

[For Immediate Release]



中糧肉食控股有限公司
COFCO Meat Holdings Limited

COFCO MEAT ANNOUNCES 2017 INTERIM RESULTS

SALES GROW RAPIDLY BRANDED BUSINESS DEVELOPS STRONGLY

REVENUE REACHES RMB3.3 BILLION

Summary

Major operating data	For six months ended 30 June		YOY Growth
	2017	2016	
Hog production volume ('000 heads)	1,009	743	35.7%
Sales volume of fresh pork ('000 tons)	80	61	29.5%
Proportion of revenue of branded business ⁽¹⁾	14.9%	12.6%	2.3pt
Major financial data (RMB million)	For six months ended 30 June		YOY Growth
	2017	2016	
Revenue from continuing operations	3,299	2,989	10.4%
Profit for the period (prior to biological assets fair value adjustments)	289	468	-38.2%
Profit for the period attributable to owners of the Company (after biological assets fair value adjustments)	226	722	-68.6%
Basic earnings per share (after biological assets fair value adjustments)	RMB0.0580	RMB0.1986	-70.8%

Remark 1: Revenue of the branded business, which encompasses revenue from fresh pork and processed meat products, as a proportion of total revenue of the Company

Highlights

- Sales volume continued to rise rapidly, with hog production volume climbing 35.7% to 1,009 thousand heads year-on-year; sales volume of fresh pork up 29.5% year-on-year to 80 thousand tons. The rapid sales growth of core businesses has boosted overall revenue of the Group by 10.4% over the last corresponding period
- Channel expansion showed initial results, branded business grew strongly. Revenue from branded business surged 29.9% from the same period last year, occupying 14.9% of the Group's total revenue – up 2.3 percentage points. Volume and profit of branded fresh pork increased and its reputation has continued to strengthen

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- In the first half of 2017, hog prices dropped 21.2% year-on-year, hence the profit of the Group needed to be adjusted accordingly
- Hog prices have nonetheless stabilized since June 2017, which will be favorable to the strategic development of the Group in the future
- By optimizing the organization, flattening the management structure, effectively controlling costs and improving operational efficiency, the Group has been able to mitigate the impact of declining hog prices
- Further enlarged the volume of pigs supplied by its own farms and improved controls for sourcing in the supply chain; the Group achieved a 100% passing rate for more than 50 inspections conducted by the China Food and Drug Administration and other regulatory institutions

(August 30, 2017 - Hong Kong) **COFCO Meat Holdings Limited** (“COFCO Meat” or “the Company,” together with its subsidiaries “the Group;” stock code: 01610), a renowned meat producer and operator in China covering the entire industry value chain, has announced its interim results for the six months ended June 30, 2017.

During the period under review, performance of the core businesses maintained a high growth rate. In the first half of 2017, revenue from continuing operations grew 10.4% year-on-year to RMB 3.3 billion, mainly benefitting from the effective development of fresh pork business channels and the rapid growth of the branded business and overall sales volume. Effective cost control measures have rapidly boosted both hog production volume and finishing weight, which notably offset the side effects brought about by the fall in hog prices. Profit attributable to the owners of the Company amounted to RMB 226 million. Basic earnings per share were RMB 0.0580.

In recent years, large-scale hog production enterprises in China have improved efficiency in various aspects, while implementing increasingly strict environmental protection requirements. Thus, the cost gap between backyard farming and large players has widened, which has caused the continuous exit of backyard farmers, leaving huge room for the development of modern large-scale enterprises.

Mr. Ma Jianping, Chairman of the Board and Non-Executive Director of COFCO Meat, said, “As one of China’s largest meat enterprises spanning the entire value chain of the industry, COFCO Meat has actively captured market opportunities. On the one hand it has strengthened its expertise in genetic modification, feed formula and farming and production facilities along the upstream industrial chain, while on the other hand developing channels and customers along the downstream industrial chain, as well as actively developing its branded business. At the same time, it has optimized its organization and flattened the management structure which has mitigated the decrease of hog prices and further boosted

the business performance of the Company.”

Hog Production Business: Enlarged the volume of hogs supplied by its own farms and improved its controlling capability at supply chain sources

The Group’s hog production division includes feed production, hog breeding and farming operations. In the first half of 2017, the hog production business grew quickly and recorded a segment revenue of RMB1,627 million, increasing by 9.3% year-on-year. The hog production volume of the Group reached 1,009 thousand head and the average finishing weight per head was 107 kg, rising by 35.7% and 1.2 kg year-on-year respectively, which mitigated the impact of the downward trend in hog prices.

The hog production projects of Phase II of Guangshui in Hubei, Phase I of Zunhua in Hebei, and Phase I of Yongcheng in Henan have all started operation in the first half of 2017, and the hog production project in the joint-venture of Jiangsu CM/Merit Agriculture Development Co., Ltd. have successfully commenced operation. As a result, the Group’s production capacity of piglet increased by 350 thousand heads. As of the end of June 2017, its total hog production capacity amounted to 3,492 thousand heads.

Thanks to the advantages provided by and the strategic cooperation with COFCO Group for the procurement of raw materials, the Group could reduce the purchase cost of the raw materials for feed. In the meantime, the Group has also built feed mills around the production sites. The feed production capacity in Songyuan of Jilin, Chifeng of Inner Mongolia, and Zhangbei of Hebei amounted to 540 thousand tons, catering to the feeding needs of an annual output of 1,500 thousand head of hogs, while the feed mills in Jiangsu and Hubei are under construction. Thus the feed self-sufficiency ratio of the Group keeps increasing.

Fresh Pork Business: Developing channels and customers led to increase of sales volume and profit of branded business

In the first half of 2017, the fresh pork segment recorded historic highs in both profit and scale of growth, thanks to the improved channels and successfully securing more customers. The sales volume increased by 29.5% year-on-year to 80 thousand tons. Segment revenue amounted to RMB1,382 million, increasing by 12.2% year-on-year. Segment profit amounted to RMB45 million, increasing by RMB47 million year-on-year. The revenue of branded business accounted for 23.6% of the entire revenue of the fresh pork business, increasing by 5.9 percentage points from the corresponding period last year. Boosted by the branded business, gross profit margin also rose 4.1 percentage points year-on-year.

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Sales volume and income increases of the fresh pork business were mainly due to the expansion of business in the Eastern China region, where the number of sales terminals of the branded business in Eastern China steadily increased, with revenue of the branded fresh pork business amounting to RMB201 million, increasing notably by 89.7% year-on-year. The Group increased its budget for on-line and off-line brand promotion activities and continually promoted the brand positioning of “Five Checkpoints for Product Safety and Quality Assurance from Company-Owned Farms.” Since the fresh pork branded business was launched in Shanghai during 2014, the market awareness of its brand “Joycome” has quickly grown from 3% to 23%, gaining widespread recognition for the reliability of the products among consumers.

Utilising the advanced factory equipment and diversified distribution channels, the Group has spared no efforts in carrying out fine cutting, to maximize the value of each hog, increase the order fulfillment rate and steadily enlarge its market share.

Processed Meat Products Business: Actively transformed channel structure

The Group’s processed meat products division includes the production, distribution and sale of a wide range of processed meat products, most of which are premium quality low-temperature processed meats. In the first half of 2017, the Group stepped up the efforts in channel transformation, achieving a sales volume of 4.7 thousand tons, up 2.9% year-on-year; a segment revenue of RMB164 million, increasing by 2.1% year-on-year; and segment profit of RMB2.0 million, climbing by RMB3.2 million year-on-year.

The Group stepped up the efforts in channel transformation. For supermarkets with a below average performance, direct selling has shifted to a distributor-based model to improve profitability. The Group has also aggressively exploited the channels of convenience stores and food service. As of the end of June 2017, it has developed 10,000 stores in the channels with a focus on food service chain store clients and medium-to-large scale bakeries, increasing the profit margin of the food service channel by 5.6 percentage points year-on-year.

Construction of the meat processing plant with a capacity of 10,000 tons in Dongtai, Jiangsu started in 2017, with commencement of operation scheduled for the beginning of 2018. It will focus on the processing of imported beef, offering products like seasoned steaks and beef patties to food service channels, including large western food chains. To date the Company has developed various additional processed products with imported beef besides seasoned steaks which are to be put into trial production at the Wuhan plant; these new products are to be delivered to markets in the second half of the year, as a preparation for the operation of the new plant at Dongtai, Jiangsu.

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Meat Import Business: Enhanced safety control and increased sales of beef products

The Group's imported meat products include pork, beef, poultry, mutton and lamb, as well as meat by-products. The meat import segment has continued its operation model transformation, to strengthen risk control and step up the sales effort of beef products. For the first half of 2017, it has achieved a sales volume of 40.3 thousand tons, a revenue of RMB 865 million and a segment profit of RMB3.9 million.

The meat import segment has continued to advance its trading-plus-processing business model, worked with the Wuhan plant on the imported pork cutting business, and supplied products for COFCO's womai.com. The Group has also worked with key accounts on a special project basis. Through coordinated development with upstream suppliers, the Group has introduced high value-added products such as premium beef and small original foreign packages for its clients, adding greater value to cooperation. In addition, the Group has obtained the qualification for importing the first batch of U.S beef and to work with the largest beef producer in the U.S. On 23 June 2017, the Group has successfully completed the import of the first batch of beef from the U.S. to China. Currently more orders are forthcoming.

Mr. Xu Jianong, Managing Director of COFCO Meat, concluded, "In the first half of 2017, our core operations have maintained rapid growth. Looking ahead, we continue to be guided by our mission of 'leading the safety standard in the industry and assuring the safety of meat for consumers' to provide safer meat products of better quality to the people. The Group will also further improve the vertical integration of the business to better coordinate upstream and downstream development and generate synergies. In the upstream business, the Group will expand its hog production capacity and in-house feed capacity in order to reinforce the investment in technology. We will also work with large farms to explore possible cooperation in the production business. In the downstream business, the Group will continuously monitor the market demand, continue to enhance the value of products, and promote the branded business to stabilize the Company's profitability and create greater value for shareholders."

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About COFCO Meat Holdings Limited (1610.HK)

COFCO Meat is the key platform of COFCO, a Fortune Global 500 company to engage in the meat business and is one of China's leading meat company operating across the entire value chain of the industry. The Company has grown rapidly in scale. Its two major brands, "Joycome" and "Maverick", are respected across China. As at the end of 2016, the Group had hog production capacity of 3.14 million pigs, slaughtering and processing capacity of 2 million pigs, and had put out 17,000 tonnes of meat products and imported and sold 107,000 tonnes of meats.

With a vertically-integrated pork product industry chain, its businesses include feed production, hog production, slaughtering, the production, distribution and sale of fresh pork and processed meat products, and the import and sale of frozen meat products comprising pork, beef, poultry, mutton and lamb. It is uniquely positioned to benefit from the current trend of the pork industry in China, including gradual industry consolidation toward large-scale hog farms, increasing consumer demand for safe and high-quality products and the need to comply with increasingly stringent environmental regulations. The Group implements strict quality control procedures and has obtained internationally-certified accreditations including ISO9001, ISO22000, HACCP, etc. It also focuses on technological advancement, and has worked with experts from Denmark, the US, Canada and Japan in technological research and development to increase production efficiency. Since the Group's establishment, it has gained widespread support and recognition in China and overseas. On top of being selected as the exclusive meat product supplier of Chinese Olympic Sports Delegation from 2012-2015, Mitsubishi, an industrial leader in Japan, has become a strategic investor, while international leading investors including KKR, Baring, Boyu and Temasek also support it, enabling the Group to consolidate its industry-leading position.

For Enquiries:

Strategic Financial Relations (China) Limited

Ms. Karen Li Tel: (852) 2864 4837

Email: sprg-cofcomeat@sprg.com.hk