)有限公司 (COFCO Feed (Tangshan) Co., Ltd.*)	PRC/PRC	RMB52,500,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed

Name of subsidiaries	Place of incorporation/ establishment and principal country of operations	Issue and fully paid up capital	As at 31 December 2021 Proportion of ownership interest		As at 31 December 2022 Proportion of ownership interest		As at 31 December 2023 Proportion of ownership interest		As at 30 June 2024 Proportion of ownership interest		Principal activities
			Held by the Target Company	Held by the subsidiaries	Held by the Target Company	Held by the subsidiaries	Held by the Target Company	Held by the subsidiaries	Held by the Target Company	Held by the subsidiaries	
中糧飼料(沛縣)有限公司 (COFCO Feed (Peixian) Co., Ltd.*)	PRC/PRC	RMB35,120,400	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(東台)有限公司 (COFCO Feed (Dongtai) Co., Ltd.*)	PRC/PRC	RMB62,500,000	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(新沂)有限公司 (COFCO Feed (Xinyi) Co., Ltd.*)	PRC/PRC	RMB38,465,200	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed
中糧飼料(黃石)有限公司 (COFCO Feed (Huangshi) Co., Ltd.*)	PRC/PRC	RMB37,978,200	–	100%	–	100%	–	100%	–	100%	Manufacture and sale of feed

* The English names of the Chinese companies marked with "*" are translations of their Chinese names and are included for identification purpose only, and should not be regarded as their official English translations.

Note: Except for COFCO Feed Co., Ltd., all subsidiaries were indirectly held by the Target Company as at 31 December 2021, 2022, 2023 and 30 June 2024.

The above table lists the subsidiaries which, in the opinion of the sole director of the Target Company, principally affected the results or assets of the Target Group. To give details of other subsidiaries would, in the opinion of the sole director of the Target Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

In the opinion of the sole director, the Target Group has no material non-controlling interests and the summarised financial information about these subsidiaries is not disclosed.

45 SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Target Group in respect of any period subsequent to 30 June 2024.

46 CONTINGENT LIABILITIES AND PROVISIONS

A subsidiary of the Target Group (as "defendant") has been involved in a sales and purchases dispute with an independent third party (as "plaintiff"). The Target Group has engaged a competent legal adviser to act for its interest in respect of the litigation. On 27 September 2023, the Target Group received a judgment from Guangxi Zhuang Autonomous Region High People's Court and ordered that the Target Group is required to pay a sum of approximately RMB6,910,000. The related costs of approximately RMB97,000 was recorded in other payables. A provision of claim in the amount of approximately RMB6,910,000 was made as at 31 December 2023 and at 30 June 2024 under provision.

* English translation, as the case may be, is for identification only.

Set out below is the management discussion and analysis of the Target Company for the three years ended 31 December 2023 and the six months ended 30 June 2024 (the "Reporting Period") which is prepared based on the financial information set out in Appendix II to this circular.

BUSINESS REVIEW

The Target Company is a company established in the PRC in January 2018 with limited liability and an indirect wholly-owned subsidiary of COFCO. The Target Company is principally engaged in investment holding and holds 100% equity interest in COFCO Feed.

COFCO Feed is committed to providing customers with comprehensive animal nutrition solutions. Its core business covers research and development, production, sales and supporting technical services of feed products such as pig feed, ruminant feed, poultry feed, aquatic feed and premix. With high-quality products, sound technical services and corporate reputation, the core brands of COFCO Feed, "FEEDING THE FUTURE (五穀豐登)" and "RANKING (銳科)", have gained increasing brand influence and steadily expanding market scale. COFCO Feed has developed into a national animal nutrition solution provider.

In terms of production capacity layout, as at the end of 2023, COFCO Feed had 21 feed processing plants in the PRC. The extensive production capacity layout enabled COFCO Feed to better serve many leading breeding groups in the PRC. In terms of research and development capabilities, COFCO Feed has a professional feed research and development team capable of tailoring scientific animal nutrition solutions to the needs of breeding customers. In terms of market competitiveness, building on favorable word of mouth from customers accumulated over the years, COFCO Feed produced and sold more than 2 million tons of feed in 2023, steadily escalating its industry ranking.

In the future, COFCO Feed will continue to uphold its strategic core. Internally, it will strengthen its production capacity layout rationally, enhance research and development capabilities, expand its brand recognition, and strengthen group synergies to craft "good products and good services" with high standard. Externally, the focus will be on market cultivation, exploring innovative collaboration models, increasing marketing efforts, and rapidly expanding its size and market influence to achieve "high turnover, high production output and high efficiency".

FINANCIAL REVIEW

Revenue

During the Reporting Period, the revenue of the Target Company was mainly derived from pig feed, ruminant feed, poultry feed, aquatic feed and premix. In 2021, the revenue of the Target Company was RMB6,980.79 million. In 2022, the revenue of the Target Company was RMB7,679.49 million, representing an increase of 10.0% as compared with that of 2021, mainly due to the increase in average selling price of the feed products. In 2023, the revenue of the Target Company was RMB8,496.19 million, representing an increase of 10.6% as compared with that of 2022, mainly due to the Target Group's development strategies such as "good products and good services" (好產品、好服務) which had good market development effect, leading to the increase in sales volume for the year. In the first half of 2024, the revenue of the Target Company was RMB3,247.47 million.

Gross Profit and Gross Profit Margin

In 2021, the gross profit and gross profit margin of the Target Company were RMB542.80 million and 7.8%, respectively. In 2022, the gross profit and gross profit margin of the Target Company were RMB460.02 million and 6.0%, respectively, and the gross profit margin decreased by 1.8% as compared with that of 2021. Such decrease in gross profit was mainly due to the rising feed ingredient prices which led to the increase in costs. In 2023, the gross profit and gross profit margin of the Target Company were RMB634.59 million and 7.5%, respectively, and the gross profit margin increased by 1.5% as compared with that of 2022. Such increase in gross profit was mainly due to the increase in sales volume. In the first half of 2024, the gross profit and gross profit margin of the Target Company were RMB278.59 million and 8.6%, respectively.

Expenses

During the Reporting Period, the expenses of the Target Company mainly included administrative expenses and selling and distribution expenses. In 2021, the expenses of the Target Company totaled RMB387.52 million. In 2022, the expenses of the Target Company totaled RMB345.30 million, representing a decrease of 10.9% as compared with that of 2021, mainly due to the tightening cost control measures by the Target Group during the year. In 2023, the expenses of the Target Company totaled RMB439.26 million, representing an increase of 27.2% as compared with that of 2022, mainly due to the active market development, sales growth and fulfillment of performance incentive plans by the Target Group during FY2023. In the first half of 2024, the expenses of the Target Company totaled RMB190.61 million.

Net Profit

Based on the above, in 2021, the net profit of the Target Company was RMB127.92 million. In 2022, the net profit of the Target Company was RMB95.80 million, representing a decrease of 25.1% as compared with that of 2021. In 2023, the net profit of the Target Company was RMB154.93 million, representing an increase of 61.7% as compared with that of 2022. In the first half of 2024, the net profit of the Target Company was RMB74.52 million.

Significant Investments, Material Acquisitions and Disposals

During the Reporting Period, the Target Company had neither any significant investments nor any material acquisitions and disposals of subsidiaries, associates and joint ventures.

As of the Latest Practicable Date, the Target Company currently has no plan on significant investments or purchase of capital assets.

Gearing Ratio

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the gearing ratio of the Target Company was 37.8%, 52.8%, 46.7% and 41.8%, respectively.

The gearing ratio is calculated as the total liabilities divided by the total assets of the Target Company at the end of each relevant period.

Capital Structure

The assets of the Target Company primarily consist of property, plant and equipment, inventories and cash and bank balances. As at 31 December 2021, 2022 and 2023 and 30 June 2024, the total assets of the Target Company were RMB1,804.90 million, RMB2,619.09 million, RMB2,662.78 million and RMB2,457.96 million, respectively.

Liquidity and Financial Policy

Adhering to the steady financial policy, the Target Company has maintained healthy capital liquidity throughout the Reporting Period. As at 31 December 2021, 2022 and 2023 and 30 June 2024, the cash and bank balances of the Target Company were approximately RMB228.58 million, RMB264.16 million, RMB394.62 million and RMB264.49 million, respectively, demonstrating stable cash and bank balances.

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the total liabilities of the Target Company were RMB682.04 million, RMB1,383.14 million, RMB1,243.49 million and RMB1,027.11 million, respectively. The liabilities of the Target Company mainly include account and bills payables, other payables, accruals and deposits received, and bank borrowings. As at 30 June 2024, the interest-bearing bank borrowings of the Target Company were approximately RMB284 million. The bank borrowings carry fixed interest rates ranging from 1.9% to 2.7% per annum.

Contingent Liabilities and Pledge of Assets

During the Reporting Period, the Target Company had no significant contingent liabilities.

During the Reporting Period, the Target Company had no pledge of assets.

Foreign Exchange Risk

The assets, liabilities and business transactions of the Target Company were denominated in RMB. During the Reporting Period, the Target Company did not have any financial instruments to hedge against foreign exchange risks.

Capital Expenditure

Capital expenditure of the Target Company was mainly used for feed production. The Target Company funded its capital expenditure primarily with internal funds.

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the capital expenditure of the Target Company was RMB81.30 million, RMB148.96 million, RMB83.13 million and RMB41.76 million, respectively.

Capital Commitment

Capital commitment of the Target Company is mainly related to feed production. As at 31 December 2021, 2022 and 2023 and 30 June 2024, the capital commitment of the Target Company was RMB59.30 million, RMB159.91 million, RMB25.19 million and RMB29.18 million, respectively.

Human Resources

The total number of employees of the Target Company as at 31 December 2021, 2022 and 2023 and 30 June 2024 was 1,868, 2,013, 2,244 and 2,208, respectively. Remuneration for employees of the Target Company was determined based on their job nature, personal performance and the market trends. Remuneration for employees of the Target Company mainly includes wages and bonuses. The total remuneration of the Target Company as at 31 December 2021, 2022 and 2023 and 30 June 2024 was approximately RMB352.39 million, RMB349.02 million, RMB406.67 million and RMB177.03 million, respectively. During the Reporting Period, the Target Company did not carry out any employee share scheme.

The Target Company provides basic social insurance and housing accumulation fund for employees as required by the PRC law, and also encourages all employees to become well-rounded and enhance their knowledge and abilities related to their career through continuous training, seminars and online learning.

COFCO JOYCOME FOODS LIMITED
UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(A) Introduction

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), for the purpose of illustrating the effects on the assets and liabilities of the Enlarged Group as if the Acquisition had been completed on 30 June 2024.

The Unaudited Pro Forma Financial Information is based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2024 as extracted from the published interim report of the Company for the six months ended 30 June 2024; and (ii) the audited consolidated statement of financial position of the Target Group as at 30 June 2024 as extracted from the accountant's report thereon set out in the Appendix II to this Circular, after making pro forma adjustments as summarised in the accompanying notes that are directly attributable to the Acquisition and factually supportable as if the Acquisition had been undertaken as at 30 June 2024.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purpose only and is based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as of the specified dates or any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the unaudited condensed consolidated financial statements of the Group as set out in the published interim report of the Group for the six months ended 30 June 2024, the historical financial information on the Target Group as set out in Appendix II to this Circular, and other financial information included elsewhere in this Circular.

Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group

As at 30 June 2024

	The Group	The Target Group	Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
Non-current assets							
Goodwill	100,609	–	–	–	–	–	100,609
Property, plant and equipment	9,891,432	691,760	–	–	–	–	10,583,192
Right-of-use assets	701,202	96,761	–	–	–	–	797,963
Intangible assets	9,747	19,884	–	–	–	–	29,631
Investments in associates	–	18,610	–	–	–	–	18,610
Equity instrument at fair value through other comprehensive Income	85,198	–	–	–	–	–	85,198
Biological assets	784,663	–	–	–	–	–	784,663
Prepayments for purchase of property, plant and equipment	15,253	1,648	–	–	–	–	16,901
Deferred tax assets	–	8,006	–	–	–	–	8,006
	11,588,104	836,669	–	–	–	–	12,424,773
Current assets							
Inventories	848,545	376,690	–	–	–	(792)	1,224,443
Biological assets	2,288,359	–	–	–	–	–	2,288,359
Account receivables	204,083	101,773	–	–	–	–	305,856
Prepayments, deposits and other receivables	427,796	62,726	–	–	–	–	490,522
Other current assets	480,929	–	–	–	–	–	480,929
Financial assets at fair value through profit or loss	13,994	–	–	–	–	–	13,994
Amounts due from related companies	680,377	315,615	–	–	(73,288)	–	922,704
Time deposits	–	500,000	–	–	–	–	500,000
Cash and bank balances	506,891	264,489	(313,814)	–	–	–	457,566
	5,450,974	1,621,293	(313,814)	–	(73,288)	(792)	6,684,373

	The Group	The Target Group	Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
Current liabilities							
Account and bills payables	364,613	270,700	–	–	–	–	635,313
Other payables, accruals and deposits received	828,671	263,808	–	10,000	–	–	1,102,479
Lease liabilities	34,223	2,447	–	–	–	–	36,670
Contract liabilities	268,765	80,897	–	–	–	–	349,662
Bank borrowings	2,107,020	284,173	–	–	–	–	2,391,193
Amounts due to related companies	106,651	109,732	–	–	(73,288)	–	143,095
Loans from related companies	2,222,500	–	–	–	–	–	2,222,500
Financial liabilities at fair value through profit or loss	81,545	–	–	–	–	–	81,545
Current tax liabilities	583	12,447	–	–	–	–	13,030
	6,014,571	1,024,204	–	10,000	(73,288)	–	6,975,487
Net current liabilities	(563,597)	597,089	(313,814)	(10,000)	–	(792)	(291,114)
Total assets less current liabilities	11,024,507	1,433,758	(313,814)	(10,000)	–	(792)	12,133,659
Non-current liabilities							
Bank borrowings	821,000	–	1,255,257	–	–	–	2,076,257
Loans from a related company	104,883	–	–	–	–	–	104,883
Deferred income	117,503	1,078	–	–	–	–	118,581
Deferred tax liabilities	45,390	114	–	–	–	–	45,504
Long-term payable	82,362	–	–	–	–	–	82,362
Lease liabilities	362,778	1,718	–	–	–	–	364,496
	1,533,916	2,910	1,255,257	–	–	–	2,792,083
Net assets	9,490,591	1,430,848	(1,569,071)	(10,000)	–	(792)	9,341,576

Notes:

1. The amounts of assets and liabilities are extracted from the unaudited condensed consolidated financial position of the Group as at 30 June 2024 as set out in the published interim report of the Group for the six months ended 30 June 2024 dated 28 August 2024.

2. The amounts of assets and liabilities are extracted from the accountants' report of the Target Group as at 30 June 2024 as set out in the Appendix II to this circular.

3. Pursuant to the Equity Transfer Agreement dated 21 October 2024, the consideration for the Acquisition is RMB1,569.0707 million.

   For the purposes of the Unaudited Pro Forma Financial Information, it is assumed that the abovementioned consideration has been settled in full amount, with no adjustments, on 30 June 2024 and the settlement had been funded by:

   (i) interest-bearing borrowings of RMB1,255 million; and

   (ii) internal fund of RMB314 million.

   As the Group and the Target Group are controlled by COFCO Corporation as concert parties together before and after the Acquisition, the Group will account for the Acquisition as a business combination under common control using the principles of merger accounting in accordance with the Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the HKICPA. Under the principles of merger accounting, the consolidated financial statements incorporate the financial statement items of the acquired entities or businesses in which the common control combination occurs from the date when the acquired entities or businesses first come under the control of the controlling party. The net assets of the acquired entities or businesses are consolidated using the existing book values from the controlling party's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the common control combination. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded will be recognised directly in equity as part of the merger reserve. Acquisition costs are expensed as incurred.

4. The adjustment represents the estimated transactions costs of approximately RMB10,000,000, which include mainly professional fees payable by the Group in connection with the Acquisition.

5. The adjustment represents the elimination of inter-company receivables and payables between the Group and the Target Group as at 30 June 2024.

6. The adjustment represents the elimination of the unrealised profit of the inter-company transactions.

7. The values of the Unaudited Pro Forma Financial Information are rounded to the nearest thousand (RMB'000) except otherwise indicated.

8. Save as set out above, no other adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 30 June 2024.

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天職國際

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of COFCO Joycome Foods Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of COFCO Joycome Foods Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2024 and related notes as set out on pages 152 to 155 of the circular issued by the Company dated 25 November 2024 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages 152 to 155 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the acquisition of 100% equity interests in COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) on the Group's assets and liabilities as at 30 June 2024 as if the transaction had taken place at 30 June 2024. As part of this process, information about the Group's assets and liabilities has been extracted by the Directors from the Group's condensed consolidated financial statements for the six months ended 30 June 2024, on which a review report has been published.

Directors' responsibilities for the unaudited pro forma financial information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our independence and quality management

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountant" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2024 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 25 November 2024
Wan Wing Ping
Practising certificate number P07471

ASSET VALUATION REPORT ON THE ENTIRE EQUITY OF SHAREHOLDERS OF COFCO JIAHUA INDUSTRIAL LIMITED (中糧嘉華實業有限公司) IN RELATION TO THE PROPOSED TRANSFER OF 100% OF THE EQUITY INTEREST IN COFCO JIAHUA INDUSTRIAL LIMITED (中糧嘉華實業有限公司) BY COFCO INDUSTRY INVESTMENT CO., LTD. (中糧產業投資有限公司)

Zhong Qi Hua Ping Bao Zi (2024) No. 1667

Summary

Beijing Zhongqihua Assets Appraisal Co., Ltd. (北京中企華資產評估有限責任公司) has been engaged by you to appraise, in accordance with the relevant laws, administrative regulations and asset valuation standards on the principles of independence, objectivity and impartiality, as well as the necessary valuation procedures, the market value as at 30 June 2024 of the entire equity of shareholders of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) in relation to the proposed transfer of 100% of the equity interest in COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) by COFCO Industry Investment Co., Ltd. (中糧產業投資有限公司). The asset valuation report is extracted as follows:

I. THE CLIENTS, THE APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT SPECIFIED IN THE ASSET VALUATION ENTRUSTMENT CONTRACT

The clients of this valuation are COFCO Industry Investment Co., Ltd. (中糧產業投資有限公司) and COFCO Joycome Foods Limited (中糧家佳康食品有限公司). The appraised entity is COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司). Other users of the asset valuation report specified in the asset valuation entrustment contract include COFCO Corporation (中糧集團有限公司), the state-owned assets supervision and administration authorities and other users specified under the laws and regulations.

(I) Profile of the first client

Name of company: COFCO Industry Investment Co., Ltd. (中糧產業投資有限公司, "COFCO Industry Investment")

Unified social credit code: 91440300MACN9M64X2

Domicile: Room 903, Building 8, Qianhai Excellent Financial Center (Phase I), No. 5033 Menghai Avenue, Nanshan District, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen

Legal representative: Wang Jixue

Type of enterprise: Limited liability company (wholly owned by a legal person)

Registered capital: RMB3,003.00 million

Date of establishment: 27 June 2023

Term of operation: 27 June 2023 to 27 June 2053

Registration authority: Shenzhen Administration for Market Regulation

Scope of business: Investment activities with its own funds; business management consulting. (Except for projects subject to approval according to the law, the business activities shall be carried out independently according to the law with business license).

(II) Profile of the second client

Name of company: COFCO Joycome Foods Limited (中糧家佳康食品有限公司, "COFCO Joycome")

English name: COFCO Joycome Foods Limited

Place of incorporation: Cayman Islands

Registered address: Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands

Principal office address: COFCO Fortune Plaza, No. 8, Chao Yang Men South St., Chao Yang District, Beijing

Legal representative: Gao Xiang

Registered capital: USD50,000.00

Date of establishment: 11 March 2014

Term of operation: 11 March 2014 to long term

Scope of business: Hog production and sales, sales of fresh and frozen meats, manufacture and sales of meat products, and import and trade of meat products.

(III) Profiles of the appraised entity

1. Profile of the company

Name of company: COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司, "COFCO Jiahua Industrial")

Unified social credit code: 91110000MA019PT268

Domicile: Room 18F-03, 1801, No. 8, Chao Yang Men South St., Chao Yang District, Beijing

Legal representative: Dong Shungang

Registered capital: RMB303.00 million

Paid-in capital: RMB303.00 million

Type of enterprise: Limited liability company (wholly owned by a legal person)

Date of establishment: 3 January 2018

Term of operation: 3 January 2018 to 2 January 2058

Registration authority: Beijing Municipal Administration for Market Regulation

Scope of business: Business management; agricultural scientific research and experimental development; organization of cultural and artistic exchange activities; software development; sales of clothing and needle textiles. (The enterprise shall select business items and carry out operating activities at its discretion in accordance with the law; for items subject to approval in accordance with the laws, operating activities can only be conducted upon approval by relevant authorities and to the extent authorized by such approval; it is not allowed to engage in operating activities prohibited or restricted by industrial policies of the PRC and the city where it is located).

2. Shareholders, shareholding ratio and change of equity of the company

COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) was established in January 2018 with a registered capital of RMB303.00 million, which was invested and established by COFCO Corporation (中糧集團有限公司) with the shareholding ratio of 100%.

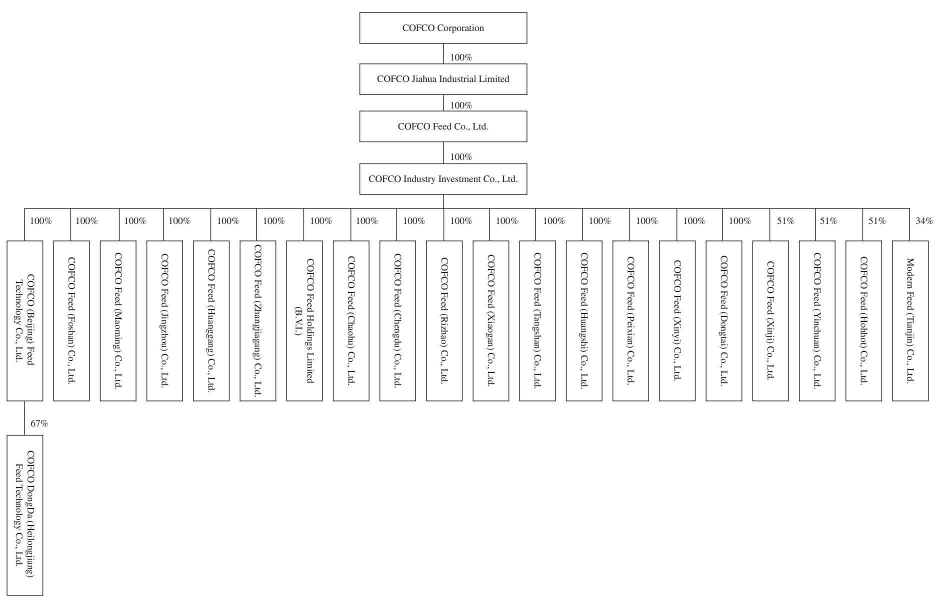
In December 2023, COFCO Corporation (中糧集團有限公司) transferred 100% of the equity interest held by it to COFCO Industry Investment Co., Ltd. (中糧產業投資有限公司).

As of the valuation reference date, the shareholding structure of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) was as follows:

Unit: RMB'0,000

Name of shareholders	Contribution amount	Proportion of registered capital
COFCO Industry Investment Co., Ltd. (中糧產業投資有限公司)	30,300.00	100.00%
Total	**30,300.00**	**100.00%**

3. *Chart of the shareholding structure of the appraised entity and its subsidiaries as of the valuation reference date*



Note: COFCO Feed Holdings Limited (B.V.I.) had no assets as of the valuation reference date.

4. *Relationship between the clients and the appraised entity*

The clients of this valuation are COFCO Industry Investment Co., Ltd. (中糧產業投資有限公司) and COFCO Joycome Foods Limited (中糧家佳康食品有限公司), and the appraised entity is COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司).

As of the valuation reference date, COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) is a wholly-owned subsidiary of COFCO Industry Investment Co., Ltd. (中糧產業投資有限公司). There is no investment relationship between COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) and COFCO Joycome Foods Limited (中糧家佳康食品有限公司), but both are affiliated with COFCO Corporation (中糧集團有限公司).

II. PURPOSE OF VALUATION

COFCO Industry Investment Co., Ltd. (中糧產業投資有限公司) intends to transfer its 100% of the equity interest in COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) to COFCO Joycome Foods Limited (中糧家佳康食品有限公司) through a non-public agreement. For this purpose, it is necessary to conduct a valuation of the entire equity of shareholders of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) and provide the reference value for the relevant economic behavior.

III. VALUATION TARGET AND SCOPE OF VALUATION

(I) Valuation target

The valuation target is the value of the entire equity of shareholders of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司).

(II) Scope of valuation

The scope of valuation covers the total assets and liabilities of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司). The assets within the scope of valuation included the current assets, long-term equity investment and intangible assets, and the book value of the total assets of the valuation target was RMB1,757.0336 million; the book value of the total liabilities of the valuation target was RMB584.4072 million; and the book value of net assets of the valuation target was RMB1,172.6264 million.

As of the valuation reference date, the types and book value of assets within the scope of valuation were as follows:

Unit: RMB0'000

Item		Book value
Current assets	1	80,209.68
Non-current assets	2	95,493.68
Including: Long-term equity investment	3	95,419.58
Fixed assets	4	–
Construction in progress	5	–
Intangible assets	6	74.10
Including: Land use rights	7	–
Other non-current assets	8	–
Total assets	**9**	**175,703.36**
Current liabilities	10	58,440.72
Non-current liabilities	11	–
Total liabilities	**12**	**58,440.72**
Net assets	**13**	**117,262.64**

There is one long-term equity investment covering a wholly-owned subsidiary. Details of which are as follows:

Unit: RMB0'000

No.	Name of investee	Date of investment	Shareholding ratio	Accounting method	Book value
1	COFCO Feed Co., Ltd. (中糧飼料有限公司)	2003/6	100.00%	Cost method	95,419.58
	Total				**95,419.58**

The entrusted valuation target and the scope of valuation were consistent with the valuation target and the scope of valuation related to economic behavior. As of the valuation reference date, the book values of the assets and liabilities within the scope of valuation have been audited by Baker Tilly China Certified Public Accountants LLP, which has issued a standard unqualified audit report.

1. Types and quantity of off-balance sheet assets declared by the enterprise

As of the valuation reference date, the appraised entity had no off-balance sheet assets on its books.

2. Types, quantity and carrying amount of assets involved when citing the conclusions of reports issued by other institutions

The Audit Report of COFCO Jiahua Industrial Limited (Tian Zhi Ye Zi [2024] No. 47701) was a standard unqualified report issued by Baker Tilly China Certified Public Accountants LLP.

IV. TYPE OF VALUE

According to the purpose of valuation, the type of value of the valuation target was identified as the market value.

Market value refers to the estimated value of the valuation target in the ordinary course of fair transactions made on the valuation reference date by the voluntary buyer and voluntary seller acting rationally and without being forced.

The type of value of the valuation target was determined to be the market value according to the analysis of the purpose and economic behavior of this valuation.

V. VALUATION REFERENCE DATE

The valuation reference date of this report is 30 June 2024.

Factors such as the realization of economic behavior and the end of the accounting period are mainly considered to determine the valuation reference date. A date that is close to the planned date of realization of the relevant economic behavior will be selected as the valuation reference date.

VI. BASIS OF VALUATION

(I) Basis in respect of laws and regulations

1. Assets Valuation Law of the People's Republic of China (《中華人民共和國資產評估法》) (Adopted at the 21st meeting of the Standing Committee of the 12th session of the National People's Congress on 2 July 2016);

2. Company Law of the People's Republic of China (《中華人民共和國公司法》) (Revised and adopted at the 7th meeting of the Standing Committee of the 14th session of the National People's Congress on 29 December 2023, and implemented from 1 July 2024);

3. Civil Code of the People's Republic of China (《中華人民共和國民法典》) (Adopted at the 3rd meeting of the 13th session of the National People's Congress on 28 May 2020, and implemented from 1 January 2021);

4. Financial Supervision and Management Measures of Asset Valuation Industry (《資產評估行業財政監督管理辦法》) (Promulgated by Decree No. 86 of the Ministry of Finance of the People's Republic of China (中華人民共和國財政部令第86號) and revised by Decree No. 97 of the Ministry of Finance (財政部令第97號));

5. Urban Real Estate Administration Law of the People's Republic of China (《中華人民共和國城市房地產管理法》) (The third amendment adopted at the 12th meeting of the Standing Committee of the 13th session of the National People's Congress on 26 August 2019);

6. Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》) (Adopted at the 12th meeting of the Standing Committee of the 13th session of the National People's Congress on 26 August 2019);

7. Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (The second amendment adopted at the 7th meeting of the Standing Committee of the 13th session of the National People's Congress on 29 December 2018);

8. Law of the People's Republic of China on State-owned Assets of Enterprises (《中華人民共和國企業國有資產法》) (Adopted at the 5th meeting of the Standing Committee of the 11th session of the National People's Congress on 28 October 2008);

9. Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (《企業國有資產監督管理暫行條例》) (Revised by Decree No. 378 of the State Council (國務院令第378號) and Decree No. 709 of the State Council (國務院令第709號));

10. Measures for the Administration of Valuation of State-owned Assets (《國有資產評估管理辦法》) (Revised by Decree No. 91 of the State Council (國務院令第91號) and Decree No. 732 of the State Council (國務院令第732號));

11. Notice on Publication and Distribution of the Detailed Rules for the Implementation of the Measures for the Administration of Valuation of State-owned Assets (Guo Zi Ban Fa [1992] No. 36) (《關於印發<國有資產評估管理辦法施行細則>的通知》(國資辦發[1992]36號));

12. Interim Measures on the Administration of Valuation of State-owned Assets of Enterprises (Decree No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council) (《企業國有資產評估管理暫行辦法》(國務院國有資產監督管理委員會令第12號));

13. Notice on Issues Relating to Strengthening the Administration of Valuation of State-owned Assets of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274) (《關於加強企業國有資產評估管理工作有關問題的通知》(國資委產權[2006]274號));

14. Notice on Relevant Matters Concerning the Examination of Valuation Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941) (《關於企業國有資產評估報告審核工作有關事項的通知》(國資產權[2009]941號));

15. Guidelines on the Filing of State-owned Asset Valuation Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64) (《企業國有資產評估項目備案工作指引》(國資發產權[2013]64號));

16. Measures for the Supervision and Administration over the Trading of State-owned Assets in Enterprises (Decree No. 32 of the SASAC of the State Council and the Ministry of Finance) (《企業國有資產交易監督管理辦法》(國務院國資委、財政部令第32號));

17. Notice on Matters Concerning the Transfer of Transactions of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan Gui [2022] No. 39) (《關於企業國有資產交易流轉有關事項的通知》(國資發產權規[2022]39號));

18. Notice on Improvement of Asset Valuation Management of State-owned Enterprises (Guo Zi Fa Chan Quan Gui [2024] No. 8) (《關於優化中央企業資產評估管理有關事項的通知》(國資發產權規[2024]8號));

19. Notice of the Ministry of Finance and the State Taxation Administration on Implementing the Pilot Program of Replacing Business Tax with Value-added Tax (VAT) in an All-round Manner (Cai Shui [2016] No. 36) (《財政部國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》(財稅[2016]36號));

20. Notice of the Ministry of Finance and the State Taxation Administration on the Adjustment to VAT Rates (Cai Shui [2018] No. 32) (《財政部稅務總局關於調整增值稅稅率的通知》(財稅[2018]32號));

21. Notice of the Ministry of Finance and the State Taxation Administration on the Exemption of VAT on Feed Products (Cai Shui [2001] No. 121) (《財政部國家稅務總局關於飼料產品免徵增值稅問題的通知》(財稅[2001]121號));

22. Provisional Regulations of the People's Republic of China on Land Use Tax in Cities and Towns (《中華人民共和國城鎮土地使用稅暫行條例》) (Amended for the fourth time according to the Decree No. 709 of the State Council (國務院令第709號) on 2 March 2019);

23. Announcement on Policies Related to the Deepening of VAT Reform (No. 39 of 2019) (《關於深化增值稅改革有關政策的公告》(2019年第39號)) jointly issued by the Ministry of Finance, State Taxation Administration and General Administration of Customs;

24. Accounting Standards for Business Enterprises – Basic Standards (Decree No. 33 of the Ministry of Finance) (《企業會計準則–基本準則》(財政部令第33號)) and Decisions of the Ministry of Finance on Amending the Accounting Standards for Business Enterprises – Basic Standards (Decree No. 76 of the Ministry of Finance) (《財政部關於修改<企業會計準則–基本準則>的決定》(財政部令第76號)).

(II) Basis in respect of valuation standards

1. Basic Asset Valuation Standards (Cai Zi [2017] No. 43) (《資產評估基本準則》(財資[2017]43號));

2. Professional Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30) (《資產評估職業道德準則》(中評協[2017]30號));

3. Practice Standards for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36) (《資產評估執業準則–資產評估程序》(中評協[2018]36號));

4. Practice Standards for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35) (《資產評估執業準則–資產評估報告》(中評協[2018]35號));

5. Practice Standards for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33) (《資產評估執業準則–資產評估委託合同》(中評協[2017]33號));

6. Practice Standards for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37) (《資產評估執業準則–資產評估檔案》(中評協[2018]37號));

7. Practice Standards for Asset Valuation – Utilization of Expert Work and Related Reports (Zhong Ping Xie [2017] No. 35) (《資產評估執業準則–利用專家工作及相關報告》(中評協[2017]35號));

8. Practice Standards for Asset Valuation – Enterprise Value (Zhong Ping Xie [2017] No. 38) (《資產評估執業準則–企業價值》(中評協[2018]38號));

9. Practice Standards for Asset Valuation – Intangible Assets (Zhong Ping Xie [2017] No. 37) (《資產評估執業準則–無形資產》(中評協[2017]37號));

10. Practice Standards for Asset Valuation – Real Estate (Zhong Ping Xie [2017] No. 38) (《資產評估執業準則–不動產》(中評協[2017]38號));

11. Practice Standards for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39) (《資產評估執業準則–機器設備》(中評協[2017]39號));

12. Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42) (《企業國有資產評估報告指南》(中評協[2017]42號));

13. Practice Standards for Asset Valuation – Intellectual Property Rights (Zhong Ping Xie [2023] No. 14) (《資產評估執業準則–知識產權》(中評協[2023]14號));

14. Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46) (《資產評估機構業務質量控制指南》(中評協[2017]46號));

15. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47) (《資產評估價值類型指導意見》(中評協[2017]47號));

16. Guiding Opinions on the Legal Ownership of the Target of Asset Valuation (Zhong Ping Xie [2017] No. 48) (《資產評估對象法律權屬指導意見》(中評協[2017]48號));

17. Guiding Opinions on the Valuation of Patent Assets (Zhong Ping Xie [2017] No. 49) (《專利資產評估指導意見》(中評協[2017]49號));

18. Guiding Opinions on Valuation of Copyright Assets (Zhong Ping Xie [2017] No. 50) (《著作權資產評估指導意見》(中評協[2017]50號));

19. Guiding Opinions on Valuation of Trademark Assets (Zhong Ping Xie [2017] No. 51) (《商標資產評估指導意見》(中評協[2017]51號));

20. Practice Standards for Asset Valuation – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35) (《資產評估執業準則–資產評估方法》(中評協[2019]35號));

21. 2020 Terminology of the Asset Valuation Standards (Zhong Ping Xie [2020] No. 31) (《資產評估準則術語2020》(中評協[2020]31號)).

(III) Basis in respect of ownerships

1. Title Registration Certificate of Enterprises;

2. State-owned Land Use Rights Certificate or Real Estate Title Certificate;

3. Building Ownership Certificate or Real Estate Title Certificate;

4. Patent Certificate;

5. Trademark Registration Certificates;

6. Vehicle Registration Certificate;

7. Other title-related certificates.

(IV) Pricing basis

1. Financial Rules for Basic Construction (《基本建設財務規則》) (Decree No. 81 of the Ministry of Finance of the People's Republic of China, implemented from 1 September 2016);

2. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (《機動車強制報廢標準規定》) (Decree No. 12 of 2012 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection, implemented from 1 May 2013);

3. Notice on the Issuance of the Management Regulations on the Costs of Basic Construction Projects by the Ministry of Finance (Cai Jian [2016] No. 504) (《財政部關於印發< 基本建設項目建設成本管理規定> 的通知》(財建[2016]504號));

4. Notice of National Development and Reform Commission on Further Liberalization of the Professional Service Fees for Construction Projects (Fa Gai Jia Ge [2015] No. 299) (《國家發展改革委關於進一步放開建設項目專業服務價格的通知》(發改價格[2015]299號));

5. The standard deposit and lending rate and the foreign exchange rate on the valuation reference date;

6. Comprehensive Quotas for Housing Construction and Decoration Projects in Guangdong Province (《廣東省房屋建築與裝飾工程綜合定額》);

7. Consumption Quota and Full Cost Base Price Table for Building Construction and Decoration Projects in Hubei Province (《湖北省房屋建築與裝飾工程消耗量定額及全費用基價表》);

8. Pricing Quotas for Construction and Decoration Projects in Jiangsu Province (《江蘇省建築與裝飾工程計價定額》);

9. 2024 Price Information Enquiry System for Mechanical and Electrical Products (《2024機電產品價格信息查詢系統》);

10. Financial statements and audit reports for previous years provided by the enterprise;

11. Financial information and business plans for future years provided by the relevant departments of the enterprise;

12. Revenue forecast for future years and relevant information provided by the enterprise;

13. Other relevant information related to the valuation which is recorded and collected by the valuers during on-site survey;

14. Wind Info;

15. Other information related to this asset valuation.

(V) Other references

1. Regulations for Valuation of Urban Land (《城鎮土地估價規程》) (GB/T18508-2014);

2. Regulations for Gradation and Classification of Urban Land (《城鎮土地分等定級規程》) (GB/T18507-2014);

3. Standards for Real Estate Valuation (《房地產估價規範》) (GB/T50291-2015);

4. Housing Maintenance Grade and Evaluation Criteria (Trial) (Cheng Zhu Zi [1984] No. 678) (《房屋完損等級評定標準(試行)》(城住字[1984]第678號));

5. Guidelines No. 8 for Asset Valuation Experts – Check and Verification in Asset Valuation (Zhong Ping Xie [2019] No. 39) (《資產評估專家指引第8號–資產評估中的核查驗證》(中評協[2019]39號));

6. Guidelines No. 12 for Asset Valuation Experts – Measurement of Discount Rates in the Valuation of Enterprise Value based on the Income Approach (Zhong Ping Xie [2020] No. 38) (《資產評估專家指引第12號–收益法評估企業價值中折現率的測算》(中評協[2020]38號));

7. The list of assets and the declaration form for valuation provided by the appraised entity;

8. The standard unqualified audit report issued by Baker Tilly China Certified Public Accountants LLP;

9. The database of Beijing Zhongqihua Assets Appraisal Co., Ltd. (北京中企華資產評估有限責任公司).

VII. VALUATION METHODOLOGY

Income approach refers to the approach in which the expected return shall be capitalized or discounted so as to determine the value of the valuation target.

Market approach refers to the approach in which the valuation target shall be compared with other comparable listed companies or transaction cases so as to determine the value of the valuation target.

Asset-based approach refers to the approach in which, based on the balance sheet of the valuation target on the valuation reference date, the value of the assets and liabilities identifiable on and off the balance sheet shall be appraised so as to determine the value of the valuation target.

As stated in the Practice Standards for Asset Valuation – Enterprise Value (《資產評估執業準則—企業價值》), when performing the valuation of any enterprise, the suitability of the three basic valuation methods, namely the income approach, the market approach and the asset-based approach, shall be analyzed based on the purpose of valuation, the valuation target, the type of value, the collected information etc. in its selection of valuation methods. If different valuation methods are suitable for the valuation of any enterprise, the professional asset valuers should adopt two or more valuation methods for their valuation.

Based on the purpose of valuation, the valuation target, the type of value, the collected information and other relevant conditions, subject to the applicability of the three basic valuation approaches, the valuers have gained an understanding of the asset conditions, operating conditions, business plans and development plans of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司), analyzed the relevant sectors where it operates, and concluded that the appraised entity has complete financial information and asset management information available for use and a relatively extensive source of data and information related to the costs of asset re-acquisition, thus meeting the conditions for adopting the asset-based approach for valuation. Meanwhile, the appraised entity has been operating in the feed industry for years, with a relatively stable customer base and predictable future revenue. Therefore, the conditions to adopt the income approach for the valuation are satisfied.

Considering that there are very few recent comparable transaction cases which are similar to that of the appraised entity, the operation of most listed companies in the relevant industry includes the industrial chains of feed, breeding and fresh produce instead of the pure feed production and operation industry of the appraised entity. Therefore, the market approach was not chosen for this valuation.

Based on the above analysis, the asset-based approach and the income approach were adopted for the valuation, and the asset-based approach was adopted to arrive the valuation results.

(I) Asset-based approach (including subsidiaries)

1. Current assets

(1) The appraised value of cash and cash equivalents, including bank deposits and other cash and cash equivalents, is determined based on the verified value upon verifying bank statements, balance reconciliation statements, etc.

(2) For trade debtors and other receivables, the valuers determined the appraised value according to the potentially recoverable amount of each payment, on the basis of verifying the correctness of the receivables. With regard to those receivables which are, with sufficient reason, believed to be fully recoverable, the appraised value is calculated as the total amount of the receivables. For receivables part of which is probably non-recoverable, if it is difficult to determine the amount of non-recoverable receivables, the valuers analyze the amount, the duration and reasons of arrears, the recovery of payments, the funds, credit, operation and management conditions of debtors, by reference to historical data and through on-site investigation, and estimate the non-recoverable amount according to the aging analysis method, and calculate the appraised value after deducting such amount as the risk loss. If there is conclusive evidence that receivables cannot be recovered, the appraised value shall be nil; the "bad debt provision" on the book shall be nil.

(3) For prepayments, the valuers checked relevant material purchase contracts or supply agreements, to understand the services and goods received from the valuation reference date to the on-site verification date for the valuation. If the supplier is not found to be bankrupt, cancelled or unable to provide goods or services on schedule as specified in contracts, the verified book value is the appraised value.

(4) For raw materials, the appraised value of each asset is calculated as the quantity verified upon inspection multiplied by the current market purchase price plus reasonable freight and miscellaneous fees, wastage, inspection and acceptance fees for admission into warehouses and other reasonable fees.

(5) The appraised value of finished products is determined by deducting taxes and an appropriate profit from the after-tax market price on the valuation reference date.

(6) In the valuation, the appraised value of the goods in progress is recognized on the basis of the book value and by taking into account an appropriate profit.

(7) For other current assets (mainly input VAT to be deducted by the appraised entity), the valuers checked whether the subsidiary ledger, the general ledger and the balance of the statements are consistent, checked some original vouchers and other relevant information on a sampling basis, and calculated the appraised value based on the verified book value.

2. Long-term equity investments

(1) Wholly-owned and controlling long-term equity investments

In the overall valuation of wholly-owned and controlling long-term equity investments, the valuers assessed the value of the entire equity of shareholders in the investee, which was multiplied by the shareholding percentage to arrive at the value of the entire equity of shareholders.

(2) Non-controlling long-term equity investments

For non-controlling long-term equity investments that do not meet the conditions for overall valuation, the valuers obtained the financial statements of the investee as at the valuation reference date according to the actual conditions of the investee, carried out appropriate analysis of the financial statements of the investee, and calculated the appraised value of the non-controlling long-term equity investments based on the book value of net assets of the investee on the valuation reference date multiplied by the shareholding percentage.

3. Buildings (or structures)

The valuation was conducted using the replacement cost method for self-constructed productive buildings and industrial plants, and the market comparison method for externally purchased commercial properties.

Replacement cost method:

(1) Determination of the full replacement cost of buildings

Full replacement cost = total construction and installation costs (tax inclusive) + upfront fees and other expenses + capital cost

① For large-scale, high-value and important buildings (or structures), if relevant final accounts can be obtained, the costs of civil works and various installation works shall be calculated separately based on the quota standards and relevant fee-charging documents implemented in various regions, and the total costs of construction and installation works shall be calculated. If the relevant final accounts are not available, the total costs of construction and installation works can be adjusted by referring to local cost indices for similar buildings or indices in the construction industry.

② For low-value and simple-structured buildings (or structures), the total construction and installation costs are valued by using the unit cost method.

③ Upfront fees and other expenses are valued according to industry standards and relevant local regulations on administrative and institutional fees. Capital cost is valued by reference to the lending interest rate on the valuation reference date and the normal construction period of such type of buildings. Finally, the full replacement cost is valued.

(2) Determination of comprehensive newness rate

Comprehensive newness rate is determined in accordance with the following formula:

Comprehensive newness rate = remaining useful life/(used life + remaining useful life)

The remaining useful life in the formula above is determined based on the economic useful life and used life of the buildings that fall within the scope of valuation, with reference to the on-site survey, historical renovations, modification and maintenance of the buildings. Determination of the comprehensive newness rate is subject to continuous service function of the valuation target, mainly depending on stability and firmness of its foundation and main structure, conditional upon which the newness of fitting-out and ancillary facilities may be determined and considered as an auxiliary condition for adjusting the newness rate of the foundation and main structure.

(3) Determination of appraised value

Appraised value = full replacement cost × comprehensive newness rate

Market comparison approach:

The valuation was based on the market comparison approach: if the local real estate market is developed and there are comparable cases, the market comparison approach will be applied for valuation in which certain comparable real property is selected for the purpose of adjustment based on the condition and date of transaction, geographical factor and individual factor of the property to arrive at the appraised value. The formula is as follows:

Price of real property to be appraised = transaction price of the comparable real property × normal condition of transaction/condition of the transaction of the comparable real property × geographical factor value of the real property to be appraised/geographical factor value of the comparable real property × individual factor value of the real property to be appraised/individual factor value of the comparable real property × price index for the real property to be appraised as at the valuation reference date/price index for the comparable real property as at the transaction date.

4. Machinery and equipment

Based on the characteristics of the equipment, types of appraised value, the information collected and other relevant conditions, the replacement cost method was mainly adopted for the valuation. For some transportation vehicles and electronic equipment, the valuation was conducted based on the second-hand market price or realizable value on the valuation reference date.

The replacement cost method was mainly adopted for the valuation of machinery and equipment. The formula is as follows:

Appraised value of equipment = full replacement cost of equipment × comprehensive newness rate

(1) Determination of full replacement cost

For the machinery and equipment that fall with the scope of the valuation, the replacement cost generally includes the purchase price of equipment, transportation and miscellaneous expenses. The formula for calculating the replacement cost of equipment is as follows:

Replacement cost of equipment = purchase price of equipment + transportation and miscellaneous expenses + installation and debugging expenses + upfront fees and other expenses + capital cost

① Purchase price

Purchase price of equipment is mainly determined by inquiring the manufacturers about the market price as at the valuation reference date or by referring to the latest contract price for similar equipment as at the valuation reference date; for small equipment, the purchase price is mainly determined by obtaining market quotations as at the valuation reference date. In particular, the price index adjustment method is used for some equipment that was purchased long ago and for which it was not possible to obtain quotations.

② Transportation and miscellaneous expenses

Transportation and miscellaneous expenses represent the transportation costs, loading, unloading and handling charges and other relevant miscellaneous expenses during transportation of equipment. If transportation and miscellaneous expenses are included in the purchase price of the equipment, they are not charged separately; otherwise, they are calculated with reference to the domestic transportation and miscellaneous expenses based on the following formula:

Transportation and miscellaneous expenses = purchase price of equipment × rate for transportation and miscellaneous expenses

③ Installation and debugging expenses

Installation and debugging expenses = purchase price of equipment × installation rate

Installation and debugging expenses will not be calculated again if included in the contract price.

④ Upfront fees and other expenses

Upfront fees and other expenses include survey and design fees, tendering agency service fees, construction unit management fees, consulting fees for environmental impact, project construction supervision fees, feasibility study report preparation fees, etc.

⑤ Capital cost

Capital cost is estimated based on the reasonable construction period of the appraised entity, with reference to the standard RMB loan rates from financial institutions for the same period published by the PBC as at the valuation reference date, and calculated according to the evenly invested funds based on the sum of the purchase price of equipment, transportation and miscellaneous expenses, installation costs, upfront fees and other expenses, etc.

(2) Determination of comprehensive newness rate

① For special equipment and general machinery and equipment, the valuers determined the remaining useful life based on the economic useful life of equipment, used life and on-site inspection into the usage and technical status of equipment, and thereby determined the comprehensive newness rate according to the following formula.

Comprehensive newness rate = remaining useful life/(remaining useful life + used life) × 100%

② For electronic equipment, air conditioners and other small equipment, the valuers determined the comprehensive newness rate primarily based on the economic useful life of equipment. For large electronic equipment, when determining their comprehensive newness rate, the valuers also considered other factors including the work environment surrounding the equipment and the operating conditions of the equipment. The formula is as follows:

Newness rate under the useful life method = (economic useful life – used life)/economic useful life × 100%

Comprehensive newness rate = newness rate under the useful life method × adjustment factor

③ For vehicles, in accordance with the Standards for Mandatory Scrapping of Motor Vehicles promulgated by the State, the newness rate was determined based on the lower of the vehicles mileage method and the useful life method and adjusted after on-site inspection. The formula is as follows:

Newness rate under the useful life method = (required useful life – used life)/required useful life × 100%

Newness rate under the mileage method = (reference mileage – travelled mileage)/reference mileage × 100%

Comprehensive newness rate = theoretical newness rate × adjustment factor

(3) Determination of appraised value

Appraised value = full replacement cost × comprehensive newness rate

5. Construction in progress

Cost approach is applied in the valuation of construction in progress. In order to avoid duplicated or omission of asset measurement, the following valuation methods are adopted in light of the characteristics of construction in progress, the type and specific conditions of each construction in progress:

(1) In respect of the construction in progress where the major equipment or the main constructions have been transferred into fixed assets and certain cost items have not been recognized, if its value has already been included in the appraised value of fixed assets, the appraised value of such type of construction in progress is nil.

(2) Uncompleted project

For construction in progress that starts construction within six months starting from the valuation reference date, the appraised value is determined by deducting the unreasonable expenditures from the reported amount after accounts verification.

For construction in progress that starts construction more than six months from the valuation reference date and are normally under construction, and if there are no material changes in the prices of equipment, materials and labour involved in the investment during such period, the appraised value is determined by deducting unreasonable expenditures from the book value plus appropriate capital costs, or if there are material changes in the prices of equipment, materials and labour involved in the investment during such period, the replacement value is determined as all costs needed to get ready the completed work of such construction in progress under normal conditions as at the valuation reference date. If serious physical obsolete depreciation, functional obsolete depreciation and economic obsolete depreciation obviously exist, it is required to deduct all depreciation amounts or otherwise the depreciation amount would be nil.

6. Land use rights

There are 22 land use rights in total within the scope of the valuation (including the item of investment property – land use rights). According to the land market conditions of various regions, the market comparison method and the benchmark land price method are mainly used for the valuation. The calculation step is as follows:

(1) In determining the value of land use rights, the market comparison method is a method which, adhering to the principle of substitution, compares the parcel of land to be appraised with examples of similar parcels of land for which transactions that have occurred in a relatively recent period, and arrives at the value of the valuation target as at the valuation date by adjusting the known price of the latter parcel of land, taking into account the differences in the transaction status, date, region and individual factors of the land. The formula is as follows:

Price of the land parcel to be appraised = price of the comparable land parcel × (transaction condition index of the land parcel to be appraised/transaction condition index of the comparable land parcel) × (land price index on the transaction date of the comparable land parcel/price index of the land parcel to be appraised on the valuation date) × (conditional index of regional factors of the land parcel to be appraised/conditional index of regional factors of the comparable land parcel) × (conditional index of individual factors of the land parcel to be appraised/conditional index of individual factors of the comparable land parcel)

(2) The benchmark land price coefficient correction approach is a method for estimating the objective price of the land parcel to be appraised by using the benchmark land price published by the local government, analyzing the factors affecting the price of the land parcel to be appraised, and using various correction coefficients to correct the published benchmark land prices for the same purpose, the same level or the same region of the city.

7. Other intangible assets

Other intangible assets are mainly software purchased by the enterprise and software allocated within the group.

For the software allocated within the group, the appraised value is recognized based on the book value in this valuation.

The market approach was adopted for the valuation of the purchased software, as follows: (1) the appraised value of the purchased software sold in the market on the valuation reference date was determined based on the market price on the valuation reference date; (2) the appraised value of the purchased software sold in the market on the valuation reference date with upgraded versions was determined based on the market price on the valuation reference date after deducting the software upgrade expenses.

8. Long-term deferred expenses

For the valuation of long-term deferred expenses, the valuers checked the original accounting vouchers, contracts and invoices to verify the authenticity and completeness of the accounting.

It was verified that the original amount of long-term deferred expenses incurred was true and accurate; the amortization balance was correct; and the long-term deferred expenses were still entitled to the corresponding equity or assets in the future benefit period; and the appraised value was determined based on the balance to be apportioned for the remaining benefit period.

9. Deferred tax assets

Deferred tax assets mainly arise from the difference in income tax payable due to the difference between the provision for impairment made by enterprises in accordance with the requirements of the accounting system and the provision for impairment allowed to be deducted in accordance with the provisions of the tax law.

This valuation was to investigate and verify the rationality of various provisions of the enterprise and the rationality and correctness of the formation and calculation of deferred tax debits based on the audited book value. The appraised value of deferred tax assets was determined based on the verified book value.

10. Other non-current assets

Other non-current assets are mainly prepayments for equipment and construction projects. The valuers verified that the subsidiary ledger was consistent with the general ledger and the balance of the statements, checked the equipment purchase contract, original vouchers and other relevant information on a sampling basis, and determined the appraisal value based on the verified book value.

11. Liabilities

Liabilities consist of short-term borrowings, accounts payable, staff remuneration payable, taxes payable, other payables, contract liabilities, non-current liabilities due within one year, lease liabilities, deferred income, deferred tax liabilities and accrued liabilities. The valuers verified the book value according to the detailed statements and relevant financial information provided by the enterprise for each item, and determined the appraisal value based on the actual liabilities to be borne by the enterprise.

(II) Income approach

The discounted cash flow method under the income approach was adopted to evaluate the overall enterprise value in order to indirectly obtain the value of the entire equity of shareholders. The overall enterprise value consists of the value of operating assets arising from normal operating activities and the value of non-operating assets which are not related to normal operating activities. The discounted free cash flow model for enterprises was selected for the determination of the value of operating assets, which is based on the future free cash flow forecast of the enterprise in the coming years to discount them by adopting an appropriate discount rate before adding up the values. Given that the appraised entity and its subsidiaries engage in the feed industry and produce feed products with a very high degree of homogeneity, the fund management and the research and development of products are centrally coordinated and managed by the appraised entity, and there are certain related transactions between the appraised entity and its subsidiaries, the combined income approach was adopted for the valuation as it can truly reflect the profitability. The specific calculation model is as follows:

Value of the entire equity of shareholders attributable to the parent company = overall enterprise value – value of interest-bearing debts – value of minority interests

Where: Value of the entire equity of shareholders = overall enterprise value – value of interest-bearing debts

1. Overall enterprise value

The overall enterprise value refers to the sum of the value of the entire equity of shareholders and the value of interest-bearing debts. Based on the allocation and use of assets of the appraised entity, the overall enterprise value is calculated as follows:

Overall enterprise value = value of operating assets + value of non-operating assets and liabilities + value of surplus assets + value of long-term equity investment

(1) Value of operating assets

Operating assets refer to assets and liabilities under the free cash flow forecast of the enterprise after the valuation reference date relating to production and operation of the appraised entity. Value of operating assets is calculated as follows:

$$P = \sum_{i=1}^{n} \frac{F_i}{(1 + r)^i} + \frac{F_n \times (1 + g)}{(r - g) \times (1 + r)^n}$$

Where: P: Value of operating assets of the enterprise as at the valuation reference date;

F_i: Free cash flow forecast of the enterprise for year i after the valuation reference date;

F_n: Free cash flow forecast of the enterprise for the last year in the forecast period;

r: Discount rate;

n: Forecast period;

i: Year i in the forecast period;

g: Perpetual growth rate.

Where:

Free cash flow of the enterprise is calculated as follows:

Free cash flow of the enterprise = net profit before interest and after tax + depreciation and amortization – capital expenditure – increase in working capital

Discount rate (weighted average cost of capital, or WACC) is calculated as follows:

$$WACC = K_e \times \frac{E}{E + D} + K_d \times (1 - t) \times \frac{D}{E + D}$$

Where: k_e: Cost of equity capital;

k_d: Cost of interest-bearing debt capital;

E: Market value of equity;

D: Market value of interest-bearing debts;

t: Income tax rate.

Cost of equity capital is calculated using the capital asset pricing model (CAPM) as follows:

$$K_e = r_f + MRP \times \beta + r_c$$

Where: r_f: Risk-free interest rate;

MRP: Market risk premium;

ß: Systematic risk coefficient of equity;

r_c: Enterprise specific risk adjustment coefficient.

(2) Value of surplus assets

Surplus assets refer to assets that exceed what is required by the production and operation of the enterprise as at the valuation reference date and are not covered by the free cash flow forecast of the enterprise after the valuation reference date. Surplus assets were analyzed and evaluated separately.

(3) Value of non-operating assets and liabilities

Non-operating assets and liabilities refer to assets and liabilities that are not related to the production and operation of the appraised entity and are not covered by the free cash flow forecast of the enterprise after the valuation reference date. Non-operating assets and liabilities were analyzed and evaluated separately.

(4) Value of long-term equity investment

The value of long-term equity investment refers to the value of long-term equity investment of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) that were not included in the combined statements when accounting on a consolidated basis.

2. Value of interest-bearing debts

Interest-bearing debts refer to the liabilities bearing interest payable by the appraised entity as at the valuation reference date. The verified book value is recognized as the appraised value of interest-bearing debts.

3. Value of minority interests

The combined statements involved four minority interests, including COFCO Feed (Xinji) Co., Ltd. (中糧飼料(辛集)有限公司), COFCO Feed (Yinchuan) Co., Ltd. (中糧飼料(銀川)有限公司), COFCO Feed (Hohhot) Co., Ltd. (中糧飼料(呼和浩特)有限公司) and COFCO Dongda (Heilongjiang) Feed Technology Co., Ltd. (中糧東大(黑龍江)飼料科技有限公司).

VIII. PROCESS AND DETAILS OF IMPLEMENTATION OF VALUATION PROCEDURES

The valuers conducted valuation on the assets and liabilities in relation to the valuation target from 8 July 2024 to 26 September 2024. The process and details of implementation of the major valuation procedures are as follows:

(I) Acceptance of engagement

On 8 July 2024, our company reached an agreement with our clients on the basis of the valuation engagement such as the purpose of valuation, the valuation target, scope of valuation and valuation reference date as well as the rights and obligations of each party, and formulated corresponding valuation plan with our clients upon negotiation.

(II) Preparation

1. Preparation of valuation scheme

In light of the characteristics of the project, and for the purpose of ensuring the quality, standardizing the valuation methods and parameters, our company prepared the Asset Valuation Scheme by leveraging our experience from our previous services to similar enterprises.

2. Building of a valuation team

In light of the characteristics of the assets, including the status and distribution of assets, which fall under the scope of this valuation, our company formed an on-site valuation team equipped with appropriate professionals in charge of the valuation of current assets, buildings, machinery and equipment, land use rights and the income approach, respectively.

3. Implementation of project training

(1) Training to the staff of the appraised entity

In order to give the financial and asset management personnel of the appraised entity an all-round understanding of asset valuation to facilitate their completion and submission of asset valuation-related materials so as to ensure the quality of the declaration materials for the purpose of valuation, our company prepared corporate training materials to provide training to relevant staff of the appraised entity and assigned appropriate staff to answer any questions raised in the course of completing asset valuation-related materials.

(2) Training to valuers

To ensure the quality of the valuation project and improve efficiency, as well as to thoroughly implement the proposed Asset Valuation Scheme, our company provided relevant training to the project team members including the background of the relevant economic behavior, the characteristics of the assets of the valuation target, technical ideas and specific requirements for conducting valuation.

(III) On-site inspection

The valuers conducted necessary thorough checking on the assets and liabilities involved in the valuation target from 9 July 2024 to 20 August 2024, and conducted necessary due diligence on the operational management of the appraised entity.

1. Verification of assets

(1) Guiding the appraised entity on filling in forms and preparing information to be provided to the valuation agency

The valuers guided the financial and asset management personnel of the appraised entity to carefully and accurately declare the assets within the scope of valuation according to the Asset Valuation Schedules provided by the valuation agency and its filling requirements, list of information, etc. on the basis of voluntary asset inspection. At the same time, they collected and prepared the property rights certification documents of assets as well as documents that reflect the performance, status, economic and technical indicators, etc.

(2) Preliminary review and improvement of the Asset Valuation Schedules filled in by the appraised entity

The valuers understood the detailed status of the specific assets within the scope of valuation by reviewing the relevant information, and then carefully reviewed various Asset Valuation Schedules and checked for any items that are incomplete or filled in incorrectly, any unclear asset items, as well as any omissions based on their experience and information obtained. At the same time, they gave feedback to the appraised entity on the improvement of the Asset Valuation Schedules.

(3) On-site inspection

Based on the types, quantities and distribution of assets within the scope of the valuation, the valuers conducted on-site inspection of various assets based on the relevant requirements of valuation standards with the cooperation of relevant personnel of the appraised entity, and adopted different inspection methods according to different nature and characteristics of assets.

(4) Supplement, modification and improvement of the Asset Valuation Schedules

The valuers further improved the Asset Valuation Schedules based on the results of on-site inspection and extensive communication with relevant personnel of the appraised entity, so as to ensure consistency among the accounting books, the financial statements and the actual circumstances.

(5) Verification of property title certificates

After verifying the property title certificates of the assets (such as buildings, land use rights, vehicles and intellectual property rights) which fall under the scope of the valuation, the valuers requested the enterprise to verify or provide relevant supporting documents related to property title for assets with defective title or unclear ownership.

2. Due diligence

In order to fully understand the operational management and the risk exposure of the appraised entity, the valuers conducted necessary due diligence, the major contents of which are as follows:

(1) history, substantial shareholders and their shareholding percentages, necessary property rights and operational management structure of the appraised entity;

(2) assets, finance, production and operational management of the appraised entity;

(3) operation plan, development planning and forecast financial information of the appraised entity;

(4) valuation and transaction of the valuation target and the appraised entity in the past;

(5) macro and regional economic factors that affect the production and operation of the appraised entity;

(6) development and prospect of the industry in which the appraised entity operates;

(7) other relevant information.

(IV) Collection of information

The valuers collected information for the valuation based on the specific circumstances of the valuation project, including information directly obtained from channels such as the market, information obtained from relevant parties such as our clients, and information obtained from government departments, various professional bodies and other relevant authorities, and conducted necessary analysis, conclusion and compilation for the valuation information collected, serving as the basis for valuation estimation.

(V) Valuation estimation

The valuers adopted the corresponding formula and parameters for analysis, calculation and determination based on the specific circumstances of each type of assets and the selected valuation approach to arrive at a preliminary valuation conclusion. The project manager summed up the preliminary valuation conclusion of each type of assets, and prepared and compiled a preliminary asset valuation report.

(VI) Internal audit

According to our administrative measures for the procedures of valuation engagement, the project manager shall submit the preliminary asset valuation report for internal audit upon completing the same. Upon completion of the internal audit, the project manager shall communicate with our clients or other relevant parties agreed by our client on the contents of the asset valuation report. We will issue and submit the asset valuation report after reasonable modification based on the feedback.

IX. ASSUMPTIONS OF VALUATION

The assumptions adopted for the analysis and estimation in this asset valuation report are as follows:

1. It is assumed that all valuation targets are in the transaction process, and our valuers will conduct the valuation with reference to a simulated market based on the transaction conditions of the assets being appraised;

2. It is assumed that both parties to the asset transaction or the proposed asset transaction in the market have equal positions and have the opportunity and time to access sufficient market information, and the transaction activities will be conducted on a voluntary and rational basis, so as to make a rational judgment on the assets in terms of their function, purpose and transaction price;

3. It is assumed that the assets being appraised will continue to be used according to their current purpose and usage;

4. It is assumed that there will be no material changes in the PRC laws, regulations and policies currently in force and the macro-economic situation of the PRC, and there will be no material changes in the political, economic and social environment of the region where the parties to the transaction are located;

5. It is assumed that the enterprise will continue to operate as a going concern based on the actual circumstances of the assets as of the valuation reference date;

6. It is assumed that, after the valuation reference date, there will be no material changes to the interest rates, exchange rates, tax bases, tax rates and policy-based levies in relation to the appraised entity;

7. It is assumed that, after the valuation reference date, the management of the appraised entity is responsible and stable, and is capable of performing its duties;

8. It is assumed that, after the valuation reference date, there will be no force majeure and unforeseen circumstances that will have a significant adverse impact on the appraised entity;

9. It is assumed that, after the valuation reference date, the accounting policies adopted by the appraised entity will remain the same as those adopted in the preparation of this asset valuation report in material aspects;

10. It is assumed that, after the valuation reference date, the scope and methods of operation of the appraised entity will remain the same as those existing, based on the existing management approaches and standards;

11. It is assumed that, after the valuation reference date, the cash inflow and outflow of the appraised entity are average inflow and outflow, respectively;

12. It is assumed that the products produced or sold by the appraised entity are within the limits of its qualifications and will not have any material quality defects or major technical failures in the future;

13. It is assumed that the preferential tax policies involving the appraised entity will continue upon expiry.

The valuation conclusion of this asset valuation report is valid as of the valuation reference date under the above assumptions. In case of any material change to the above assumptions, the signing asset valuers and our company shall not be responsible for the different valuation conclusions due to the change of assumptions.

X. VALUATION CONCLUSION

(I) Valuation results under the asset-based approach

Summary table of valuation results under the asset-based approach

Valuation reference date: 30 June 2024 Unit: RMB'0,000

Item		Book value A	Appraised value B	Appreciation/ depreciation in value C=B-A	Appreciation rate (%) D=C/A×100
Current assets	1	80,209.68	79,986.24	-223.44	-0.28
Non-current assets	2	95,493.68	135,361.55	39,867.87	41.75
Including: Long-term equity investment	3	95,419.58	135,227.00	39,807.42	41.72
Investment properties	4	–	–	–	
Fixed assets	5	–	–	–	
Construction in progress	6	–	–	–	
Oil and gas assets	7	–	–	–	
Intangible assets	8	74.10	78.69	4.59	6.19
Including: Land use rights	9	–	–	–	
Other non-current assets	10	–	55.86	55.86	
Total assets	**11**	**175,703.36**	**215,347.79**	**39,644.43**	**22.56**
Current liabilities	12	58,440.72	58,440.72	–	–
Non-current liabilities	13	–	–	–	
Total liabilities	**14**	**58,440.72**	**58,440.72**	**–**	**–**
Net assets	**15**	**117,262.64**	**156,907.07**	**39,644.43**	**33.81**

Note: The book value attributable to the parent company of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) on a consolidated basis was RMB1,341.5601 million, and the value of the entire equity of shareholders upon valuation under the asset-based approach was RMB1,569.0707 million, representing an appreciation of RMB227.5106 million or an appreciation rate of 16.96%.

COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) is a holding company without its own business. Its valuation is reflected through the appreciation of its controlling subsidiaries, and the presentation item is long-term equity investment.

The main reasons for the appreciation of long-term equity investments are as follows: (1) COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) accounts for its investees under the cost method, and its book value represents static investment costs, after a period of operation and management, the subordinate investees have accumulated certain profits to varying degrees, resulting in their net assets as at the valuation reference date being higher than their original investment costs; (2) each of the subordinate investees is engaged in the production and sales of feed, and the sale price of the inventory to be sold is higher than the book accounting cost of such inventory; therefore, there is a certain appreciation in inventory as at the valuation reference date; and (3) most of the subordinate investees have production facilities, including their own factories, land and equipment, and there is a certain appreciation of these assets after revaluation.

(II) Valuation results under the income approach

The book value attributable to the parent company of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) on a consolidated basis was RMB1,341.5601 million, and the value of the equity attributable to the owners of the parent company under the income approach was RMB1,561.1568 million, representing an appreciation of RMB219.5967 million or an appreciation rate of 16.37%.

(III) Valuation conclusion

The value of the entire equity of shareholders under the asset-based approach was RMB1,569.0707 million, and the value of the entire equity of shareholders under the income approach was RMB1,561.1568 million, representing a difference of RMB7.9139 million or a difference rate of 0.51%.

The differences between these two valuation methods are mainly due to their different focuses. The valuation results under the asset-based approach were arrived at from the perspective of re-acquisition of assets, which reflected the replacement cost of the existing assets of the enterprise. The valuation result under the income approach was arrived at from the perspective of the future profitability of the enterprise, which reflected the consolidated profitability of assets of the enterprise.

Affected by the macroeconomic environment, intensified competition in the feed industry and fluctuations in raw materials, the results obtained through adopting income approach are uncertain; the feed industry is an industry that focuses on asset investment, the financial information and asset management information of the appraised enterprise are complete, and the replacement cost of assets can be reasonably estimated; therefore, the valuation results under the asset-based approach can better reflect its market value on the reference date, and therefore the valuation results under the asset-based approach were adopted in this valuation.

Based on the above analysis, the asset-based approach was adopted to evaluate the results to reach the valuation conclusion in this valuation report, namely, the appraised value of the entire equity of shareholders of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) was RMB1,569.0707 million.

XI. NOTES ON SPECIAL MATTERS

Below are the relevant matters identified during the valuation process that may affect the valuation conclusion but could not be evaluated or estimated by the valuers with their practice standards and professional capabilities:

(I) In this asset valuation report, for all tables or textual expressions which are presented in RMB'0,000, any difference between the total amount and the sum of individual item values is due to rounding.

(II) The Audit Report of COFCO Jiahua Industrial Limited (Tian Zhi Ye Zi [2024] No. 47701) issued by Baker Tilly China Certified Public Accountants LLP, which is a standard unqualified report, has been used in this valuation. According to Article 12 of the Practice Standards for Asset Valuation – Enterprise Value (《資產評估執業準則—企業價值》), the professional asset valuers shall analyze and make judgements on the financial statements according to the requirements on the use of financial statements under the valuation approaches adopted. However, it is not the valuers' responsibility to issue professional opinions on whether the relevant financial statements have fairly reflected the financial position as of the valuation reference date and the operating results or cash flow for the period.

(III) Material tax preference policies and basis

1. VAT

Pursuant to the Notice of the Ministry of Finance and the State Taxation Administration on the Exemption of VAT on Feed Products (Cai Shui [2001] No. 121) (《財政部國家稅務總局關於飼料產品免徵增值稅問題的通知》(財稅[2001]121號)), single bulk feed, mixed feed, compound feed, compound premix and concentrated feed shall be exempted from the VAT. The wholly-owned and holding subsidiaries of COFCO Jiahua Industrial Limited (中糧嘉華實業有限公司) enjoy the tax preference of the VAT exemption for feed products.

2. Enterprise income tax (EIT)

According to the Announcement on the Continuation of the EIT Policy Related with the Western Region Development (Notice No. 23 of 2020 of the Ministry of Finance) by the Ministry of Finance, State Taxation Administration and National Development and Reform Commission (《財政部稅務總局國家發展改革委關於延續西部大開發企業所得稅政策的公告》), from 1 January 2021 to 31 December 2030, for enterprises in encouraged industries located in the western region, EIT is levied at a reduced rate of 15%. The term "encouraged industrial enterprises" as mentioned in this article refers to enterprises whose main business is the industrial projects specified in the Catalogue of Encouraged Industries in the Western Region, and whose main business income accounts for more than 60% of the total enterprise income. The western region referred to in the announcement includes Inner Mongolia Autonomous Region, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region and The Xinjiang Production and Construction Corps. Xiangxi Tujia and Miao Autonomous Prefecture of Hunan Province, Enshi Tujia and Miao Autonomous Prefecture of Hubei Province, Yanbian Korean Autonomous Prefecture of Jilin Province and Ganzhou City of Jiangxi Province may implement the EIT policy in accordance with that stipulated for the western region. COFCO Feed (Yinchuan) Co., Ltd. (中糧飼料(銀川)有限公司), COFCO Feed (Chengdu) Co., Ltd. (中糧飼料(成都)有限公司), COFCO Feed (Hohhot) Co., Ltd. (中糧飼料(呼和浩特)有限公司) and COFCO Feed (Maoming) Co., Ltd., Hohhot Branch (中糧飼料(茂名)有限公司呼和浩特分公司), all of which are subsidiaries of COFCO Jiahua Industrial Limited, are entitled to the preferential tax policy of EIT at a reduced rate of 15%.

3. COFCO Feed (Jingzhou) Co., Ltd. (中糧飼料(荊州)有限公司) is a small low-profit enterprise. Pursuant to the Notice No. 12 of 2023 of the Ministry of Finance and the State Taxation Administration, the policy that the taxable income of small low-profit enterprises shall be calculated at a reduced rate of 25%, and the EIT shall be paid at a rate of 20% will continue to be implemented up to 31 December 2027.

(IV) According to the Asset Valuation Law (《資產評估法》) and the Guiding Opinions on the Legal Ownership of the Target of Asset Valuation (《資產評估對象法律權屬指導意見》), our clients and the relevant parties entrusting the valuation business shall ensure the authenticity, completeness and legitimacy of the ownership certificates, financial information and other materials provided by them. The purpose of engaging in valuation business is to estimate the value of the asset valuation target and issue professional opinions thereon. It is beyond the scope of practice of the valuers to acknowledge the legal ownership of the asset valuation target or issue opinions thereon. The valuers do not provide guarantee for the legal ownership of the asset valuation target.

Users of the asset valuation report should pay attention to the impact of the above special matters on the valuation conclusion.

XII. NOTES ON THE LIMITATIONS OF USE OF THE ASSET VALUATION REPORT

(I) This asset valuation report is solely for the purposes and uses of valuation stated herein and shall only be used by the users specified herein. The extraction of, reference to, or public disclosure of all or any part of this asset valuation report shall be subject to our review, unless otherwise provided in the laws or regulations or agreed between the relevant parties;

(II) If the clients or other users of the asset valuation report fail to use the report in accordance with the laws, administrative regulations and the scope of use set out in the report, we and our professional asset valuers disclaim any liability arising therefrom;

(III) No entities or individuals other than the clients, other users of the asset valuation report specified in the asset valuation entrustment contract and the users of the asset valuation report set out in the laws and administrative regulations shall become users of the asset valuation report;

(IV) The users of the asset valuation report shall have a correct understanding of the valuation conclusion, which does not represent the realizable price of the valuation target and shall not be deemed as a guarantee for the realizable price of the valuation target;

(V) This asset valuation report shall not be put into use unless and until it has been signed by the valuers conducting the valuation and stamped with our official seal and filed with (or approved by) the state-owned assets supervision and administration authorities or the invested enterprise;

(VI) The valuation conclusion in this asset valuation report is effective for the economic behavior described herein only and the valuation conclusion shall be valid for one year from the valuation reference date.

XIII. DATE OF ASSET VALUATION REPORT

This asset valuation report was issued on 26 September 2024.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors and the chief executive of the Company and their associates had or were deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO to be entered in the register referred to therein, or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in the Listing Rules.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates is or was interested in any business, apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business.

4. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors had any interests, directly or indirectly, in any assets which have been, since 31 December 2023 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular and which is significant in relation to the businesses of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with any member of the Group (excluding contracts expiring or terminable by the Group within one year without payment of any compensation (other than statutory compensation)).

6. MATERIAL LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACTS

On 11 January 2023, the Company and COFCO (Hong Kong) Limited entered into the Share Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and COFCO (Hong Kong) Limited has conditionally agreed to subscribe for, 680,000,000 Shares of the Company in cash at the subscription price of HK$2.30 per Share for a total subscription consideration of HK$1,564,000,000. On 24 March 2023, 680,000,000 Subscription Shares were allotted and issued to the COFCO (Hong Kong) Limited. The net proceeds (after deducting placing commission and other relevant costs and expenses) from the Share Subscription amounted to approximately HK$1,551 million (equivalent to approximately RMB1,353 million). For further details of the Share Subscription, please refer to the announcements of the Company dated 11 January 2023 and 24 March 2023 and the circular of the Company dated 27 February 2023.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there have not been any material adverse change in the financial or trading positions of the Group since 31 December 2023, the date to which the latest published audited consolidated financial statements of the Company were made up.

9. EXPERT'S QUALIFICATION AND CONSENT

The following sets forth the qualification of the experts who have given opinions contained in this circular:

Name	Qualification
Somerley Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Beijing Zhongqihua Assets Appraisal Co., Ltd.	an independent and qualified PRC asset valuation agency accredited by China Appraisal Society
Baker Tilly Hong Kong Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the above experts: (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of their letters, reports, and references to its name and advice in the form and context in which they respectively appear; (ii) did not have any shareholding in any member of the Group directly or indirectly or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (iii) did not have any direct or indirect interest in any assets which had been, since 31 December 2023 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

(a) The Company's registered office is at Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands.

(b) The joint secretaries of the Company are Ms. Jin Qiu and Ms. Chau Hing Ling. Ms. Chau is a fellow member of The Chartered Governance Institute (CGI) and a fellow member of The Hong Kong Chartered Governance Institute (HKCGI).

(c) The Company's branch share registrar in Hong Kong is Tricor Investor Services Limited, whose address is 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.cofcojoycome.com) within 14 days from the date of this circular:

(a) the Acquisition Agreement;

(b) the 2024 Mutual Supply Agreement;

(c) the 2024 Financial Services Agreement;

(d) the letter from Somerley, the text of which is set out in pages 42 to 85 of this circular;

(e) the accountant's report of the Target Company as set out in Appendix II to this circular;

(f) the unaudited pro forma financial information report of the Enlarged Group as set out in Appendix IV to this circular;

(g) the Asset Valuation Report, a summary of which is set out in Appendix V to this circular; and

(h) the written consents referred to in the section headed "Expert's Qualification and Consent" in this Appendix.

中粮
COFCO
自然之源 重塑你我

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)

NOTICE OF THE EGM

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of COFCO Joycome Foods Limited (the "**Company**") will be held at 10:00 a.m. on Monday, 16 December 2024 at Conference Room Joycome, 8/F, COFCO Fortune Plaza, No.8 Chao Yang Men South Street, Chaoyang District, Beijing, the PRC, for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **THAT**

(1) the entering into and the performance of the Acquisition Agreement (as defined in the circular of the Company dated 25 November 2024 (the "**Circular**")) dated 21 October 2024 by the Company and COFCO Industry Investment Co., Ltd. and other transaction documents (as defined in the Acquisition Agreement) and the transaction contemplated thereunder be and are hereby approved, confirmed and ratified; and

(2) any one or more of the directors of the Company be and are hereby authorised to do all such further acts and things, negotiate, approve, agree, sign, initial, ratify and/or execute such further documents which in their opinion may be necessary or desirable and take all steps which in their opinion may be necessary, desirable or expedient.

2. THAT

(1) the provision of products and services by COFCO Group to the Group (i.e. the Company and its subsidiaries) under the 2024 Mutual Supply Agreement (as defined in the Circular) dated 21 October 2024 and entered into between the Company and COFCO Corporation and its proposed annual caps be and are hereby approved, confirmed and ratified; and

(2) any one or more of the directors of the Company be and are hereby authorised to do all such further acts and things, negotiate, approve, agree, sign, initial, ratify and/or execute such further documents which in their opinion may be necessary or desirable and take all steps which in their opinion may be necessary, desirable or expedient.

3. THAT

(1) the Deposit Services under the 2024 Financial Services Agreement (as defined in the Circular) dated 21 October 2024 and entered into among the Company, COFCO Meat Investments Co., Ltd. and COFCO Finance Corporation Limited and its Proposed Deposit Cap be and are hereby approved, confirmed and ratified; and

(2) any one or more of the directors of the Company be and are hereby authorised to do all such further acts and things, negotiate, approve, agree, sign, initial, ratify and/or execute such further documents which in their opinion may be necessary or desirable and take all steps which in their opinion may be necessary, desirable or expedient.

By order of the Board
COFCO Joycome Foods Limited
Gao Xiang
Chairman and executive Director

Beijing, the PRC, 25 November 2024

Notes:

1. Details of the above resolutions are set out in the Circular. Unless the context otherwise requires, terms used herein shall have the same meanings as defined in the Circular.

2. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on behalf of him/her. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

3. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 11 December 2024 to Monday, 16 December 2024, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer of 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 10 December 2024.

4. To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the EGM (i.e. before 10:00 a.m. on Saturday, 14 December 2024) or any adjournment thereof.

5. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding of such share.

6. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the EGM.

As at the date of this notice, the Board comprises Dr. Gao Xiang as the chairman of the Board and executive director, Dr. Zhang Nan as an executive director, Dr. Zhao Wei and Mr. Chen Zhigang as non-executive directors, and Mr. Fu Tingmei, Mr. Li Michael Hankin and Dr. Ju Jiandong as independent non-executive directors.