中粮
COFCO

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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 01610)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

The board of directors (the "**Board**") of COFCO Meat Holdings Limited (the "**Company**" or "**we**", "**our**" or "**us**") is pleased to announce the audited consolidated results and financial position of the Company and its subsidiaries (the "**Group**") for the year ended December 31, 2017, together with the comparative figures for the corresponding period in 2016 as follows:

HIGHLIGHTS

KEY OPERATING DATA

	Year ended December 31, **2017**	2016	Change (%)
Hog production volume (unit: '000 heads) (1)	**2,226**	1,712	30.0%
Fresh pork sales volume (unit: '000 tons) (1)	**172**	143	20.5%
Ratio of revenue from branded business (%) (2)	**15.58%**	13.16%	2.42 percentage points

KEY FINANCIAL DATA

	Year ended December 31, **2017**		2016	
	Before biological assets fair value adjustments	**After biological assets fair value adjustments**	Before biological assets fair value adjustments	After biological assets fair value adjustments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
	(Unless Otherwise Stated)			
Revenue from continuing operations(3)	**6,960,567**	**6,960,567**	6,616,068	6,616,068
Profit for the year(4)	**496,725**	**444,807**	890,203	951,856
Profit attributable to the owners of the Company(5)		**451,629**		951,912
Basic earnings per share(6)		**RMB0.1157**		RMB0.2767

Notes:

1. The Group's core businesses maintained a high growth rate. The production volume of hog and sales volume of fresh pork increased by 30.0% and 20.5% year-on-year, respectively.

2. The ratio of revenue from branded business means the revenue of branded fresh pork and processed meat products business divided by the revenue of the Company. The revenue of branded business increased by 24.6% and the ratio of revenue increased by 2.42 percentage points year-on-year, benefiting from brand promotion and channel development.

3. Revenue from continuing operations amounted to RMB6,961 million, representing a year-on-year increase of 5.2%. The rapid growth of sales volume has driven the increase in revenue and completely offset the impact of hog price on the revenue.

4. Profit for the year before biological assets fair value adjustments amounted to RMB497 million, representing a year-on-year decrease of 44.2%. The decline was mainly caused by the hog price, which decreased by 19.8% year-on-year. However, the Group focused on scale promotion, cost management and control, customer development and brand promotion, and successfully expanded the sales volume and gained higher profit margin from branded business. The abovementioned operation improving measures significantly offset the effect brought by the decrease of hog price.

5. Profit attributable to the owners of the Company amounted to RMB452 million. The biological assets fair value was adjusted based on the hog price at the end of December 2017. The number of our live hogs increased by 22.2% as compared with that as at December 31, 2016, but the hog price decreased.

6. The basic earnings per share means the profit attributable to the owners of the Company divided by the weighted average number of ordinary shares for the year.

The Board did not recommend the declaration of final dividend for the year ended December 31, 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

		2017			2016		
	NOTES	**Results before biological assets fair value adjustments** *RMB'000*	**Biological assets fair value adjustments** *RMB'000*	**Total** *RMB'000*	Results before biological assets fair value adjustments *RMB'000*	Biological assets fair value adjustments *RMB'000*	Total *RMB'000*
Continuing operations							
Revenue	2	**6,960,567**	**–**	**6,960,567**	6,616,068	–	6,616,068
Cost of sales		**(5,880,711)**	**(1,021,153)**	**(6,901,864)**	(5,229,349)	(1,338,572)	(6,567,921)
Gross profit		**1,079,856**	**(1,021,153)**	**58,703**	1,386,719	(1,338,572)	48,147
Other income	4	**84,306**	**–**	**84,306**	56,418	–	56,418
Other gains and losses	5	**(80,080)**	**–**	**(80,080)**	41,531	–	41,531
Selling and distribution expenses		**(271,864)**	**–**	**(271,864)**	(264,138)	–	(264,138)
Administrative expenses		**(230,243)**	**–**	**(230,243)**	(183,914)	–	(183,914)
Other expenses		**–**	**–**	**–**	(32,632)	–	(32,632)
Share of loss of joint ventures		**(1,229)**	**–**	**(1,229)**	(231)	–	(231)
Gain arising from agricultural produce at fair value less costs to sell at the point of harvest		**–**	**508,922**	**508,922**	–	882,230	882,230
Gain arising from changes in fair value less costs to sell of biological assets		**–**	**460,313**	**460,313**	–	512,231	512,231
Finance costs	6	**(81,025)**	**–**	**(81,025)**	(110,361)	–	(110,361)
Profit before tax	7	**499,721**	**(51,918)**	**447,803**	893,392	55,889	949,281
Income tax expense	8	**(2,996)**	**–**	**(2,996)**	(1,346)	–	(1,346)
Profit for the year from continuing operations		**496,725**	**(51,918)**	**444,807**	892,046	55,889	947,935
Discontinued operations							
(Loss)/profit for the year from discontinued operations		**–**	**–**	**–**	(1,843)	5,764	3,921
Profit for the year		**496,725**	**(51,918)**	**444,807**	890,203	61,653	951,856
Other comprehensive income/(expense), net of income tax:							
Items that may be reclassified subsequently to profit or loss							
Exchange differences arising on translation of foreign operations				**3,769**			(4,070)
Fair value loss on hedging instruments in cash flow hedges				**(4,307)**			–

	NOTES	2017 Results before biological assets fair value adjustments RMB'000	2017 Biological assets fair value adjustments RMB'000	2017 Total RMB'000	2016 Results before biological assets fair value adjustments RMB'000	2016 Biological assets fair value adjustments RMB'000	2016 Total RMB'000
Reclassification adjustments for fair value loss on hedging instruments in cash flow hedges				**4,307**			–
Other comprehensive income/ (expense) for the year, net of income tax				**3,769**			(4,070)
Total comprehensive income for the year				**448,576**			947,786
Profit for the year attributable to the owners of the Company:							
– from continuing operations				**451,629**			947,991
– from discontinued operations				**–**			3,921
				451,629			951,912
Loss for the year attributable to non-controlling interests from continuing operations				**(6,822)**			(56)
Profit for the year				**444,807**			951,856
Total comprehensive income/ (expense) for the year attributable to:							
Owners of the Company				**455,398**			947,842
Non-controlling interests				**(6,822)**			(56)
				448,576			947,786
Basic earnings per share:	*10*						
From continuing and discontinued operations				**RMB11.57 cents**			RMB27.67 cents
From continuing operations				**RMB11.57 cents**			RMB27.55 cents
Diluted earnings per share:	*10*						
From continuing and discontinued operations				**RMB11.57 cents**			RMB27.67 cents
From continuing operations				**RMB11.57 cents**			RMB27.55 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	NOTES	**At December 31, 2017** *RMB'000*	2016 *RMB'000*
Non-current assets			
Goodwill		**100,609**	100,609
Property, plant and equipment		**4,950,156**	4,130,624
Prepaid lease payments		**131,645**	119,465
Intangible assets		**2,225**	2,362
Investments in joint ventures		**21,370**	36,071
Available-for-sale investments		**23,516**	23,516
Biological assets		**454,951**	359,721
Deposits paid for purchase of property, plant and equipment		**7,558**	8,708
Deposits paid for purchase of biological assets		**3,178**	12,028
		5,695,208	4,793,104
Current assets			
Inventories		**481,253**	408,477
Biological assets		**1,111,305**	1,108,437
Accounts receivable	*11*	**145,018**	159,471
Prepayments, deposits and other receivables		**192,348**	177,342
Amounts due from related companies		**59,847**	18,172
Derivative financial instruments		**–**	3,418
Pledged and restricted bank deposits		**40,457**	50,093
Cash and cash equivalents		**1,185,261**	1,588,163
		3,215,489	3,513,573

	NOTES	At December 31, 2017 RMB'000	2016 RMB'000
Current liabilities			
Accounts and bills payables	*12*	**433,009**	394,073
Other payables, accruals and deposits received		**602,340**	602,588
Bank borrowings		**1,359,617**	1,737,080
Amounts due to related companies		**36,770**	64,973
Loans from a non-controlling shareholder of a subsidiary		**39,205**	–
Loans from related companies		**315,200**	2,500
Derivative financial instruments		**8,099**	–
Current tax liabilities		**51**	59
		2,794,291	2,801,273
Net current assets		**421,198**	712,300
Total assets less current liabilities		**6,116,406**	5,505,404
Non-current liabilities			
Bank borrowings		**940,498**	848,759
Loans from a related company		**86,928**	84,629
Deferred income		**143,662**	133,757
		1,171,088	1,067,145
Net assets		**4,945,318**	4,438,259
Capital and reserves			
Share capital		**1,668,978**	1,668,978
Reserves		**3,232,400**	2,765,969
Equity attributable to the owners of the Company		**4,901,378**	4,434,947
Non-controlling interests		**43,940**	3,312
Total equity		**4,945,318**	4,438,259

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

COFCO Meat Holdings Limited (the "Company") was incorporated on March 11, 2014 and acts as an investment holding company. The address of its principal place of business is COFCO Fortune Plaza, No.8, Chao Yang Men South Street, Chao Yang District, Beijing, the People's Republic of China (the "PRC").

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

The principal activities of the Company and its subsidiaries (the "Group") are investment holding, hog production, livestock slaughtering, sales of fresh and frozen meats, manufacture and sales of meat products, and import of meat products. The Group was also engaged in poultry production business which was discontinued in the prior year.

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

2. REVENUE

An analysis of the Group's revenue, which is also turnover of the Group, from continuing operations is as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Hog production	**1,879,010**	1,657,236
Sales of fresh pork	**2,860,162**	2,711,262
Sales of processed meat products	**349,613**	332,995
Sales of imported meat products	**1,871,782**	1,914,575
	6,960,567	6,616,068

Over 70% of the revenue of the Group's sales transactions is under the term that requires payment before delivery for the year ended December 31, 2017 (2016: over 70%).

3. SEGMENT INFORMATION

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

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

An operating segment regarding the poultry production business, which represents chicken breeding and processing, was discontinued in April 2016. The segment information reported below does not include any amounts for the discontinued operations.

Each reportable segment derives its revenue from the sales of products based on the location of operations. They are managed separately because each segment requires different production and marketing strategies.

Segment revenues and results

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

	Hog production *RMB'000*	**Fresh pork** *RMB'000*	**Processed meat products** *RMB'000*	**Meat import** *RMB'000*	**Segment total** *RMB'000*	**Inter-segment elimination** *RMB'000*	**Total** *RMB'000*
For the year ended December 31, 2017							
Segment revenue							
External customers	**1,879,010**	**2,860,162**	**349,613**	**1,871,782**	**6,960,567**	**–**	**6,960,567**
Inter-segment sales	**1,414,459**	**53,553**	**545**	**44,659**	**1,513,216**	**(1,513,216)**	**–**
Segment revenue	**3,293,469**	**2,913,715**	**350,158**	**1,916,441**	**8,473,783**	**(1,513,216)**	**6,960,567**
Segment results	**554,136**	**89,804**	**5,511**	**37,050**	**686,501**	**–**	**686,501**
Unallocated corporate income							**25,333**
Unallocated corporate expenses							**(129,859)**
Fair value adjustments on biological assets							**(51,918)**
Share of loss of joint ventures							**(1,229)**
Finance costs							**(81,025)**
Profit before tax from continuing operations							**447,803**

	Hog production *RMB'000*	Fresh pork *RMB'000*	Processed meat products *RMB'000*	Meat import *RMB'000*	Segment total *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
For the year ended December 31, 2016							
Segment revenue							
External customers	1,657,236	2,711,262	332,995	1,914,575	6,616,068	–	6,616,068
Inter-segment sales	1,493,031	26,716	2,914	118,997	1,641,658	(1,641,658)	–
Segment revenue	3,150,267	2,737,978	335,909	2,033,572	8,257,726	(1,641,658)	6,616,068
Segment results	1,009,933	12,251	8,390	79,185	1,109,759	–	1,109,759
Unallocated corporate income							13,240
Unallocated corporate expenses							(119,015)
Fair value adjustments on biological assets							55,889
Share of loss of joint ventures							(231)
Finance costs							(110,361)
Profit before tax from continuing operations							949,281

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

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

Segment assets and segment liabilities

Segment assets and liabilities are not disclosed in the consolidated financial statements as they are not regularly provided to the CODM for the purposes of resource allocation and performance assessment.

Other segment information – continuing operations

	Hog production	**Fresh pork**	**Processed meat products**	**Meat import**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2017					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation*	**176,343**	**23,541**	**10,201**	**49**	**210,134**
(Reversal of impairment)/impairment of accounts receivables, net	**–**	**(139)**	**(53)**	**104**	**(88)**
(Reversal of impairment)/impairment of other accounts receivables, net**	**–**	**(152)**	**218**	**–**	**66**
Loss on disposal of property, plant and equipment, net	**2,908**	**622**	**2,094**	**–**	**5,624**
(Write-back)/write-down of inventories	**–**	**(78)**	**–**	**168**	**90**
Amounts regularly provided to CODM but not included in the measure of segment profit or loss:					
Finance costs***	**51,817**	**6,714**	**2,291**	**5,349**	**66,171**
Year ended December 31, 2016					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation*	129,860	24,094	11,142	70	165,166
Impairment/(reversal of impairment) of accounts receivables, net	–	38	(176)	(393)	(531)
Reversal of impairment of other receivables, net**	–	(37)	(58)	–	(95)
Loss on disposal of property, plant and equipment, net	257	16	79	1	353
Write-down of inventories	–	1,080	–	452	1,532
Insurance compensation	–	–	–	36,783	36,783
Amounts regularly provided to CODM but not included in the measure of segment profit or loss:					
Finance costs***	46,168	12,140	8,109	11,635	78,052

* Depreciation and amortisation not included in the measure of segment profit or loss for the year ended December 31, 2017 amounted to RMB378,000 (2016: RMB370,000).

** Impairment of other receivables not included in the measure of segment profit or loss for the year ended December 31, 2017 amounted to nil (2016: RMB25,000).

*** Unallocated finance costs for the year ended December 31, 2017 amounted to RMB14,854,000 (2016: RMB32,309,000).

Geographical information

Over 90% of the revenue and operating results of the Group was derived from the PRC based on location of the operations for both 2017 and 2016.

All the Group's non-current assets, excluding goodwill and available-for-sale investments, amounting to RMB5,571,083,000 at December 31, 2017 (2016: RMB4,668,979,000) are located in the PRC based on geographical location of the assets.

Information about major customers

No revenue from transaction with single external customer is amounted to 10% or more of the Group's revenue in each of the reporting periods for both 2017 and 2016.

4. OTHER INCOME

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

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Interest income from banks	**23,529**	2,220
Interest income from a fellow subsidiary	**–**	1,081
Interest income from a related company	**1,179**	–
Interest income from loans to related companies	**–**	5,758
Dividend income from available-for-sale investments	**9,917**	10,060
Government grants	**49,681**	37,299
	84,306	56,418

5. OTHER GAINS AND LOSSES

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

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Exchange loss, net	**(31,079)**	(19,818)
Loss on disposal of property, plant and equipment, net	**(5,624)**	(353)
Write-down of inventories	**(90)**	(1,532)
Reversal of impairment on accounts receivable, net	**88**	531
(Impairment)/reversal of impairment on other receivables, net	**(66)**	70
Gain from changes in fair value of financial assets designated as fair value through profit or loss	**–**	9,830
(Loss)/gain on fair value changes in respect of foreign currency forward contracts	**(35,351)**	23,650
Insurance compensation	**–**	36,783
Others	**(7,958)**	(7,630)
	(80,080)	41,531

6. FINANCE COSTS

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

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Interest on:		
Bank borrowings	**80,234**	91,036
Loans from a fellow subsidiary	**–**	8,784
Loans from the immediate holding company	**–**	23,896
Loans from the ultimate holding company	**–**	1,245
Loans from a non-controlling shareholder of a subsidiary	**409**	–
Loans from a related company	**14,021**	577
Total borrowing costs	**94,664**	125,538
Less: Borrowing costs capitalised in the cost of qualifying assets	**(13,639)**	(15,177)
	81,025	110,361

7. PROFIT BEFORE TAX

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

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Cost of sales (represented the cost of inventories recognised as expenses during the year)	**6,901,864**	6,567,921
Employee benefits expense (including directors' remuneration):		
Salaries and other allowances	**525,325**	401,412
Retirement benefit schemes contributions	**43,961**	35,624
Equity-settled share option expense	**11,033**	5,962
	580,319	442,998
Depreciation of property, plant and equipment	**199,099**	157,893
Amortisation of prepaid lease payments	**10,531**	6,789
Amortisation of intangible asset	**882**	854
Total depreciation and amortisation	**210,512**	165,536
Less: Capitalised in inventories	**(183,601)**	(143,133)
	26,911	22,403
Minimum lease payments under operating leases in respect of land and buildings	**16,110**	9,635

8. INCOME TAX EXPENSE

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

	Year ended December 31, 2017	2016
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax (the "EIT")	**2,996**	1,346

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the year (2016: 25%).

Certain of the Company's subsidiaries operating in the PRC are eligible for certain tax concessions and certain of their operations were exempted from PRC income taxes during both 2017 and 2016. According to the Implementation Regulation of the EIT Law and the EIT exemptions regulation set out in the Circular of the Ministry of Finance and the State Administration on Releasing the Primary Processing Ranges of Agricultural Products Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149), and the requirements of Article 86 of the Implementation Regulation of the EIT Law, the income from primary processing for agriculture products are exempted from EIT. In addition, pursuant to related regulations in respect of the Implementation Regulation of the EIT Law, the income from projects of animal-husbandry and poultry feeding, is also entitled to exemption from EIT during the current and prior year.

No provision for Hong Kong profits tax during the year have been made as the Group had no assessable profit generated in Hong Kong for the year (2016: nil).

Taxation arising from other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. During the year, no provision for income tax have been made in other jurisdictions as the Group had no assessable profit generated from other jurisdictions (2016: nil).

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS PER SHARE

For continuing and discontinued operations

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

Earnings

	Year ended December 31, 2017	2016
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**451,629**	951,912

Number of shares

	Year ended December 31, 2017	2016
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,901,998**	3,440,747

For continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the owners of the Company is based on profit for the year attributable to owners of the Company from continuing operations of RMB451,629,000 (2016: RMB947,991,000). The denominators used are the same as those detailed above for basic earnings per share.

For discontinued operations

For the year ended December 31, 2016, basic earnings per share for the discontinued operations is RMB0.11 cents per share, based on the profit for the year from the discontinued operations of RMB3,921,000, and the denominators detailed above for basic earnings per share.

The calculation of diluted earnings per share for the prior year did not assume the exercise of the over-allotment option granted upon the Listing as the exercise price of this option was higher than the average market price per share during the exercisable period of this option. Besides, the grant of share options is not considered in the calculation of diluted earnings per share as there is no issuable new shares under the related share option scheme.

11. ACCOUNTS RECEIVABLE

	At December 31,	
	2017	2016
	RMB'000	*RMB'000*
Accounts receivable	**145,334**	159,875
Impairment loss	**(316)**	(404)
	145,018	159,471

The Group's trading terms with its customers are mainly not on credit where payment in advance is normally required, except for renowned and/or reputable customers. The credit period is normally within 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk by industry or geographical location. Accounts receivable are non-interest-bearing.

The Group does not hold any collateral or other credit enhancements over its accounts receivable.

An aged analysis of the accounts receivable as at the end of the reporting period, based on the delivery date and net of impairment loss, is as follows:

	At December 31,	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**142,126**	149,606
3 to 6 months	**1,991**	5,160
6 months to 1 year	**199**	1,846
Over 1 year	**702**	2,859
	145,018	159,471

The Group has policies for allowance of bad and doubtful debts which are based on the valuation of collectability and age analysis of accounts and on the management's judgment including the creditworthiness and the past collection history of each customer.

12. ACCOUNTS AND BILLS PAYABLES

An analysis of accounts and bills payables is as follows:

	At December 31,	
	2017	2016
	RMB'000	*RMB'000*
Accounts payable	**349,499**	239,785
Bills payable	**83,510**	154,288
	433,009	394,073

The accounts payables are non-interest-bearing and are normally with credit periods ranging from 15 to 60 days. Bill payables are normally repayable within 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

An aged analysis of the accounts payable as at the end of the reporting period, based on the invoice date, is as follows:

	At December 31,	
	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**343,742**	236,573
1 to 2 years	**3,127**	2,111
Above 2 years	**2,630**	1,101
	349,499	239,785

MANAGEMENT DISCUSSION AND ANALYSIS

I. Company Profile

1. Company introduction

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

The main businesses of the Company include feed production, hog production, slaughtering and cutting, production, distribution and sale of fresh pork and processed meat products, import and distribution of meat products (including pork, beef, poultry and mutton). As a leading meat enterprise operating across the integrated value chain in China, the Company seized the opportunity of industrial transformation and upgrading and formed a strategic layout throughout the country, so that the scale of hog production and fresh pork business has been rapidly growing. We adhere to the mission of "leading the safety standards in the industry and assuring meat safety for citizens", providing consumers with high-quality meat products. "Joycome" chilled pork and "Maverick" low-temperature meat products continue to rise in popularity in the major first-tier cities.

2. Business segments introduction

Hog production

Hog production segment includes feed production, hog breeding and farming. The Company has established modern hog production bases and inhouse feed mills in provinces and cities including Jilin, Inner Mongolia, Tianjin, Hebei, Henan, Jiangsu and Hubei and plans to further expand hog production capacity.

Fresh pork

Fresh pork segment includes hog slaughtering and cutting, distribution and sale of fresh pork, and the main products are chilled pork. The Company owns two modern slaughtering and processing bases in Jiangsu and Hubei, and vigorously develops branded business. The "Joycome" brand covers the pork consumption market in major cities such as Shanghai and the Yangtze River Delta, Beijing and Wuhan.

Processed meat products

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

Meat import

Meat import segment includes import and distribution of meat (including pork, beef, poultry and mutton) and by-products in the PRC. The Company combines imported raw materials with domestic processing capacity and key account service, and provides high value-added products to well-known domestic food processors, large restaurant chain enterprises, etc.

II. Business Review

1. Market overview

In 2017, the domestic hog price dropped as compared with that of the same period of last year, and the profit margin of the industry narrowed accordingly. Although the price factor is unfavorable, the accelerating trend of transformation and upgrading of pork industry has not been changed. The upstream large-scale farming expansion has been accelerated and the downstream consumption has been upgraded, creating favorable conditions for the healthy and steady growth of the Company.

Hog price was restrained by slightly increased hog production volume within the year

In 2017, the national sow and hog stocks continued to decrease. However, concentrated hog supply resulting from demolition of hog farms in prohibited areas, together with improving production efficiency leads to a steady rise of the industry output. This year, the country's total hog production volume was 689 million heads and the pork output was 53.4 million tons, increased by 0.5% and 0.8% year-on-year, respectively. This posed a pressure on the increasing of hog price – hog price dropped in the first half of the year, stabilized in the second half of the year, and the annual average price decreased by nearly 20% as compared with that of the previous year.

Strict implementation of environmental protection policies become a norm state, and may provide a long-term support for hog price

The assignment of prohibited areas, and demolition and relocation of hog farms happened frequently in 2017. According to incomplete statistics, over 153,000 farms throughout the country were demolished during the year. The demolition caused slaughtering of some sows and sale of finishing hogs in advance, thereby increasing market supply in short term, but would restrain the growth of hog production capacity in the long run. Strict implementation of follow-up environmental policies will become normal, resulting in further restriction and elimination of non-compliance capacity, which may provide a long-term support for hog price, and thus being conducive to the orderly development of the industry.

The layout of large-scale hog production enterprises is accelerating, further improving the entry barriers to the industry

In recent years, large-scale hog production enterprises with refined management, advanced facilities, and adequate capital grew rapidly. The hog production volume CAGR was -1.4% in China from 2015 to 2017, while the leading enterprises expanded with a growth rate of over 20%. Beside the expansion model of integrated farming, they are also in line with the policy of "targeted poverty alleviation" to develop a variety of contract farming models. The development of large-scale farming has raised the entry barrier to the industry, and the backyard farming as outdated production capacity continued to be phased out.

With consumption upgrading, the trend of commercialization show in mid and high-end pork products

In the current age of consumption upgrading, mid and high-income groups are more concerned with food safety and brands, and are willing to pay a premium for safe and nutritious meat products. Although the hog price was weaker during the year, the price of mid and high-end branded pork product remained high. Meanwhile, the continuous emergence of new retail formats (mid and high-end fresh food stores, fresh food e-commerce platforms, community convenience stores, etc.) has also raised the demand for branded pork. The above trend of consumption upgrading is conducive to the rapid development of the Company's branded businesses.

2. ***Results of operation***

The Company's annual results highlights in 2017 are as follows:

	2017	2016	Change
Hog production volume *(unit: '000 heads)*	**2,226**	1,712	30.0%
Fresh pork sales volume *(unit: '000 tons)*	**172**	143	20.5%
Branded pork sales volume *(unit: '000 tons)*	**33**	20	64.5%
Revenue from continuing operations *(RMB million)*	**6,961**	6,616	5.2%
Hog production	**3,293**	3,150	4.5%
Fresh pork	**2,914**	2,738	6.4%
Processed meat products	**350**	336	4.2%
Meat import	**1,916**	2,034	-5.8%
Ratio of revenue from branded business *(%)*	**15.6%**	13.2%	2.4 percentage points
Profit for the year of continuing operations (before biological assets fair value adjustments) *(RMB million)*	**497**	892	-44.3%
Profit attributable to owners of the Company (after biological assets fair value adjustments) *(RMB million)*	**452**	952	-52.6%

In 2017, although the hog price declined, the Company's core business continued to maintain rapid growth, driving the increasing of the revenue. Except for the slight revenue decrease of meat import segment, which was due to the active control of imported meat volume given the downward price, income of other segments has been all improved to different extents.

In 2017, the Company achieved a profit for the year of RMB497 million from continuing business (before biological assets fair value adjustments), decreasing by RMB395 million as compared with the previous year, mainly because: (1) The profit from hog production business dropped by RMB456 million year-on-year, within which a negative effect of RMB701 million was caused by the year-on-year decrease of 20% in hog price. However, the hog production volume increased by 30% year-on-year, and production cost decreased continuously, which greatly offset the unfavorable impact of the decrease in hog price; (2) The segment result of fresh pork hit a record high, increasing by RMB78 million year-on-year, and the sales volume of the segment increased by 20% as compared with that of last year (the sales volume of branded fresh pork significantly increased by 65%), resulting in increase of both the scale and the profit.

Overall, the Company overcame the uncontrollable factors of the decrease in hog price and focused on operation improvements and brand building. The Company's core businesses and branded business continued to maintain rapid growth, with continuous improvement in operating quality.

Hog production business

The hog production segment's annual results highlights in 2017 are as follows:

	2017	2016	Change
Hog production volume *(unit: '000 heads)*	**2,226**	1,712	30.0%
Segment revenue *(RMB million)*	**3,293**	3,150	4.5%
Segment result *(RMB million)*	**554**	1,010	-45.1%
Days to market (calculated with the 100kg standard) *(unit: day)*	**170**	173	3 days earlier

Increase self-sufficiency ratio of feed, strengthen production management, and continuously reduce production cost

The continuous decline of production costs is mainly due to: (1) accelerating construction of inhouse feed mills and increasing self-sufficiency ratio; (2) centralized purchase of feed ingredients to reduce procurement costs; (3) increasing investment in breeding to improve the performance of commodity hogs from the source; and (4) implementation of "batch production" to improve hog production efficiency.

Pilot contract farming, "two-wheel drive" to accelerate the expansion rate of production capacity

In order to accelerate the expansion of hog production capacity, the Company has conducted a pilot project of contract farming in the north since 2016 and also integrated the project with the government's "targeted poverty alleviation" policy. After more than one year's exploration, the hog production through contract farming has achieved satisfactory results. The Company has taken contract farming as an important driving force for the next phase and strove to form a "two-wheel drive" with integrated farming so as to jointly promote the rapid expansion of hog production capacity.

Fresh pork business

The fresh pork segment's annual results highlights in 2017 are as follows:

	2017	2016	Change
Segment sales volume *(unit: '000 tons)*	**172**	143	20.5%
Branded fresh pork sales volume *(unit: '000 tons)*	**33**	20	64.5%
Number of branded sales terminals *(pcs.)*	**1,629**	1,327	22.8%
Segment revenue *(RMB million)*	**2,914**	2,738	6.4%
Ratio of revenue from branded fresh pork	**25.2%**	19.5%	5.7 percentage points
Capacity utilization *(%)*	**81.2%**	69.4%	11.8 percentage points
Segment result *(RMB million)*	**89.8**	12.3	633.0%

With simultaneous rise of sales volume and profit, segment performance hit new high

In 2017, the sales volume of fresh pork increased by 20% over the previous year, among which, the sales volume of branded fresh pork significantly increased by 65%, leading to a year-on-year increase of 6 percentage points in ratio of revenue from branded fresh pork. The number of branded sales terminals increased to 1,629 with a year-on-year increase of 23%. Segment results amounted to RMB90 million, significantly increasing by 633% over the previous year. Driven by the branded business, segment gross profit margin increased by 3.6 percentage points over the previous year.

With active launch of on-line and off-line campaigns, sales volume of branded small-pack products in East China doubled

The Company continued to promote the brand positioning of "five checkpoints for product safety and quality assurance from company owned farms" through channels such as television shopping, subway and bus advertisements. More than 2,500 brand promotion activities were carried out in sales terminals and communities. The brand awareness of "Joycome" and consumer loyalty further improved. The Company also cooperated closely with mid and high-end fresh food e-commerce platforms such as FreshHeMa. The branded small-pack products are characterized by safety, freshness, convenience and fine segmentation, which fit well with the demands of new retail channels and mid and high-end consumer groups.

High-end products are being developed to enhance the brand image

In order to further enhance the brand premium and brand image, the fresh pork segment is working closely with the hog production segment to develop high-end products. Breeding work is carried out based on meat quality characteristics, such as the color of meat, water retaining capacity, intramuscular fat, etc. Multiple high quality grains are used during the breeding process. Based on test by authority organization, the new product tastes fresh and tender, is rich in various trace elements and is scheduled to be launched in April 2018.

Processed meat products business

The processed meat products segment's annual results highlights in 2017 are as follows:

	2017	2016	Change
Segment sales volume *(unit: '000 tons)*	**10.7**	9.7	9.9%
Segment revenue *(RMB million)*	**350**	336	4.2%
Segment gross profit margin *(%)*	**36.6%**	35.9%	0.7 percentage point
Segment result *(RMB million)*	**5.5**	8.4	-34.3%

Improve layout of production capacity, optimize channel structure

In 2017, Guangdong Heshan Plant successfully relocated to the new plant. The new plant in Dongtai, Jiangsu province successfully completed its trial production, focusing on deep processing of imported beef and food client service.

Great progress has been made in exploiting the channels of convenience stores. It has expanded a market of a total of 10,000 outlets, providing various categories of processed meat products to 7-Eleven, LAWSON, C&U, etc. The sales volume through convenience stores has increased by 4 times over the same period of last year.

With intensive study of market demand, develop best sellers

During the year, a total of 104 new stock keeping units were launched, achieving 1,335 tons of new product sales. The Company actively develops popular products. Following the success of "cheese-filled sausage", "chewy meat stick" and other best sellers, we will also do further innovation in product function and positioning.

Meat import business

The meat import segment's annual result highlights in 2017 are as follows:

	2017	2016	Change
Segment sales volume *(unit: '000 tons)*	**85**	107	-20.1%
Segment revenue *(RMB million)*	**1,916**	2,034	-5.8%
Revenue of beef business *(RMB million)*	**815**	560	45.6%
Segment result *(RMB million)*	**37**	79	-53.2%

The sales of beef increased sharply, and the "trading plus processing" model started to bear fruit

In 2017, the domestic and international pork market faced price inversion. The meat import segment focused on high-value products on the basis of risk control, resulting in a decrease in volume but increase in price. After deducting non-operating profits and losses (mainly being the insurance compensation of RMB37 million for the damaged inventory caused by Tianjin Port explosion in 2015 received and confirmed in the same period of last year), the result was basically in line with that of the same period of last year.

Expanding the sales volume of imported beef is a strategic focus of this business. The meat import segment continued to promote the "trading plus processing" model and provided customized products to food and e-commerce channels. The revenue of beef business for the year increased by 45.6% over the same period of last year. In the first half of this year, the Company also successfully imported the first batch of beef from USA to help the development and maintenance of high-value customers.

III. Financial Review

Overall Performance

In 2017, revenue of the Group from continuing operations was RMB6,961 million, representing a year-on-year increase of 5.2% as compared with RMB6,616 million for the same period in 2016. Before the adjustments of fair value of biological assets, the net profit of the Group was RMB497 million, representing a decrease of RMB393 million as compared with RMB890 million for the same period in 2016, with a year-on year decrease of 44.2%.

Revenue

In 2017, revenue of the Group from continuing operations was RMB6,961 million, representing a year-on-year increase of RMB345 million as compared with RMB6,616 million for the same period in last year, mainly benefiting from the effective development of branded business channels and the rapid growth of overall sales volume. Meanwhile, hog production volume recorded a year-on-year increase of 30.0%, which jointly offset the effect from the year-on-year decrease of commodity pig price during the reporting period.

Gross Profit Margin

During the reporting period, the gross profit margin of continuing operations before adjustments of fair value of biological assets decreased from 21.0% to 15.5%, mainly due to the effect of the year-on-year decrease of commodity pig price, which was offset in part by the increased space of overall gross profit of branded business including fresh pork.

Selling and Distribution/Administrative Expenses

During the report period, the total selling and distribution expenses and administrative expenses of the continuing operations amounted to RMB502 million, representing a year-on-year increase of 12.1% as compared with RMB448 million for the same period in 2016, mainly due to the increase of branded business investments.

Finance Costs

During the reporting period, the finance costs of continuing operations were RMB81 million, representing a year-on-year decrease of 26.6% as compared with RMB110 million for the same period in last year, which was mainly because that we obtained raised funds (before deducting related listing expenses) of approximately RMB1,704 million in November 2016, and the Company was operating well with adequate operating cash flow in 2017, meanwhile, the Group implemented the centralised management of funds, promoted the efficiency of cash flow and repaid some bank loans in advance.

Other Income, Other Gains and Losses

During the reporting period, other income from continuing operations was RMB84 million, representing an increase of RMB28 million, mainly due to the increase of RMB21 million from interest income of banks and the increase of RMB12 million from government grants (including pig insurance indemnity).

Other gains and losses turned from gains of RMB42 million for the same period in 2016 to losses of RMB80 million during the reporting period, mainly because the volatility in the exchange rates caused exchange losses and fair value losses of foreign exchange forward contract amounting to RMB66 million in total, while the insurance compensation of RMB37 million for the damaged inventory caused by Tianjin Port explosion in 2015 was received and confirmed in the same period in 2016.

Profit/Loss for the Year from Continuing Operations

For the reasons above, the Group recorded a profit of RMB497 million from the continuing operations of the Group before biological assets fair value adjustments during the reporting period, representing a decrease of RMB395 million as compared with RMB892 million for the same period in 2016.

Significant Investments, Acquisitions and Disposals of Subsidiaries

Save as disclosed in this results announcement, the Group has neither any other significant investments nor significant acquisitions and disposals of relevant subsidiaries during the reporting period.

Major Financial Ratios

The financial ratios of the Group as at December 31, 2017 and December 31, 2016 are set forth below:

	December 31, 2017	December 31, 2016
Return on equity[(1)]	**9.5%**	26.9%
Return on assets[(2)]	**5.2%**	12.1%
Interest coverage ratio[(3)]	**5.59 times**	8.37 times
Current ratio[(4)]	**1.15**	1.25
Net debt-to-equity ratio[(5)]	**31.5%**	24.4%

Notes:

(1) Equals profit (inclusive of the Discontinued Operation) for the year divided by the average of the beginning and ending total equity for that year and multiplied by 100%.

(2) Equals profit (inclusive of the Discontinued Operation) for the year divided by the average of the beginning and ending total assets for that year and multiplied by 100%.

(3) Equals profit before finance costs and income tax expense for the year divided by finance costs (with capitalised interest added back) for that year, in all cases inclusive of the Discontinued Operation, and multiplied by 100%.

(4) Equals current assets divided by current liabilities as at the balance sheet date.

(5) Equals total interest-bearing bank loans and loans from the related parties less cash and cash equivalents, divided by total equity as at the balance sheet date and multiplied by 100%.

Analysis on Capital Resources

Liquidity and Financial Policy

In 2017, by adhering to the steady financial policy, the Group was committed to expanding financing channels externally and strengthening financing capability construction, as well as strengthening the cooperation with banks, obtaining adequate credit facilities, so as to ensure the capital liquidity. Internally, the Group reduced the occupancy of liquid capitals such as inventories and receivables and implemented intensive management on surplus capital to improve the turnover efficiency and generation capability for cash flow. The finance department of the Group regularly and closely examined the overall condition of cash and liabilities, and flexibly arranged financing plans based on finance costs and expiry conditions.

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

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

As at December 31, 2017, the cash and cash equivalents owned by the Group amounted to approximately RMB1,185 million (December 31, 2016: approximately RMB1,588 million). The decrease was primarily attributable to expenditures on construction of fixed assets, etc.

As at December 31, 2017, the current ratio was 1.15 (December 31, 2016: 1.25). As at December 31, 2017, our unused bank credit facilities were RMB8,504 million.

EBITDA and Cash Flow

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

In 2017, the EBITDA (before biological assets fair value adjustments) of the Group's continuing operations was RMB911 million (the same period in 2016: RMB1,263 million). Net cash generated from our operating activities was RMB586 million (the same period in 2016: RMB1,352 million). The net cash used in our investment activities was RMB522 million (the same period in 2016: RMB604 million), including RMB972 million (the same period in 2016: RMB1,044 million) for the purchase of property, plant and equipment. The net cash generated from our financing activities was RMB3 million (the same period in 2016: RMB33 million). In summary, during the reporting period, our net cash has increased by RMB67 million.

Capital Structure

As at December 31, 2017, the total numbers of issued shares of the Company remained unchanged at 3,901,998,323 shares.

As at December 31, 2017, the Group had interest-bearing bank loans of approximately RMB2,300 million (December 31, 2016: approximately RMB2,586 million). The annual interest rate on bank loans ranged from 1.66% to 4.90% (December 31, 2016: from 1.33% to 5.15%). Most of the bank loans were based on floating interest rates.

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

Unit: RMB in million	**December 31, 2017**	December 31, 2016
Within one year	**1,360**	1,737
One to two years	**227**	195
Three to five years	**619**	593
More than five years	**94**	61
Total	**2,300**	2,586

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

Unit: RMB in million	**December 31, 2017**	December 31, 2016
Fixed-rate borrowings	**524**	300
Variable-rate borrowings	**1,776**	2,286
Total	**2,300**	2,586

As at December 31, 2017, the Group had approximately RMB441 million loans from related parties (December 31, 2016: approximately RMB87 million).

As at December 31, 2017, the Group had net assets of approximately RMB4,945 million (December 31, 2016: approximately RMB4,438 million). The net debts of the Group[1] amounted to approximately RMB1,556 million (December 31, 2016: approximately RMB1,085 million), while the net debt to equity ratio was approximately 31.5% (December 31, 2016: approximately 24.4%).

Note:

1. The net debts of the Group referred to interest-bearing bank loans and loans from the related parties less cash and cash equivalents.

Contingent Liabilities and Pledge of Assets

As at December 31, 2017 and December 31, 2016, the Group had no significant contingent liabilities.

As at December 31, 2017 and December 31, 2016, the Group had no bank loans secured by buildings, land use rights and time deposits of the Group.

Capital Expenditure

The capital expenditure of the Group was mainly expenditures for our hog farms, as well as our other production and ancillary facilities. We funded our capital expenditures primarily with shareholders' capital contributions, borrowings and our internal funds.

In 2017, the Group's capital expenditure was RMB995 million (the same period in 2016: RMB1,064 million). The following table sets forth the capital expenditure for the years indicated:

Unit: RMB in million	**December 31, 2017**	December 31, 2016
Payments for property, plant and equipment	**972**	1,044
Payment for prepayment for lease payments	**22**	19
Payments for other intangible asset	**1**	1
Total	**995**	1,064

As of December 31, 2017, our demand for capital expenditure mainly came from the construction of hog production farms in Hebei Province, Hubei Province, Jilin Province and the Inner Mongolia Autonomous Region.

Capital Commitment

The capital commitment of the Group is mainly related to the construction of hog production farms and other production and ancillary facilities. As of December 31, 2017, the capital commitment of the Group was RMB529 million (December 31, 2016: RMB359 million).

Biological Assets (Continuing Operations)

Biological assets of the Group primarily consist of commodity pigs at various stages of growth and breeding hogs used to create future animals. As at December 31, 2017, we owned 1,431 thousand live hogs in total, which included 1,288 thousand commodity pigs and 143 thousand breeding hogs, representing an increase of 22.2% as compared with 1,171 thousand heads as at December 31, 2016. The fair value of our biological assets was RMB1,566 million as at December 31, 2017 and RMB1,468 million as at December 31, 2016. Our results have been and are expected to be affected by changes in fair value of biological assets.

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

In 2017 and 2016, such adjustments have increased our cost of sales by RMB1,021 million and RMB1,339 million, respectively. Additionally, during the reporting period, gains arising from fair value less cost of sales of agricultural products at the point of harvest and from changes in fair value less costs of sales of biological assets resulted in earnings of RMB509 million and RMB460 million, respectively (the same period in 2016: earnings of RMB882 million and RMB512 million, respectively). In general, net effect of biological assets fair value adjustment on profit was losses of RMB52 million during current period and was gains of RMB56 million during the same period in 2016.

IV. Human Resources

The continuing operations of the Group hired 6,172 employees as of December 31, 2017 (December 31, 2016: 5,161 employees). Remuneration for employees was determined according to their job nature, personal performance and the market trends. For the year ended December 31, 2017, total remuneration amounted to approximately RMB580 million (2016: RMB443 million).

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

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

V. Significant Risks and Uncertainties

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

Price Risks

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

Food safety risks

Food safety risks refer to risks of customer complaints, product recalls and other negative effects resulted from unqualified food quality and safety indicators due to deficient food security system, unsound risk identification and assessment mechanism and unfulfilled food safety control measures and early warning mechanism. To solve possible food safety risks, the Group has formulated standards for quality and safety system, such as, Provisions for the Food Safety Management of COFCO Meat, Standards for Meat Industry Chain of COFCO Group (Fascicule of Livestock Meat Chain Industry), Prohibition on Food Safety of COFCO Meat and Food Safety Responsibility System of COFCO Meat, established management mechanism, carried out quality and safety training and guidance, conducted regular supervision and inspection and evaluated and reviewed the results. All departments strictly comply with relevant standards and actively prevent food safety risks. To solve food safety risks, the Group has defined that the decisive department of risk management of food safety is the Quality and Safety Management Department, and has formulated the early warming indicators and bottom line indicators. The Group does not have any significant concentration of food safety risks in 2017.

Safe production risks

Safe production risks refer to risks of safety accidents, interrupted operation or tarnished corporate reputation due to lack of sound safety management system and preventive measures. The Group has formulated Measures for Administration of Production Safety Accidents of COFCO Meat and Comprehensive Emergency Plans for Production Safety Accidents of COFCO Meat to standardize management and implement accidents prevention. The Group has defined that the decisive department of risk management of safe production is the Quality and Safety Management Department, and has formulated the early warming indicators and bottom line indicators. The Quality and Safety Management Department organizes all grassroots enterprises to conduct all-round risk identification and to identify the safety risks in the enterprise production and operation; to evaluate and classify the identified risks and formulate corresponding management and control measures; to formulate special risk prevention and control measures for major risks; to organize all grassroots enterprises to perfect inspection system, organize regular safety inspection and confirm the effectiveness of risk management and control measures. The Company also conducts regular supervision and inspection to evaluate the operation of management system and risk management and control and promote the improvement and development of grassroots enterprises. The Group does not have any significant concentration of safe production risks in 2017.

Environmental protection risks

Environmental protection risks refer to risks of property loss and bad influence on enterprise image due to environmental pollution resulted from unstable production, deficient environmental protection facilities and excessive emission of pollutants. To solve environmental protection risks, the Group has formulated Regulations of Administration on Energy Conservation and Emission Reduction of COFCO Meat, Energy Conservation and Emission Reduction Responsibility System of COFCO Meat and Emergency Plans for Environmental Pollution Accidents of COFCO Meat, which defined the requirements of environmental protection compliance and standardized the management of environmental pollution accidents to effectively carry out environmental protection risk prevention. The Group has defined that the decisive department of risk management of environmental protection risks is the Quality and Safety Management Department, and has formulated the early warming indicators and bottom line indicators. In 2017, the Quality and Safety Management Department regularly carried out environmental inspection, systematically checked the environmental protection problems of each unit, followed up the implementation of rectifications to sort environmental compliance issues of each unit, organized all units to carry out compliance rectifications, and established environmental risk warning and monitoring system to timely find and warn environmental protection risks early and to effectively implement the responsibility of environmental protection.

Competition risks

Competitive risks refer to the loss of decrease in market share and return rate due to the change of competitive environment. The Group controls competition risks mainly by decreasing costs and increasing benefits, coordinating upstream and downstream relationship of industrial chain and enhancing enterprise's competitive edge. In the current complex and competitive market environment, the Group always maintains a sense of crisis and actively seizes the initiative of market competition. Firstly, all departments are highly concerned about changes of market environment and make decisions to response and adjust in a timely and decisive manner. Secondly, all departments pay attention to the information, such as, product category, price information, market occupation, salesman distribution and main sales channels of competitors in the same industry every day, analyze their marketing strategies according to the basic information collected and actual situation of competitors and develop targeted marketing programs to achieve further increase of market share. Thirdly, the Group attaches great importance to the consumption experience of terminal customers, actively carries out market researches to survey consumer satisfaction, and improves product quality and service quality according to consumers' feedback.

VI. The Outlook

At present, opportunities and challenges coexist in China's pork industry: accelerating industrial transformation and upgrading creates brilliant future for leading enterprises in the industry; meanwhile it faces severe challenges such as environmental requirements, land scarcity and talent cultivation. In 2018, the Company will focus on the following tasks:

First, continue to accelerate the strategic layout. Expand integrated farming capacity and promote contract farming; and implement the site selection and construction of fresh pork factories in North China and Central China, thus matching upstream and downstream production capacity.

Second, improve quality and efficiency. Continue to improve production efficiency, reduce production costs and establish core strengths.

Third, vigorously develop branded business, and transform high-quality hogs into high-premium pork products.

We believe that the Company will achieve better performance and create greater value for shareholders with the implementation of the above measures.

OTHER EVENTS

Compliance with the Corporate Governance Code

The Board and the management of the Company are committed to achieving and maintaining high standards of corporate governance, which they consider to be essential to safeguard the integrity of the Company's operations and maintain investors' trust in the Company. The management of the Company also actively observes the latest corporate governance requirements in the PRC, Hong Kong and abroad. The Board considers that the Company has complied with the provisions of the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the year ended December 31, 2017.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as a code of conduct regarding securities transactions by the directors of the Company. The Company has made specific enquiries with each director and each of them confirmed that he or she had complied with all required standards under the Model Code for the year ended December 31, 2017.

Purchase, Sell or Redeem the Listed Securities

The Company and any of its subsidiaries did not purchase, sell or redeem any of its listed securities for the year ended December 31, 2017.

Subsequent Events

As at the date of this announcement, the Group had no material subsequent events happened after December 31, 2017 which need to be disclosed.

Final Dividend

The Board did not recommend the declaration of final dividends for the year ended December 31, 2017.

Review of Annual Results

The consolidated financial statements for the year ended December 31, 2017 of the Group were audited by Deloitte Touche Tohmatsu and this results announcement is based on such financial statements which have been agreed by the Company and the auditor. The audit committee of the Company has reviewed the audited annual results of the Company for the year ended December 31, 2017.

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2017 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

Publication of Annual Report

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

By order of the Board
COFCO Meat Holdings Limited
Jiang Guojin
Chairman of the Board

Hong Kong, March 28, 2018

As at the date of this announcement, the Board comprises Mr. Jiang Guojin as the chairman of the Board and an executive director, Mr. Xu Jianong as an executive director, Ms. Yang Hong, Mr. WOLHARDT Julian Juul, Dr. Cui Guiyong, Mr. Zhou Qi, Mr. Zhang Lei and Dr. Huang Juhui as non-executive directors, and Dr. Chen Huanchun, Mr. Fu Tingmei, Mr. Li Michael Hankin and Mr. Lee Ted Tak Tai as independent non-executive directors.