

[For Immediate Release]



## COFCO Meat's 2018 Revenue Reaches RMB7.17 Billion

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### Brand-Oriented Pork Consumption Drives Branded Fresh Pork and Processed Meat Product Business to Grow Against the Trend

Key Operating Data	For the Year Ended 31 December		YoY Growth
	2018	2017	
Hog Production Volume (unit: '000 heads)	<b>2,550</b>	2,226	<b>14.5%</b>
Fresh Pork Sales Volume (unit: '000 tons)	<b>190</b>	172	<b>10.6%</b>
Including : Branded Fresh Pork Sales Volume (unit: '000 tons)	<b>43</b>	33	<b>32.2%</b>
Ratio of Revenue from Branded Business <sup>(1)</sup>	<b>17.48%</b>	15.58%	<b>1.9 pp</b>

<sup>(1)</sup> The revenue of branded fresh pork and processed meat products business divided by the revenue of the Group.

**(26 March 2019 - Hong Kong) COFCO Meat Holdings Limited** ("COFCO Meat" or the "Company", together with its subsidiaries, the "Group"; stock code: 01610), a renowned full-industrial-chain meat producer and operator in China, announced today its audited annual results for the year ended 31 December 2018.

In 2018, the overall industry and market environment were volatile. Domestic hog price showed a downward trend in the first half of the year, rebounded seasonally in the second half of the year and polarized between hog production and sales areas. The average hog price for the year was at the bottom of the cycle, declining approximately 20% year-on-year. Affected by African swine fever, in February 2019, domestic hog and sow stocks both dropped to the lowest level for the past decade. These factors have accelerated the process of survival of the fittest in the industry, and at the same time, consumption upgrading has caused increasing demand for food safety and quality, making pork consumption more brand-oriented. The high-end branded pork price has stayed strong. Companies providing consumers with high product quality and better consumer experience will benefit from the industry transformation and upgrading and secure higher brand premium and consumer loyalty.

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Though faced with complicated external environment, **COFCO Meat** focused on operation improvements and brand building in 2018. As a result, its core businesses continued to grow and branded businesses developed rapidly. As core businesses of the Group, hog production volume increased by 14.5% year-on-year, and the segment results of fresh pork business hit a record high, amounting to RMB107 million, up by 18.8% year-on-year. The sales volume of fresh pork increased by 10.6% year-on-year to 190 thousand tons, of which the sales volume of branded fresh pork grew even faster, at a rate of 32.2% to 43 thousand tons, driving its ratio to the segment revenue up by 5.6 percentage points to 30.8%. It illustrates that the Group's "Joycome" brand fresh pork has been popular in the market.

The Group has strategic advantage with its business spectrum covering the entire industrial chain. While its fresh pork business attained growth in both sales volume and profit, its processed meat product business also made an excellent performance with segment results surging by approximately 16 times year-on-year, achieving close to the segment results of fresh pork business and making important contribution to the Group's overall results in 2018.

The Group's hog production business reported significant loss as suffered from the sharp drop in hog price. Such negative impact was partly offset by the positive contribution from processed meat product and fresh pork businesses. As a result, the Group reported a slight year-on-year growth of 3% to a revenue of RMB7.17 billion and a loss of RMB217 million before biological assets fair value adjustments (the comparable profit in 2017: RMB497 million).

#### **Hog Production Business: Strategically Reserving Production Capacity and Improving the Level of Production Management**

Given a downward market trend, **COFCO Meat** strategically reserved production capacity and improved the level of production management. During the year, hog production volume of the Group was 2,550 thousand heads, representing a year-on-year increase of 14.5%. The hog production capacity reached 4,089 thousand heads, representing a year-on-year increase of 17.1%. As of the end of 2018, the Group had built up a feed production capacity of 900 thousand tons with its feed self-sufficiency rate increasing from 43.9% for the same period last year to 55.9%. The rate is expected to increase to over 65% in 2019. Meanwhile, the Group strengthened information sharing with COFCO Group's ingredients procurement team and established corn and soybean meal stock at low prices.

In response to the African swine fever epidemic, the Group's farms have relatively high standards for construction and equipment, with a two-point layout of "sow area + nursery and finishing area" with adequate distance in between for epidemic prevention purpose. The Group has also set up hog transfer stations and vehicle cleaning and disinfection stations outside the farms for better epidemic prevention effect. It has improved the level of epidemic prevention to ensure the smooth operation of the production system.

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### **Fresh Pork Business: Both Sales Volume and Profit Surged with the Segment Results and Branded Business Performance Hitting New High**

In 2018, the Group's fresh pork business achieved growth in both sales volume and profit, and reported record high segment results. The number of sales terminals for "Joycome" branded fresh pork increased by 15.2% year-on-year to 1,877.

In addition, the utilization rate of the Group's fresh pork facilities has reached 89.1%, up 7.9 percentage points year-on-year, in which the factory in Wuhan, Hubei Province, with a slaughtering capacity of 500,000 heads, has been operating at its full capacity for six consecutive years, laying a solid foundation in the market. Besides, the Group has actively implemented its plan on capacity expansion in North China and Northeast China. The new factory with an annual slaughtering capacity of 1 million heads in Huanggang, Hubei Province, is expected to commence trial production in the second half of 2019, aiming to fully cover the Central China market.

The Group took advantage of the changes in consumption trends and started close cooperation with the new retail channels. Sales volume of small-packed pork has increased significantly by 76.9% to 18 million. Being sold on the market through 53 stores of a famous high-end fresh food company in China, and such safe, fresh, convenient and finely cut products are well received by consumers. The new series of high-end small-packed "linseed" products featuring "a healthy new life with good fats" has been well recognized by the market with steady sales growth.

### **Processed Meat Products Business: Improving Production Capacity Layout and Developing Best Selling Star Products**

Following the successful launch of the best-selling star products, "cheese-filled sausage" and "chewy meat stick", **COFCO Meat** continued to delve into customers' needs and understand market demands. A total of 53 new products were launched on the market during the year, accomplishing a sales volume of new products over 1,000 tons, and further optimizing the Group's product portfolios. During the year, the factory in Heshan, Guangdong has completed its follow-up work of relocation. In order to focus on imported beef processing and food catering services, the new factory in Dongtai, Jiangsu was officially put into operation. The optimization of the production capacity layout has laid a good foundation for the channel transformation of processed meat business, resulting in a year-on-year increase of 119.8% in the sales volume of catering channels, driving the segment sales volume up by 16.8% year-on-year to 12.5 thousand tons.

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### **Meat Import Business: Continued to Promote the Business Model Featuring Integration of Processing and Trade with a Significant Increase in Beef Sales**

The meat import segment actively responded to the adverse factors such as the decline in domestic hog prices, the increase in the US pork and beef tariffs, the Brazilian government's survey on "anti-dumping", and the depreciation of the Renminbi, and achieved a segment sales volume of 93 thousand tons, representing a year-on-year increase of 8.6%. The segment recorded a revenue of RMB2,316 million, representing a year-on-year increase of 20.9%. The Group made a right judgment on the market trends, resulting in low-cost inventory warehouse, while adopting back-to-back deal signing and high turnover measures to reduce risks. Meanwhile, **COFCO Meat** continued to optimize the procurement system featuring purchase in all categories and from multiple countries, aiming to expand import sources and reduce procurement risks.

The Group continued to promote the business model featuring integration of processing and trade, resulting in a significant increase in beef sales. The sales volume of beef was 38 thousand tons, representing a substantial increase of 81.7%. The meat import segment continued its penetration into the region and channel, with its beef based (catering, corporate customers, and retail) business revenue increasing by 90.7% year on-year to RMB980 million. The effort to acquire high-end retail and catering customers also met with encouraging results, realizing the normalization of chilled beef imports, which is conducive to increasing product premiums and enhancing customer loyalty.

### **The Outlook**

The Chinese pork industry was experiencing structural reforms during the year. Under the market of survival of the fittest, the overall operating performance of **COFCO Meat** continued to grow steadily. In 2019, **COFCO Meat** will continue to promote the strategic layout, to reduce the operational risk and breeding cost with high self-feeding ratio. It will also focus on improving the level of epidemic prevention, to ensure the smooth operation of the aquaculture production system. Moreover, it will comprehensively promote the expansion plan in the North to cover the Central China market. The Group will enhance its effort to understand market demand, to cultivate competitive star products, so as to grasp the golden opportunity given by the trend of brand-oriented pork consumption, to convert high-quality hogs into high-premium pork products. In the future, **COFCO Meat** will continue to adhere to the business philosophy of "leading the safety standards in the industry and assuring meat safety for citizens" and creating more sustainable returns 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 companies 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.

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, and officially became a partner of China's aerospace industry in August 2018, gaining support from several international leading investors, illustrating its industry-leading position.

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