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COFCO

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



Management Presentation

August 2018

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Chapter 1	Business Overview
Chapter 2	Financial Overview
Chapter 3	Strategy and Outlook

Key Matrices of 1H 2018

Key Operating Matrices	1H 2018	1H 2017	Changes
Hog production (000' head)	1,259	1,009	24.8%
Sales of fresh pork (000' ton)	91	80	14.6%
Revenue % of branded business (%)	17.3%	14.9%	2.4pct

Key Financial Matrices	1H 2018	1H 2017	Changes
Revenue (RMB, MM)	3,264	3,299	-1.1%
Profit for the period (before adj.) (RMB, MM)	11	289	-96.3%
Profit attributable to the owners of the Company(after adj.) (RMB, MM)	-243	226	-207.4%
Basic earnings per share (RMB)	-0.0623	0.0580	-207.4%

Analysis of Changes in Profit for the Period: Mainly due to Negative Impact of Hog Price

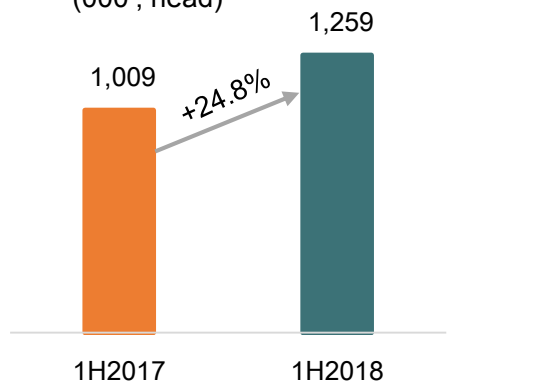
- In 1H 2018, profit for the period before biological assets fair value adjustments decreased by RMB 279MM
- The profit of the hog production segment decreased significantly, mainly affected by the 26% year-on-year decline of hog price. However, the company has been focused on scale expansion and production cost management. In 1H 2018, hog production volume increased by 25% year-on-year, partially offsetting the adverse impact of the decline of hog price
- The profit of fresh pork segment increased by RMB 19MM year-on-year, and sales volume increased by 15% year-on-year; thanks to the growth of branded business, the gross profit margin of the segment experienced a year-on-year growth of 2.9 percentage point
- The processed meat products segment completed the succeeding relocation work of Guangdong Heshan plant, and the asset replacement premium and government compensation was RMB 88MM in total
- With proper risk control and channel expanding in beef sales, the meat import segment achieved growth against the backdrop of significant changes of the external environment.

- 1 Operation improvement and scale growth of core businesses**
- 2 Further refined layout of production capacity, with improved upstream and downstream matching**
- 3 Increased sales volume and profit of branded fresh pork business, leading consumption upgrading**
- 4 Well-achieved growth in meat import segment under appropriate risk control, despite significant changes in market conditions, policies and exchange rates**

1 Operation Improvement and Scale Growth of Core Businesses

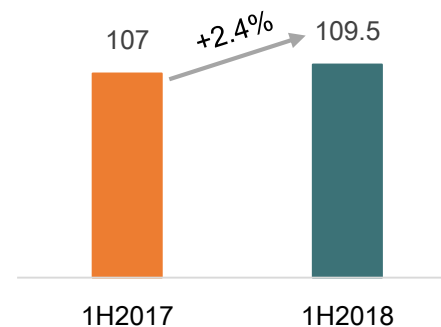
Hog Production

(000', head)



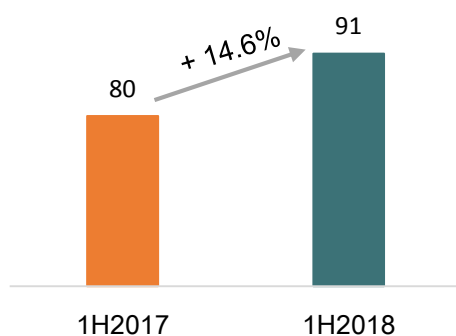
Average Finishing Weight

(kg)



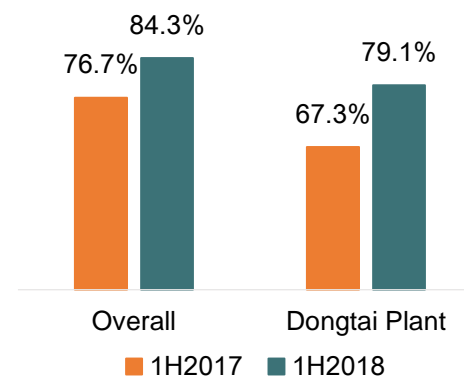
Sales Volume of Fresh Pork

(000', ton)



Utilization Rate of Fresh Pork

(%)



Further Refined Layout of Production Capacity, with Improved Upstream and Downstream Matching

Feed: proportion of self-supplied feed continued to increase, with cost further reduced

- Accelerated construction of supporting feed mills with a production capacity of 900,000 tons, and an improved self-sufficiency rate from 20.9% in the same period last year to 45.3%
- We fully studied the domestic and foreign markets of feed ingredients, and established corn and soybean meal positions at appropriate time to create space for the continuous production cost reduction



Hog production: speed up capacity layout and strategically reserve capacity during market downturn

- Construction of integrated farming production capacity has been promoted, strategically reserve production capacity during market downturn to improve the scale benefits
- Contract-farming has been carried out smoothly, and 84,000 piglets have been put into use. Combining the government's "poverty alleviation" policy, explore a variety of poverty alleviation contract farming models, covering nearly 5,000 impoverished people



Fresh pork: finalized site selection for a new plant in Hubei and accelerated capacity expansion in North China

- The Wuhan plant in Hubei Province has been in producing in full capacity for six consecutive years. A new site in Huanggang, Hubei has been selected and agreement with the government has been signed. In the second half of the year, the construction of a new plant with an annual slaughtering capacity of 1 million heads will be started, covering the Central China market.
- North China expansion plan is in preparation



Processed meat products: South China plant completed the follow-up relocation work, with East China new plant officially put into operation

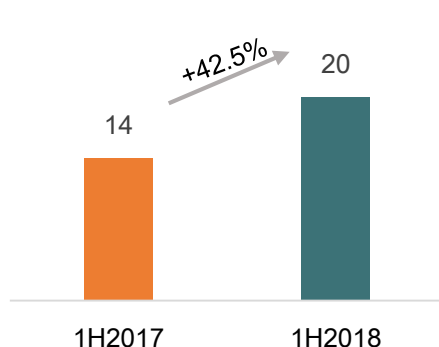
- The completion of the follow-up work of relocation in Guangdong Heshan Plant
- Jiangsu Dongtai new factory officially put into production, focusing on deep processing of imported beef to cater to food service clients



Increased Sales Volume and Profitability of Branded Fresh Pork Business, Leading Consumption Upgrading

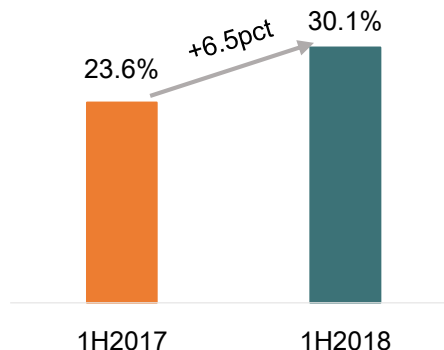
Sales Volume of Branded Fresh Pork

('000 tons)



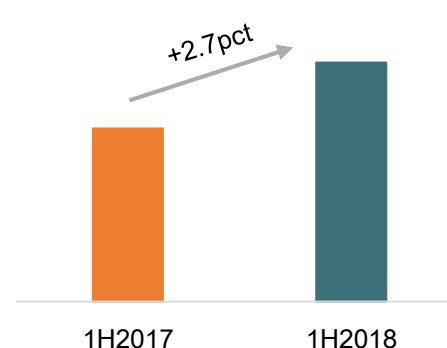
Branded Fresh Pork Revenue as % of Total Fresh Pork Sales

(%)



Gross Profit Margin of Branded Fresh Pork

(%)



Build the first domestic pork industry chain display base and carry out interactive experiential marketing

- Jiangsu Dongtai Exhibition Base covers feed mills, breeding exhibition halls (including small farms with visiting access routes), biogas stations, biogas slurry planting, fresh pork plant and processed meat product plant.
- Continue to promote the brand positioning “five checkpoints for product safety and quality assurance from company-owned farms”



Exhibition hall



Small farm with visitor access



Biogas station tour

Small-packed fresh pork product innovation, take the lead in consumption upgrading

- Catching the branded oriented trend of pork consumption and working closely with mid and high-end fresh food enterprises.
- Reaching the goods shelf for sale within one day after cutting; well recognized for their delicacy, convenience, freshness and safety

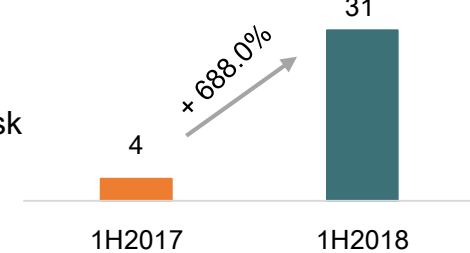


Small-packed fresh pork supplied for a well-known fresh mart

The risk is well controlled, though market environment changed greatly

- Actively respond to the increase in US pork tariffs, Brazilian chicken “anti-dumping, countervailing” ruling, RMB depreciation and other factors in the first half of the year
- Take the measures of back-to-back contract and high turnover to reduce risk
- Actively expand procurement countries and begin importing chicken from Thailand

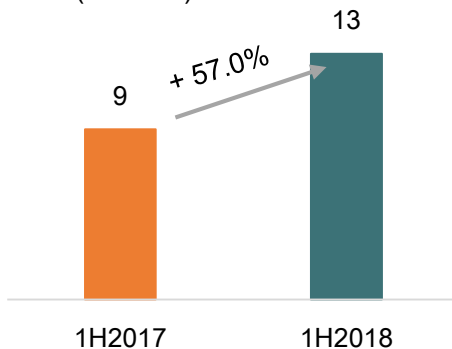
Segment Profit (RMB, MM)



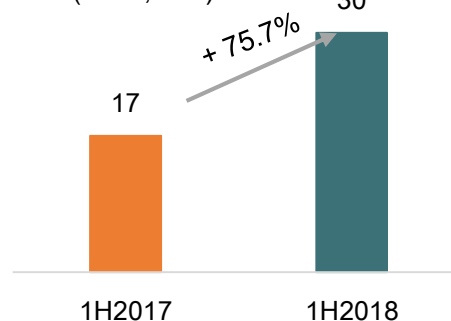
Beef sales increased substantially, and the business model of ‘trade plus processing’ as well as the deepening of channels have been continuously promoted

- Continue to promote the business model of ‘trade plus processing’, and revenue of beef under this model increased by 76%
- With channel cultivation, beef terminal business (catering + retail + corporate customers) revenue has increased by 96%

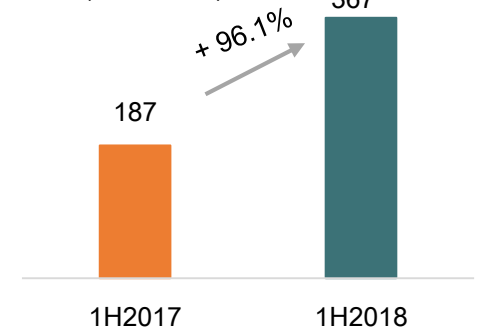
Imported beef revenue (000' ton)



Beef revenue under ‘trade plus processing’ model (RMB, MM)



Beef revenue in terminal type (catering + retail + corporate customers) (RMB, MM)



Chapter 1 **Business Overview**

Chapter 2 **Financial Overview**

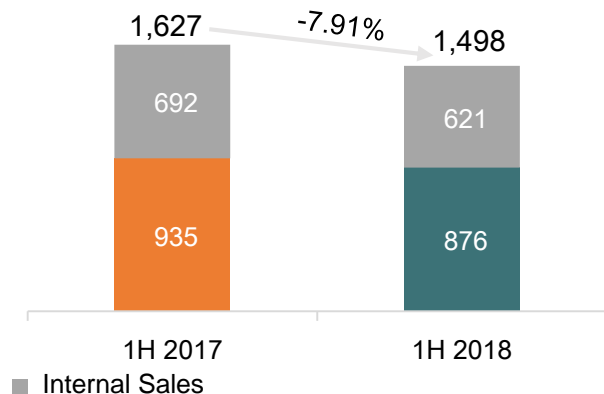
Chapter 3 **Strategy and Outlook**

- 1 The total revenue was RMB3.264Bn, 1.1% year-on-year slight decline due to the impact of hog price**
- 2 Strict control of costs and slightly increased finance expenses**
- 3 Reasonable and healthy asset turnover efficiency and capital structure**

Hog Production

(RMB, MM)

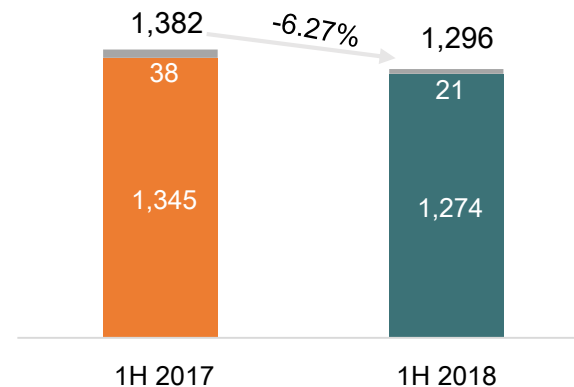
- 1.26MM heads of hog production volume in 1H 2018



Fresh Pork

(RMB, MM)

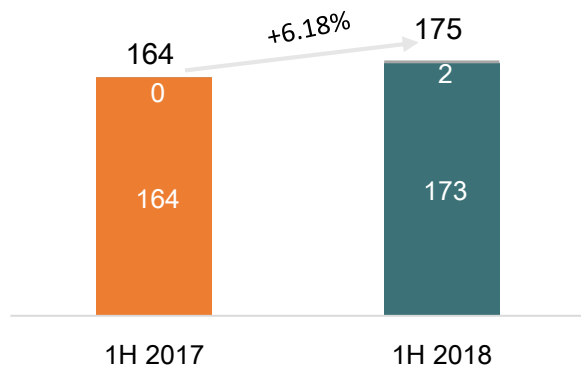
- 91k tons of fresh pork sales volume in 1H 2018



Processed Meat Products

(RMB, MM)

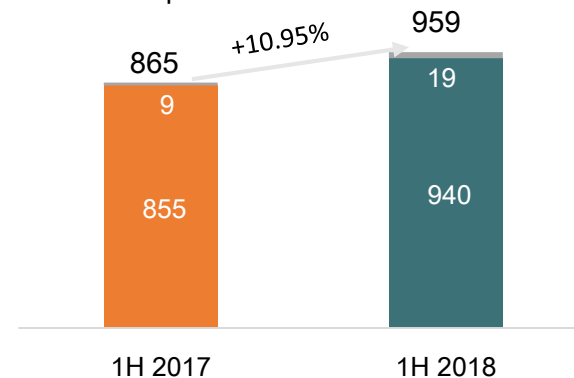
- 6k tons of sales volume in 1H 2018



Meat Import

(RMB, MM)

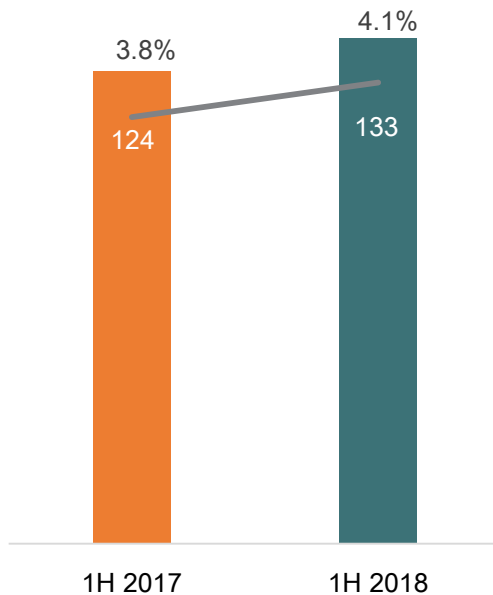
- 42k tons of imported meat distribution volume in 1H 2018



2 Strict Control of Costs and Slightly Increased Finance Expenses

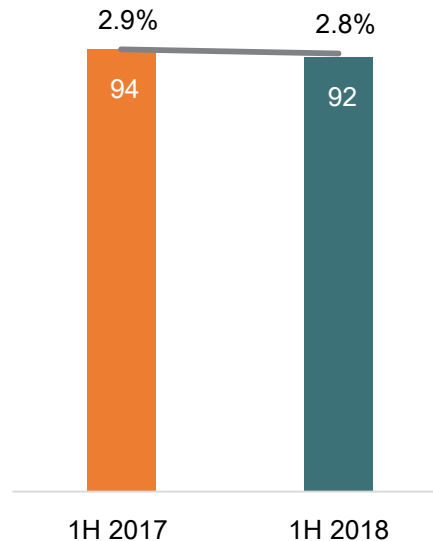
Distribution and Selling Expenses

(RMB, MM) (% of revenue)



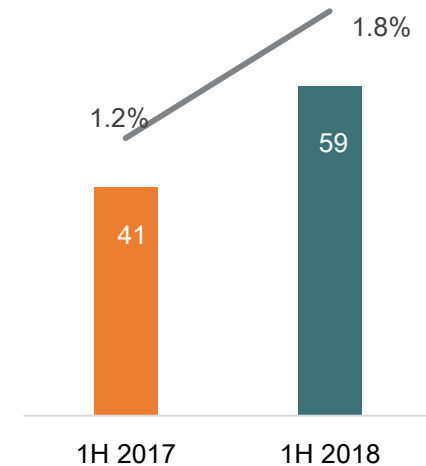
Administrative Expenses

(RMB, MM) (% of revenue)



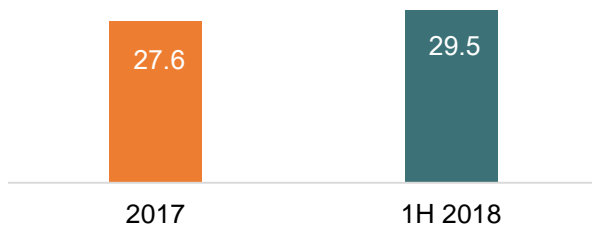
Finance Expenses

(RMB, MM) (% of revenue)

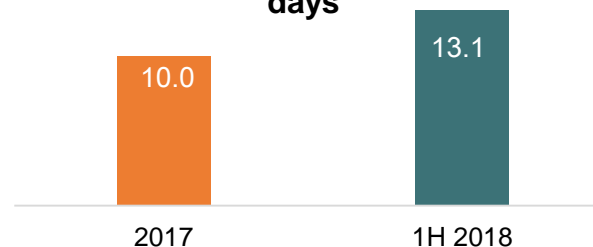


Asset Turnover Efficiency

Inventory turnover days



Accounts receivable turnover days

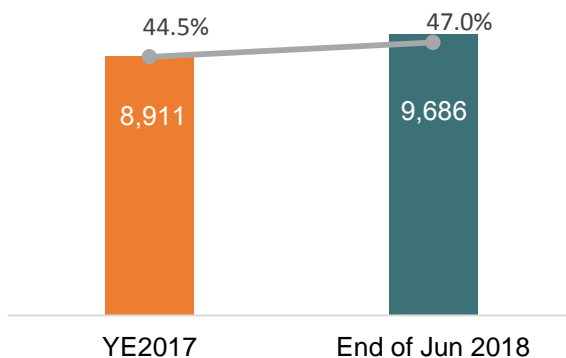


Note: relevant data are calculated based on the average of the beginning and end of the period, before the adjustment of the fair value of biological assets.

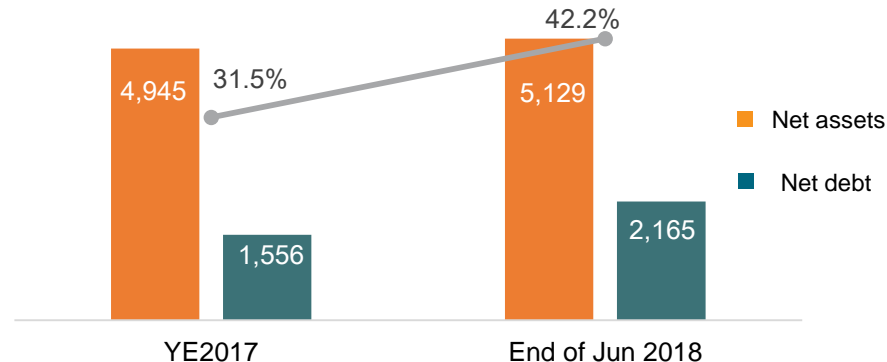
Reasonable and Healthy Capital Structure

(million yuan)

Total assets and asset-liability ratio



Net assets, net debt and net debt to equity ratio



Note: net debt to equity ratio: sum of total bank borrowings and total loans from related parties by period end minus cash and bank balances, divided by total equity

Chapter 1	Business Overview
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1

Accelerate hog production capacity expansion

- Expand the capacity of integrated farming and continue to promote contract farming

2

Improve efficiency and reduce cost of hog production

- Continue to improve efficiency, reduce costs, establish core competitive advantages, and diminish cyclical fluctuations in hog price

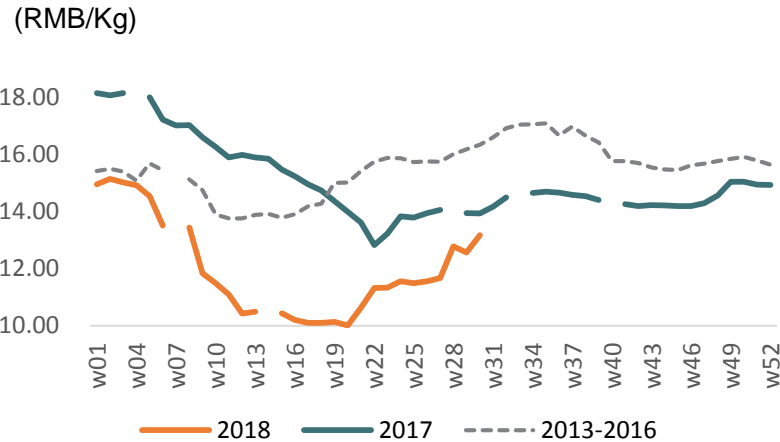
3

Accelerate the development of downstream business

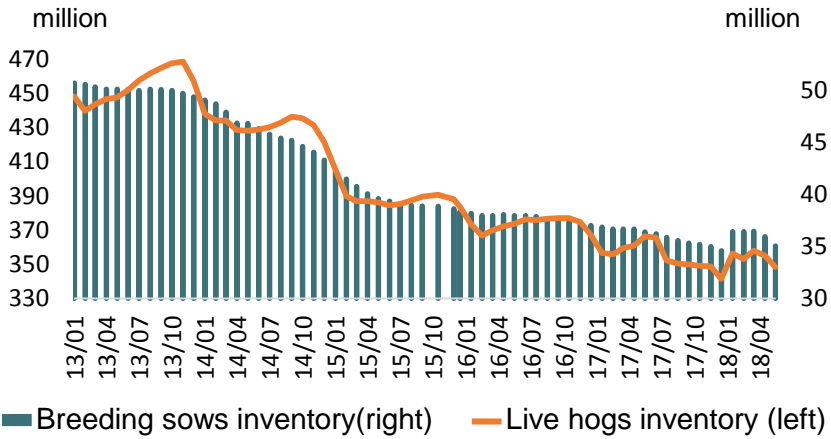
- Promote the smooth launch of the new fresh pork plant in Hubei, and implement the expansion plan of fresh pork in North China
- Vigorously develop branded business and convert high quality hogs into high premium pork products

Appendix

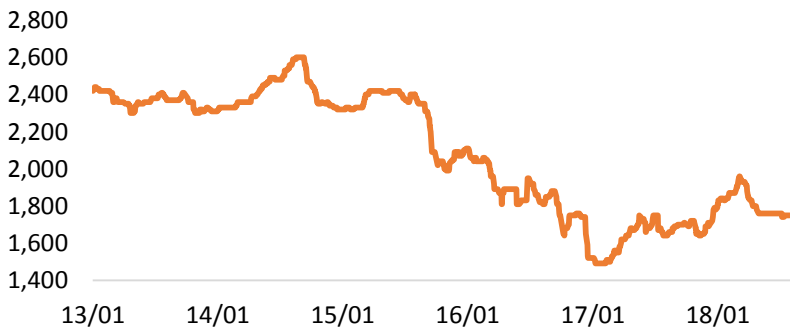
China Hog Price



Monthly Inventory of Hog and Sows in China (2013/01–2018/06)



Corn Price (2013/01–2018/07, RMB/Ton)



Soybean Meal Price (2013/01–2018/07, RMB/Ton)



- In 1H 2018, the spot price of soybean meal was around 3,115 RMB/ton, indicating 1.2% year-on-year increase

- In 1H 2018, the exit price of corn at Dalian was 1,828 RMB/ton, indicating 13.6% year-on-year increase

Source: wind, China National Grain and Oils Information Center, Ministry of Agriculture