China Food and Meat Industry

April 2014

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China’s Fast Economic Growth and Urbanization since 1978

Source: National Bureau of Statistics of China

The Change of Consumption Structure

The change of average food consumption during 2001-2011

Source: Total consumption data from USDA, population data from NBSC; starch sugar consumption data from China Fermentation Industry Association-starch sugar branch

Note: Dairy product is already converted to raw milk; sugar includes table sugar made from sugarcane & sugarbeet, and starch sugar made from corn.
The Growth of Soybean and Corn Consumption

The change of soybean and corn consumption during 2001-2011 (10k t)

A Relatively High Self-sufficiency Rate of Grain Rations

Rice self-sufficiency rate

Wheat self-sufficiency rate

Corn self-sufficiency rate

Source: USDA
The Trend of Meat Production and Consumption

**Pork Production and Consumption (10k t)**

The CAGR of China pork production maintains at 2%, and consumption at 3%, a little higher than production.

**Poultry Production and Consumption (10k t)**

Over the past 10 years, poultry production and consumption both grow at 3%.

**Beef Production and Consumption (10k t)**

Domestic beef production began falling since 2008. In 2013, beef production fell by 8% to 5,640,000 tons, while consumption went up by 7%.

**Mutton Production (10k t)**

Domestic mutton production began falling since 2007. In 2012, mutton production fell by 14% to 4.01 million tons, compared to 2006.

Source: USDA, National Bureau of Statistics of China
### Global Meat Production Cost

<table>
<thead>
<tr>
<th>Country</th>
<th>Pork production cost</th>
<th>Beef production cost</th>
<th>Poultry production cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>America</td>
<td>3.40</td>
<td>1.01</td>
<td>1.77</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.00</td>
<td>1.04</td>
<td>0.99</td>
</tr>
<tr>
<td>Germany</td>
<td>5.00</td>
<td>1.23</td>
<td>2.48</td>
</tr>
<tr>
<td>Russia</td>
<td>4.80</td>
<td>1.22</td>
<td>2.99</td>
</tr>
<tr>
<td>China</td>
<td>6.20</td>
<td>1.27</td>
<td>3.00</td>
</tr>
<tr>
<td>Australia</td>
<td>5.00</td>
<td>1.03</td>
<td>0.99</td>
</tr>
</tbody>
</table>

### The Countries and Categories of Meat of China Import

<table>
<thead>
<tr>
<th>Meat</th>
<th>Countries allowed to import from</th>
<th>Categories allowed to import</th>
</tr>
</thead>
</table>
| Pork   | America, Denmark, Germany, Canada, etc | America, Denmark: All categories of pork  
Germany: Pork, not including stomachs or intestines.  
Canada: Pork, including viscera |
| Poultry | America, Brazil, Argentina, Chile, etc | America: All categories of poultry  
Brazil, Argentina, Chile: Poultry, not including digestive organs such as stomachs and intestines. |
| Beef   | Australia, Uruguay, New Zealand, Canada, etc | Australia, New Zealand: Beef including viscera; but not including heads, hooves, lungs, stomachs or intestines  
Uruguay: Beef, not including digestive organs such as stomachs and intestines  
Canada: Beef produced after Feb 1st and younger than 30-month old, without bones. |
| Mutton | New Zealand, Australia, Uruguay | New Zealand, Australia: Mutton, including viscera, but not including heads, hooves, lungs, stomachs or intestines  
Uruguay: Mutton, not including digestive organs such as stomachs and intestines. |
The Trend of China Pork Import

Since 2004, the CAGR of China Pork import has been as high as 19%. In 2013, domestic supply of pork went up, resulting in the fall of pork price and a smaller rise of pork import, which is basically the same as 2012.

Source: China Customs

The Trend of China Mutton Import

Since 2011, China mutton import has been going up rapidly. In 2013, China imported 260 thousand tons of mutton, 108.7% higher than 2012.

Source: China Customs
The Trend of China Poultry Import

Before 2009, China poultry import was going up significantly year by year. Since 2010, main-port import declined sharply due to the anti-dumping policy against America. Still, a huge number of American chicken toes was smuggled into China. With the heavy blow on smuggling in recent years, some American products have been turning to legal channel, pushing up poultry import by 12% in 2013.

Source: China Customs

The Trend of China Beef Import

In recent years, China beef import is growing fast, with CAGR as high as 31%. In 2013, there was a severe shortage of cattle, resulting in a 345% rise in import.

Source: China Customs

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China’s Consumption Growth Rate

![Graph showing consumption growth rate over years, with categories for pork, beef and poultry, liquid milk, edible oil, and sugar.](image)

Source: USDA

Consumption Trend of Taiwan, Japan and Korea

- Taiwan, Japan and Korea, with similar consumption habits, have the following characteristics:
  - GDP per capita of PPP $15,000 is a milestone.
  - When GDP per capita reaches PPP $15,000 to $20,000, consumption tends towards stable or slow growth. With the change of population structure, consumption per person may drop due to aging and low birthrate.
The Consumption Growth Path of Taiwan

- After year 2000, when Taiwan GDP per capita reached PPP $15,000, the rice and flour consumption remained at around 90kg, meat at 80kg, aquatic products at 30kg, eggs at 20kg, oil at 25kg, and sugar at 25kg (since middle and late 1970s).

Note: The horizontal axis shows GDP per capita, PPP, and the vertical axis shows annual per capita consumption in kg.
Source: Taiwan COA, OECD, research department of COFCO

The Consumption Path of Japan

- In the early 1990s, (Nominal GDP between $25000 ~ $35000, GDP per capita, PPP between $15000 ~ $20000) Japan consumption became stability, with rice and flour consumption at around 100kg, meat at 40kg, milk at 90kg and oil at 20kg.

Note: The horizontal axis shows GDP per capita, PPP, and the vertical axis shows annual per capita consumption in kg.
Source: MAFF, World Bank, OECD, research department of COFCO
The Consumption Path of Korea

- Korea consumption became stability since 2000 (GDP per capita at PPP $20,000) with rice and flour consumption at around 140kg, meat at 50kg, oil at 15kg.

Note: The horizontal axis shows GDP per capita, PPP, and the vertical axis shows annual per capita consumption in kg

Source: USDA, World Bank, OECD, research department of COFCO

China GDP per Capita Will Approach PPP $15,000 in 2020

Source: OECD and the research department of COFCO
China Food Consumption with Relative High Growth in Next 10 Years

- If the experience of Taiwan, Japan and Korea applies to China, the next 10 years will be the last gold decade for China consumption growth.
- Compared with last 10 years, the next decade ending in 2020 will show a weaker consumption growth.
- After 2020, China food consumption will tend towards stability or enter a stage of slow growth.

China’s Consumption of Animal protein, Oil and Sugar in Next 10 Years

<table>
<thead>
<tr>
<th>Item</th>
<th>China food consumption expectation</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average consumption in 2020</td>
<td>Total consumption in 2020</td>
<td>Compared with 2010</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(kg/person/year)</td>
<td>(10k t)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>rice</td>
<td>90</td>
<td>18,150 (rice)</td>
<td>-5%</td>
<td></td>
</tr>
<tr>
<td>flour</td>
<td>49</td>
<td>9,200 (wheat)</td>
<td>-5%</td>
<td></td>
</tr>
<tr>
<td>meat</td>
<td>76</td>
<td>10,700</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>edible oil</td>
<td>23.4</td>
<td>3,300</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>sugar (including starch sugar)</td>
<td>22.9</td>
<td>3,230</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>milk</td>
<td>60</td>
<td>8,500</td>
<td>116%</td>
<td></td>
</tr>
</tbody>
</table>
Meat Demand Forecast

Pork demand forecast (kg/person)

In the next 9 years, CAGR of China pork demand is expected to stay the same.

Chicken demand forecast (kg/person)

In the next 9 years, CAGR of China chicken demand is estimated to be 1.7%.

Beef demand forecast (kg/person)

In the next 9 years, CAGR of China beef demand is estimated to be 1.4%.

Mutton demand forecast (kg/person)

In the next 9 years, CAGR of China pork demand is expected to stay the same.

Continuous Decrease of Agricultural acreage in China

- middle or low-yield lands take up 2/3, severely restraining area yield improvement.

Source: FAO-OECD

Source: Ministry of Land and Resources
Lack of Water Resources Problems.

**Per capita water resource**
China per capita water resource is 2200m³, 1/4 of world average per capita water resource.

**Seasonally unevenly distributed**
Annual precipitation mainly happens between June and September, therefore, the shortage of water is severe during spring ploughing and autumn/winter planting.

**Regionally unevenly distributed**
The farmlands north of the Huaihe River take up 2/3 of the country, with water resources less than 1/5 of the country.

**Misuse**
Waste; over-extraction of underground water; pollution…

Relatively Stable Yield of Corn and Soybean in the Past 10 Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Area yield of corn (ton/ hectare)</th>
<th>Area yield of soybean (ton/ hectare)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>5.27</td>
<td>1.83</td>
</tr>
<tr>
<td>2001</td>
<td>5.70</td>
<td>1.89</td>
</tr>
<tr>
<td>2002</td>
<td>4.92</td>
<td>1.65</td>
</tr>
<tr>
<td>2003</td>
<td>4.81</td>
<td>1.81</td>
</tr>
<tr>
<td>2004</td>
<td>5.12</td>
<td>1.78</td>
</tr>
<tr>
<td>2005</td>
<td>5.29</td>
<td>1.70</td>
</tr>
<tr>
<td>2006</td>
<td>5.33</td>
<td>1.62</td>
</tr>
<tr>
<td>2007</td>
<td>5.17</td>
<td>1.53</td>
</tr>
<tr>
<td>2008</td>
<td>5.56</td>
<td>1.70</td>
</tr>
<tr>
<td>2009</td>
<td>5.26</td>
<td>1.63</td>
</tr>
<tr>
<td>2010</td>
<td>5.45</td>
<td>1.77</td>
</tr>
</tbody>
</table>

Source: Ministry of Agriculture
In 2025, Supply and Demand Gap will Reach 20% of Total Consumption

- Basically, rice and wheat can achieve balance of supply and demand; for others, demand gap remains a problem.
- Overall, the demand gap of grain, oil plant, sugar and raw milk will reach 170 million tons, about 20% of their total consumption.

Demand gap forecast of China main agricultural products in 2025 (10k t)

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About COFCO: Basic Facts

COFCO Corporation was founded in 1949. With decades of efforts, it has successfully transformed from simply an exporter, importer, international trading enterprise into China's the largest comprehensive conglomerate of agri-commodity trading, logistics, processing, production and distribution of food and edible oil in China.

With strong operating performance, COFCO continues to be a Fortune Global 500 company and the top player in China Food Industry

It is one of the 53 pillar enterprises under direct administration of the State Council.

Strategic Vision: Fully Integrated Value Chain

- A market-oriented fully-integrated player, covering from farm to dining table
  - From agricultural raw materials to end products, including planting, purchasing and storage, logistics, trading, processing, slaughtering, food manufacturing and marketing etc
  - To achieve overall competitiveness through systematic management of fully-integrated value chain, effective control over the key segments and maximize synergies among value chains
  - To establish overall competitive advantages through offering safe, nutritious and health food products and developing a comprehensive and sustainable business model
About COFCO: Business Structure

8 listed companies/13 businesses

400 operating points
Covering 31 provinces

Over 120,000 employees

Board of Directors
Admin; Strategy; Finance; HR; Audit & Discipline; Legal Service; Corporate Culture; Quality & Safety; Nutrition & Health R&D

Agri-Trading, Processing & Logistics

China Grains & Logistics
COFCO Agri-Trading & Logistics
China Agri-Industries Holdings 6006.HK (Agritrade)
COFCO Tunhe 600737.SH (Trades & Sugar Trade)
CPME Holdings 006.HK (Food Packaging)
Engineering & Technologies BV

Branded Food

China Foods 506.HK (Food & Beverages)
Wenshui Dairy 2319.HK (Dairy Products)
China Tuhu (Tofu & Tofu Products)
COFCO Meat
Womai.com (E-commerce)

COFCO Real Estate
Financial Services

After 60 Years of Development, COFCO is Now Acting as the Main Channel for International Trade in China

Since its foundation, COFCO has set up trade channels all over the globe to manage import and export business of agricultural products and foodstuff, such as cereal, oil and sugar.

Effectively acting as the main channel for international trade of cereal, oil and sugar, ensuring domestic supply of cereal and oil, and defending national foodstuff safety.

A leading role in trading of staple food like rice, wheat and corn; Top trader of sugar, soybean and palm oil.
## The Leader in China’s Cereals, Oils and Foodstuffs Market

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cereal distribution capacity</strong></td>
<td>Total warehouse capacity over 17 million tons, domestic grain trade at 25 million tons per year</td>
</tr>
<tr>
<td><strong>Cereal transfer capacity</strong></td>
<td>13 docks owned, with a capacity of 31 million tons</td>
</tr>
<tr>
<td><strong>Process capacity of agricultural products</strong></td>
<td>Oils &amp; oilseeds of 20.84 million tons, corn 6.25 million tons, rice 3.98 million tons, wheat 3.75 million tons, feed 3.71 million tons, barley 1.03 million tons, sugar crop 7.80 million tons.</td>
</tr>
<tr>
<td><strong>Channel and brand</strong></td>
<td>Over 2.3 million sales outlets selling 19.8 million tons of cereals, oils and foodstuff, with “Fortune” branded packaged oil and rice taking up a market share of 15%.</td>
</tr>
</tbody>
</table>