

CHINA PORK MARKET ANALYSIS

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Market Overview: Facts

Overall Trend in China

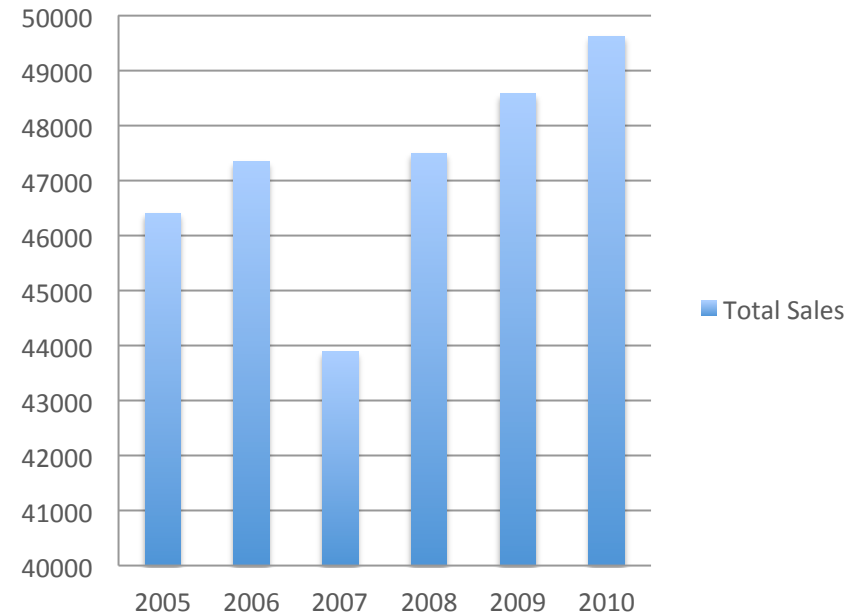
- ❖ China heavily favors pork over all other livestock, consuming 22.7 million tons in 2009
- ❖ The average urban and rural household consumes 20.50kg and 13.96kg of pork respectively in 2009
- ❖ Pork accounts for 64% of all meat and poultry consumption per capita. Over the same year, the average urban household consumed 3.70kg while the average rural household consumed 1.37kg
- ❖ China's production of pork has grown to supply the popularity from 46.5 million tons in 2006 to 49.0 million tons in 2009 with a CAGR of 1.7627%
- ❖ In 2010, it was recorded that there are over 446 million pigs in China. Behind China would be the US and Brazil with only 65 million and 40 million respectively
- ❖ According to the USDA, the combined top 44 pork producing countries excluding China would still not have the number of pigs to match China's

Market Overview: Facts

Chinese Retail Pork Market Facts

- Annual production: ~ 50 M tons
- World's biggest producer of pork, accounts for 55% of global production
- 200,000 pig farms
- 59% of China's total fresh meat volume sales
- Very fragmented market
 - 60% of pig farms produce fewer than 40 hogs per year
 - Top 3 meat processing enterprises have 3.7% of national market

Total Sales Volume of Pork in China
[000s of tons]

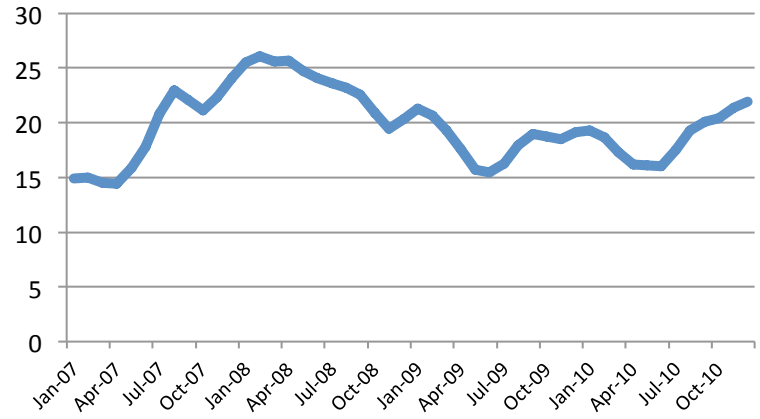


Market Overview: Rising Price & Government Response

Rising Prices

- 57% year-over-year as of week of Jul 15, 2011
- Primary driving factor of the soaring inflation in China

Pork Price (RMB/Kg)



Government Stances

- Buying American hogs to settle the market
 - 18% jump in US pork export 2011
- Subsidies
 - Beijing: RMB 2.5B to spur hog breeding and prevent future supply shocks
 - Farms will receive a subsidy of at least \$15 for every sow they raise.
- Improvements on meat quality regulations
 - 6 million food companies are investigated to ensure food safety

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Market Overview: Future Potential

China Pork Industry Future Analysis

Market Drivers	1 - 2 Years	2 - 3 Years	3 - 5 Years
Government Subsidies	Medium	Medium	High
Rise in Disposable Income	Medium	Medium	High
Protecting the Domestic Market	Low	Medium	Medium

Government Stance

- ❖ After 2007's blue-ear disease outbreak, the government provided a subsidy of RMB 50/head to increase production
- ❖ Subsidy grew to RMB 100 in 2009
- ❖ In 2010, the government has also implemented a sow insurance of RMB 60 per head

Rise in Disposable Income

- ❖ Disposable Income is set to increase.
- ❖ China's per capita annual disposable income was RMB 19,109.0 in 2006 and is expected to grow to RMB 36,316.7 in 2015 with a CAGR of 713.407%.
- ❖ The increasing purchasing power will drive the consumption of livestock and poultry

Protecting the Domestic Market

- ❖ Imported meat will now face new labeling requirements from the government. There are now more steps in ensuring safety of all food entering into China requiring pre-inspection, compliance and approval from various bureaus
- ❖ The new requirement will result in a rise in price of imported meats

Market Environment: Immense Investments Made in Recent Years

Recent Large Investments in the hog breeding business

Institution	Time	Investment Amount & Purpose
Deutsche Bank DWS Global Agribusiness Fund	2007	\$60 M: Investing in China's breeding businesses
Goldman Sachs	2008	\$200 - 300 M: Acquiring hog farms in Hunan, Fujian
Mitsubishi with COFCO [JV]	2011	\$10 B: Hog breeding operations
Charoen Pokphand Group [Thailand]	2011	Hog farms in Shandong, Guangdong and Henan with total capacity ~2.5 M heads
NetEase.com	Announced	80-hectare hog farm in Zhejiang Province
Lenovo	2011	\$30 M for Jiangsu breeding operation

Fluctuations of hog prices: Hand-in-hand with pork prices

Retail Hog Price RMB/Kg

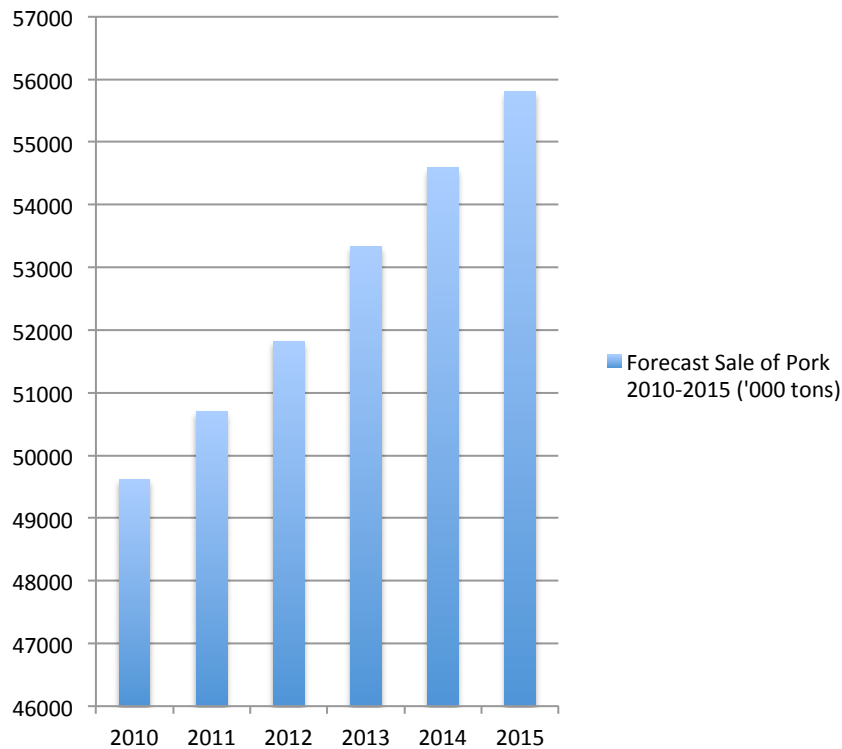


Future Hog Price Trends

- The increase in pork price will continue as the increase in supply outpace demand
- Pork prices are predicted to stay high until year-end 2011
- Pork supplies will only rise about 1% - 2% annually over the next five years

Fluctuations of hog prices: will undergo increases as demand increases

Forecast Sale of Pork 2010-2015 ('000 tons)



Future Growth in Demand & Sales

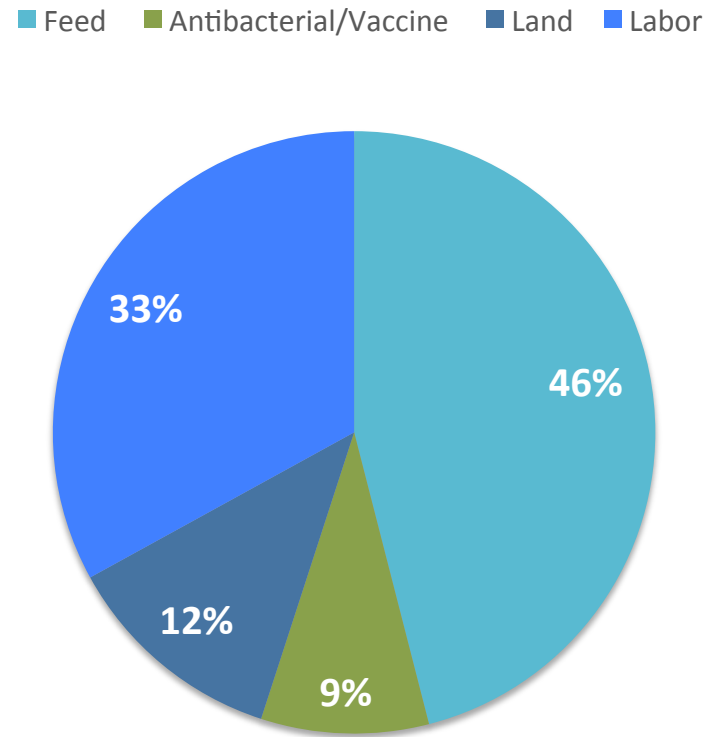
- China's growth in demand has surpassed the growth in production
- From 2007 – 2017, Asian demand for meat products will increase from 115 M to 149 M tons, a 30% jump
- Average projected CAGR for sales of pork volume in China are expected to be 2.4% from 2010 through 2015

Costs Overview

Types

- Feed: represents about 45 - 65% of meat production price
 - Corn
 - Soybean
 - Oats
 - Wheat
- Labor
- Land
- Vitamins
- Fresh water
- Antibacterial/Vaccine

Major costs of hog breeding
typical breakdown



Costs Overview: Feed

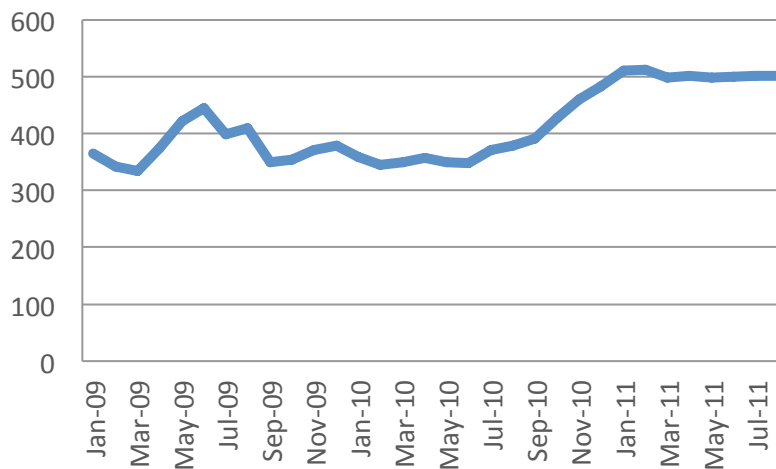
Soybeans

- Ultimate source of protein in modern feed mixes for shorter-cycle, leaner pork production
- Inexpensive
- Most common type of feed used by Chinese farmers

Future Soybean Price Trends

- China is now a net importer of soybeans
- Record inventories in Argentina and Brazil has caused an increase in supply of soybeans, and a decrease in price

Historic Price of Soybeans – USD/Metric Ton



Costs Overview: Feed

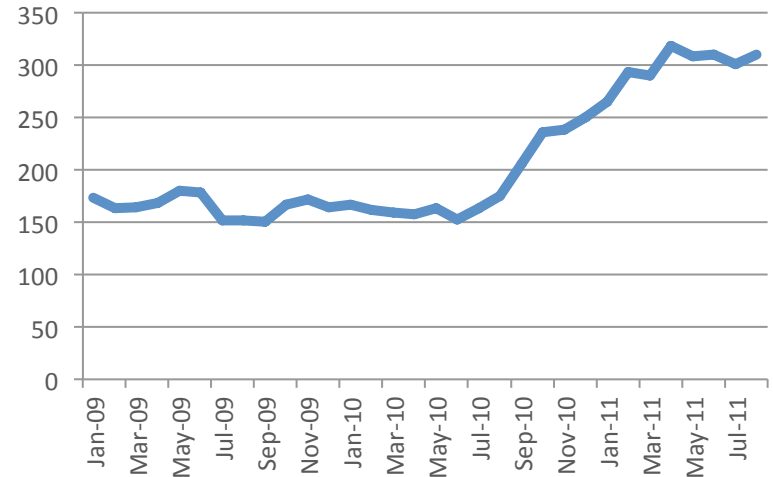
Corn

- High in digestible carbohydrates, low in fiber
- The sweetness of corn makes it a desirable feed for hogs' tastes
- Has seen a decrease in price during recent months due to large supply

Wheat

- May be used as a partial or sole grain source in diets for all classes of swine
- High in lysine, an important essential amino acid for protein building
- Costs around 5% more than corn

Price of Corn - USD/Metric Ton



Grain Sorghum

- Seen as a replacement for corn, can be used as grain source, but must be supplemented because it alone is inadequate to meet pig's nutrient requirements
- Cost at 95% of corn

Future Market Forecast

- ❖ The supply for pork will remain steady due to China's large reserve of live hogs and frozen pork
- ❖ And safety inspections will cause an increase in production from larger established pig farms and a reduction in production output from smaller pig farms due to inspection hurdles
- ❖ The ever increasing price of pork will lead to a rise in production to meet consumer demands, and we believe that even with the higher price of pork, consumers will continue to demand due to higher disposable incomes
- ❖ According to China's 12th Five-Year Plan 2011-2015 for the meat sector, China will focus production on beef, mutton and poultry, while keeping pork production steady

INDUSTRY COMPARABLES REPORT

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Industry Competitors Overview

Name	Zhongpin	Tianli Agritech	AgFeed Industries	Smithfield Foods
[For the year 2010]				
Stock Symbol	<u>HOGS</u>	<u>OINK</u>	<u>FEED</u>	<u>SFD</u>
Revenue ('000 USD)	\$946,720	\$21,279	\$243,614	\$12,202,700
Net Income ('000 USD)	\$68,918	\$8,158	\$-42,704	\$521,000
Net Margin	7%	38%	-18%	4%
Stock Price	\$8.87	\$2.13	\$0.92	\$20.27
PE Ratio	4.74	2.46	N/A	6.5
Market Cap	\$357,950	\$21,590	\$58,820	\$3,370,000
LT Debt	\$88,672	\$-	\$66,877	\$1,978,600

Name	中国现代牧业	雏鹰牧业	唐人神牧业
(For the year 2010)			
Stock Symbol	01117.HK	002477	002567
Exchange	HK	SZ	SZ
Revenue ('000'000 RMB)	¥ 780	¥ 683	¥ 43,000
Net Income ('000'000 RMB)	¥ 162	¥ 123	¥ 83
Net Margin	20.76%	18%	2%
Stock Price	2.08	31.66	23.95
P/E Ratio	43x	24.9x	52x
Market Cap	¥ 10,062	¥ 2,120	¥ 818

Competitor Analysis

HOGS

- Sells pork and pork products under their Zhongpin brand
- Also sells a variety of vegetables
- Owns their own slaughterhouses
- Has a large China presence with processing plants and a strong domestic brand catering to supermarkets and both domestic/international fast food chains
- Exports contribute to about 1% to revenues

PORK

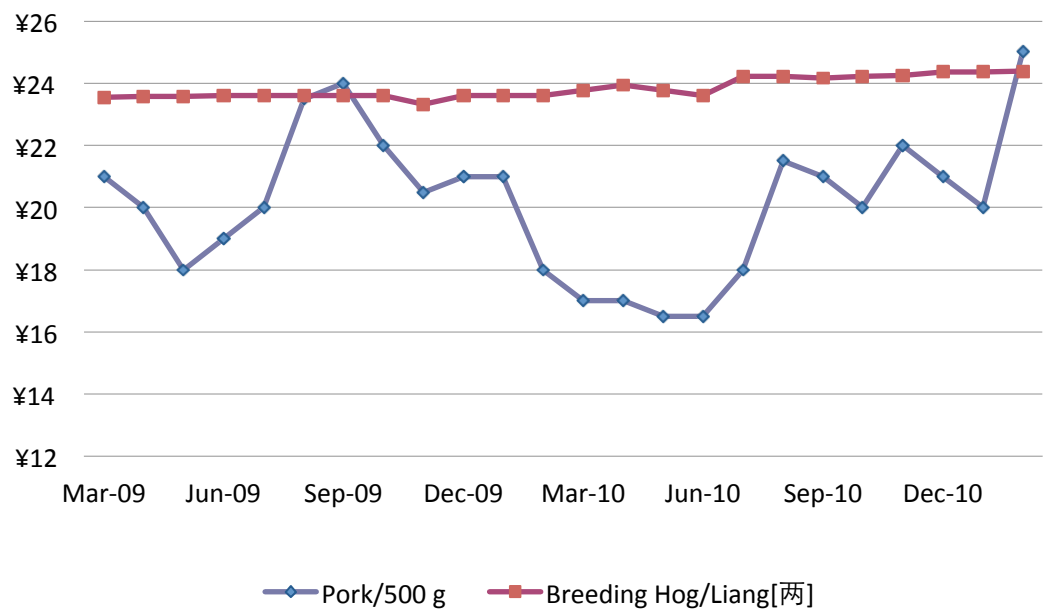
- Sells majority of hogs for pork purposes to hog brokers, farmers, and slaughterhouses, with about 35% sold for breeding purposes
- Does not slaughter
- Operates mostly in the Hubei province as well as smaller parts of Central China
- While mostly domestic, the company intends to import pigs for breeding purposes

FEED

- Only recently became involved in hog breeding
- The company's main revenues come from sales of 3 types of feed: Premix, Concentrate and Complete
- Does not slaughter their own pigs
- Sells mainly to farms in Hubei, Hunan, Jiangxi, Guangxi, Guangdong
- Owns sow farms in Colorado, Oklahoma and North Carolina

Competitive Analysis: Breeding Hogs vs. Pork

Breeding Hog Prices vs. Pork Prices



Company	Hog Products Sold
Breeding Hogs	100% Breeding Hogs
HOGS	100% Pork
OINK	35% Breeding Hogs, 65% Pork
FEED	6% Breeding Hogs, 94% Pork

❖ Pure purveyors of breeding hogs expect superior and steadier profits from its competitors because they solely sell breeding hogs, whose prices are significantly more stable, as shown by the historical data for the product prices above, demanding a higher valuation for the firms' equity.

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