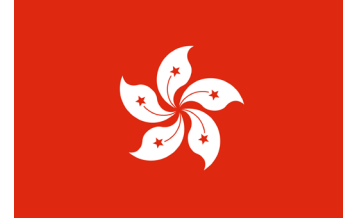




MARKET SNAPSHOT | RED MEAT

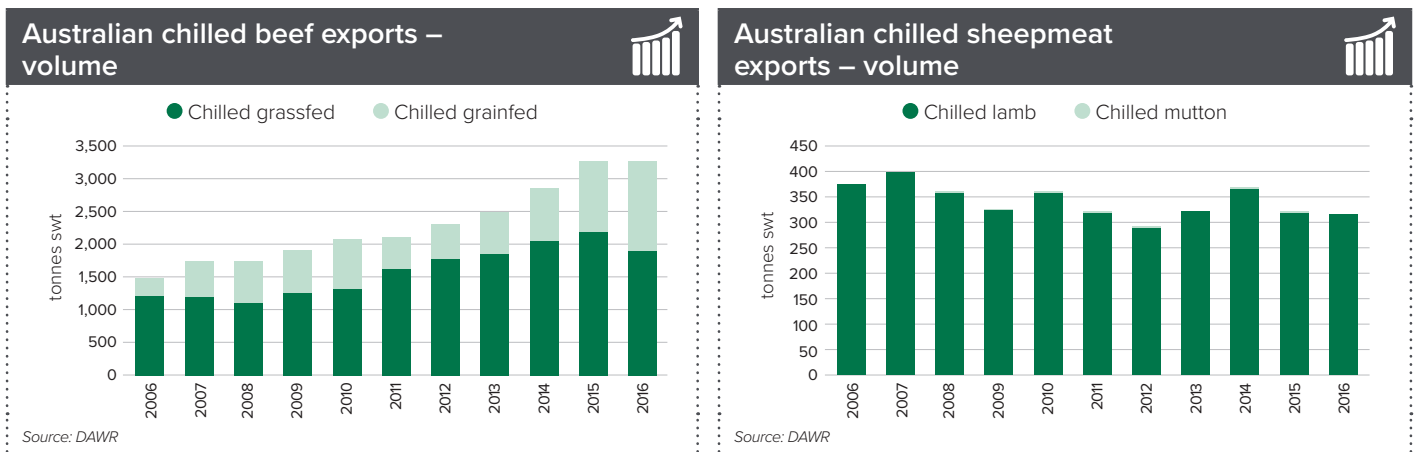
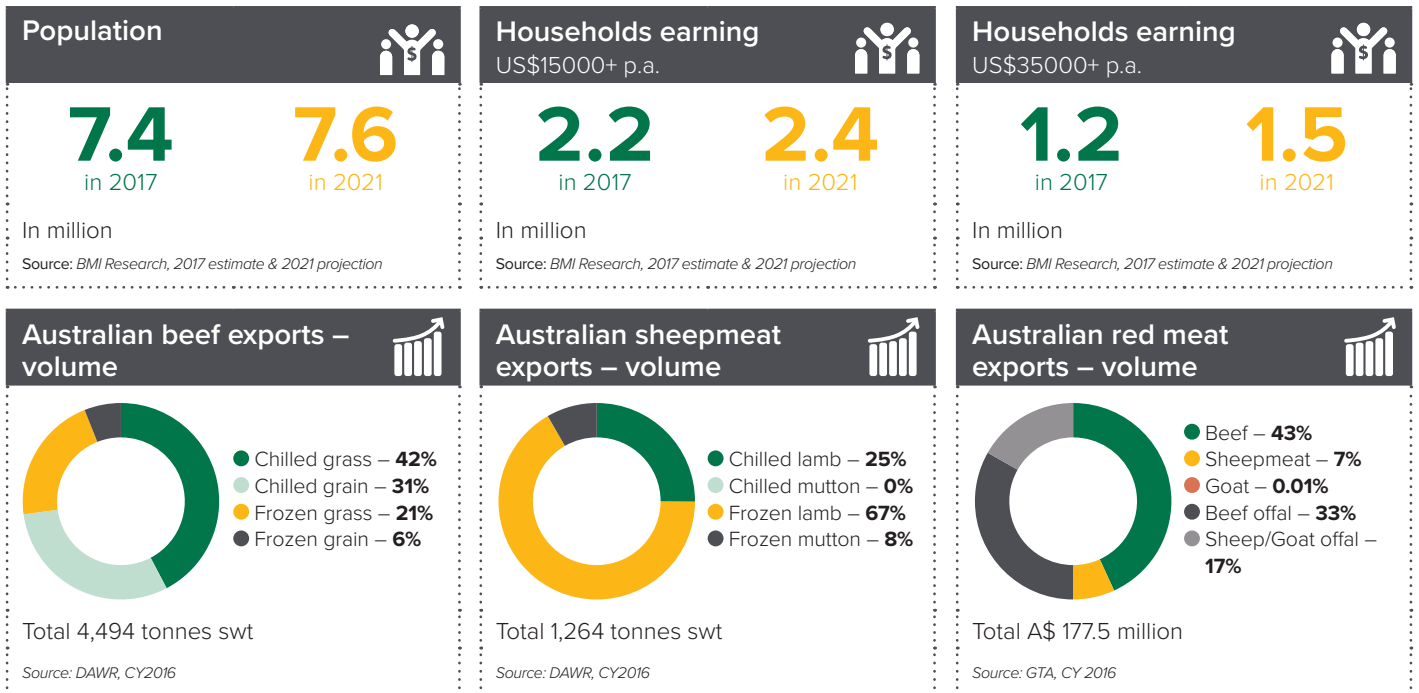
Hong Kong SAR, China

Hong Kong SAR (Special Administrative Region) is a unique market, with its comparatively wealthy local population, large tourist visitor population, relatively low market access barriers and its traditional role as a regional re-export hub.



Challenges and opportunities in Hong Kong for Australian red meat:

- Hong Kong demand for premium chilled beef and lamb, of which Australia is a key supplier, in both high-end retail and foodservice sectors is expected to remain robust.
- However, it is anticipated there will be increased competition from a larger number of suppliers and in all segments of the market.
- Hong Kong consumers are expected to become more value-conscious in their purchase decision-making as Hong Kong's economy and consumer confidence are impacted by several factors, including China's growth slowdown.
- As China implements its food importing and food safety management policy reforms in coming years, Hong Kong's role as a re-export hub will likely change.
- Australia-Hong Kong Free Trade Agreement (A-HKFTA) negotiations officially commenced in May 2017. Although Hong Kong is one of the world's most open markets, Australia is seeking to formalise the current tariff-free arrangement for Australian red meat and livestock imports, as well as progressing market access for a number of co-products where there is currently no agreed certification.



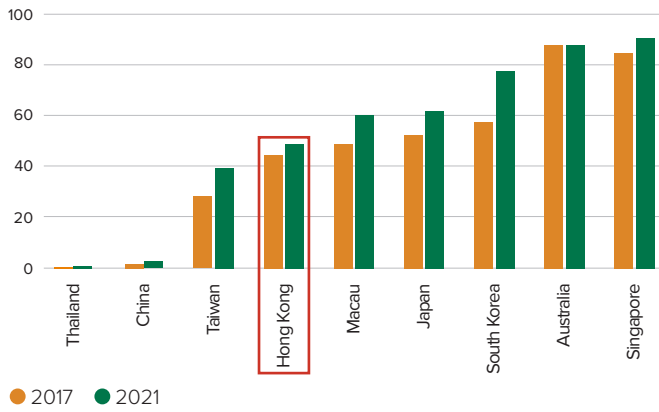
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Consumers



- Hong Kong's population is currently 7.4 million. It is among the world's most densely populated cities and the region's most affluent. This includes around 2% of wealthy expatriates, many working in the financial services sector.

Percentage of households earning >U\$35,000 p.a.



Source: BMI Research, 2017 estimate and 2021 forecast

- Hong Kong's traditional food style reflects China's southern cuisines. But its long history as a regional trade center, British colonial influence and large international tourism in-flows makes consumers more receptive to international foods and flavours.
- Hong Kong diets have traditionally been dominated by seafood, pork and poultry due to local production, versatility and price. But beef and lamb are forecast to see stronger year-on-year sales growth than other proteins, driven by a growth in demand for cuisines that utilize red meat, such as western, Japanese, Korean, Northern and Eastern Chinese.

Hong Kong, Sales, U\$mn, % Growth Y-O-Y

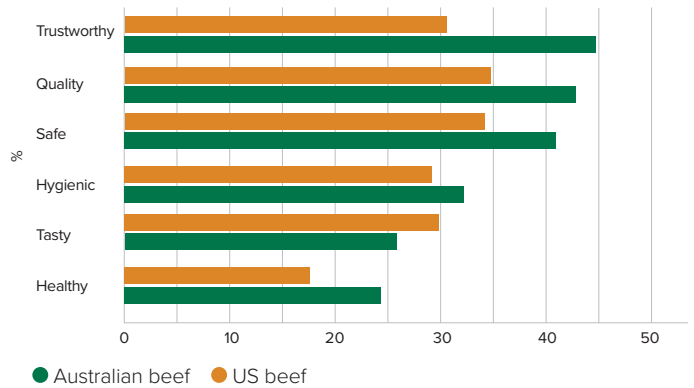
| | 2017 | 2021 |
|---|------|------|
| Beef | 6.6 | 8.2 |
| Lamb | 4.9 | 7.0 |
| Other meats & preparations | 5.4 | 7.6 |
| Shellfish & preserved fish | 3.8 | 5.7 |
| Poultry | 3.8 | 5.6 |
| Fish & fish products | 3.4 | 5.1 |
| Pork | 2.2 | 3.3 |
| Bacon & ham | -2.5 | 2.6 |
| Other preserved, processed fish & seafood | 0.5 | 0.4 |

Source: BMI Research, 2017 estimate and 2021 forecast

- Food safety is a prominent consideration for shoppers, with media coverage of problems contributing to growing demand for natural and organic foods with traceable provenance, particularly in categories such as meat.
- Overall consumer confidence is expected to weaken with a rise in the cost of living and lower tourist in-flows. However, the high-end retail and foodservice sectors are less sensitive to such trends, with value growth in premium and specialised food products and services forecast to continue.
- Despite an ageing population and decreasing household size, these wealthy, urbanised and technologically proficient consumers will spend more on premium, specialised propositions such as convenience and functional foods (Source: BMI Research).

- While awareness of Australian beef isn't quite as high as US beef, Australian beef is highly regarded by those who have consumed it, especially when it comes to trust, quality and safety.

Hong Kong consumer perceptions of Australian & US beef



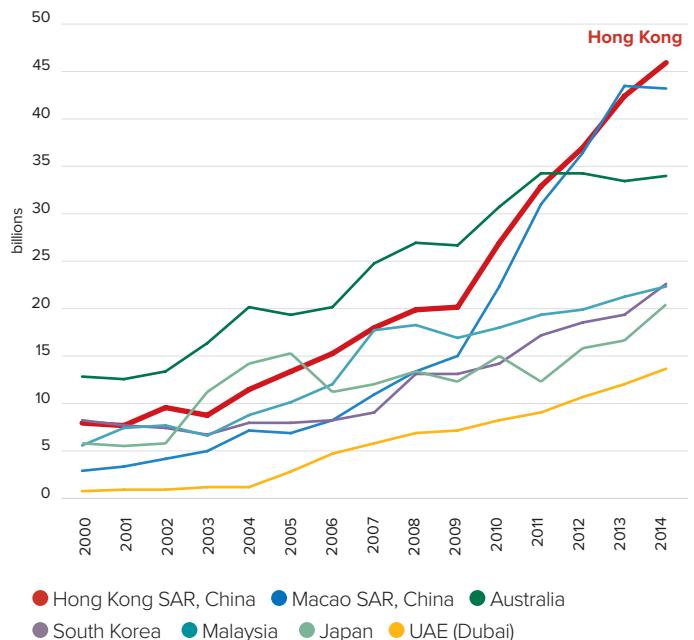
Source: MLA Report, Understanding of Hong Kong Beef Market, 2013

Foodservice



- Hong Kong has a large, well-developed foodservice sector, thanks in large part to its significant tourist visitor numbers. Hence, a significant proportion of red meat in the region is consumed by visitors.
- Similarly, a significant source of neighboring Macau's red meat import demand comes from the foodservice sector serving tourists who visit the casinos.

International tourism receipts (U\$) - Hong Kong

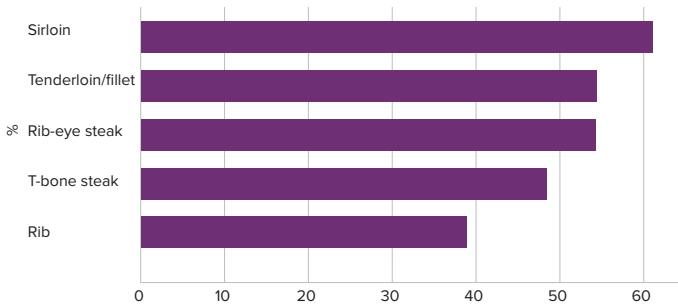


Source: World Bank

- Although tourist arrivals from Mainland China are expected to continue falling in coming years, tourism promotion will likely see more visitors from North Asia and ASEAN.
- Australian beef and lamb can be found in a wide variety of foodservice channels in the mid- to high-end range. When consumers want a premium red meat experience, they tend to enjoy it at steakhouses and western and Japanese restaurants, where product provenance is more prominent.

- MLA estimates that around 25% of Australian chilled beef and around 80% of frozen beef is sold through the foodservice sector. For Australian chilled lamb, the bulk (around 70%) is destined for the foodservice sector, as is the majority of Australian frozen sheepmeat.

Hong Kong diners' preferred beef cuts when dining out (Top 5)



Source: MLA Report, Understanding of Hong Kong Beef Market, 2013

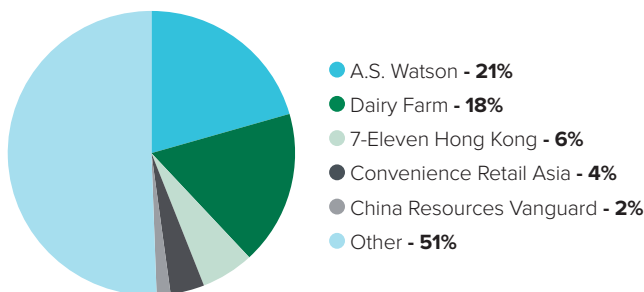


Retail



- Hong Kong's grocery retail sector is highly developed and very competitive due to the region's small population and increasing availability of cheaper food products from neighboring markets.

Hong Kong Grocery Retail Market Share, 2017



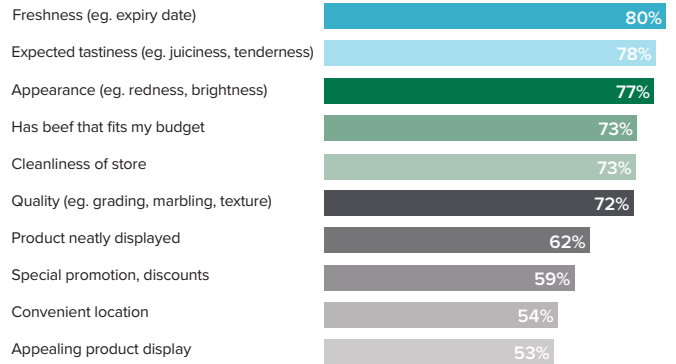
Source: IGD, 2017 estimate

- The majority (around 75%) of Australian chilled beef, and around a third of Australian chilled lamb, is sold through retail channels (MLA estimates).
- Online grocery shopping penetration levels remain low, as a high population density makes local smaller format stores more convenient for busy working shoppers and the elderly.

- Hong Kong consumers are cosmopolitan and sophisticated, reflected in the growing presence of food halls, gourmet and specialist stores. 'Premiumisation' is a major driver of retail growth, as is growing demand for healthier, more innovative value-added food propositions, such as ready-made and frozen foods (Source: BMI Research).

- When it comes to buying beef, freshness, appearance and expected taste are the top considerations.

Hong Kong consumer Top 10 beef purchase considerations



Top 2 Box: Extremely+Very Important; Base n=605
Source: MLA Report, Understanding of Hong Kong Beef Market, 2013

Trade issues



- Imported food products, including meat, are expected to continue to account for at least 95% of the food consumed in Hong Kong (Source: BMI Research).
- Hong Kong has been an important regional re-export hub, particularly for frozen meat.
- In recent years, Hong Kong frozen red meat import volumes have seen more volatility and declines, as market access conditions in neighboring countries have changed.
- With China's meat market opening up to more suppliers and importing policy reforms to be implemented in coming years, Hong Kong's role in meat re-exporting may change.
- The 29km-long Hong Kong–Zhuhai–Macau Bridge, due to open late 2017, will connect Hong Kong, Macau and mainland China. This area will become an important economic hub along the Maritime Silk Road, part of China's Belt and Road Initiative.

Other suppliers

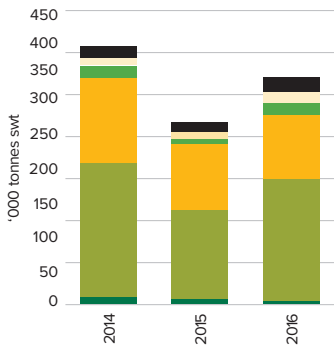


Beef

- Of Hong Kong's total frozen beef imports in 2016 (totalling 350,998 tonnes swt), Brazil supplied more than half (56%) followed by the US (27%), with Australia supplying a small quantity (1,219 tonnes swt).
- Despite a small share, imports from EU countries are growing, intensifying competition.
- In 2016, Hong Kong imported a total of 7,949 tonnes of chilled beef valued at more than A\$182m, with Australia the largest supplier (46% volume share), followed by the US (29%) and Brazil (10%).

- Japan's 5% volume share accounts for 17% of the value share, largely underpinned by highly marbled Wagyu beef products.

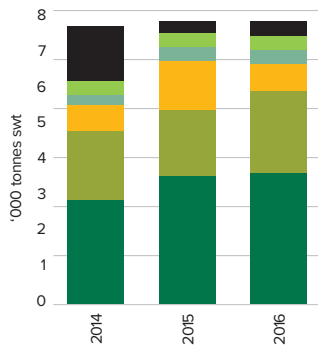
Hong Kong FROZEN BEEF imports



- Australia
- Brazil
- United States
- Canada
- EU
- Other

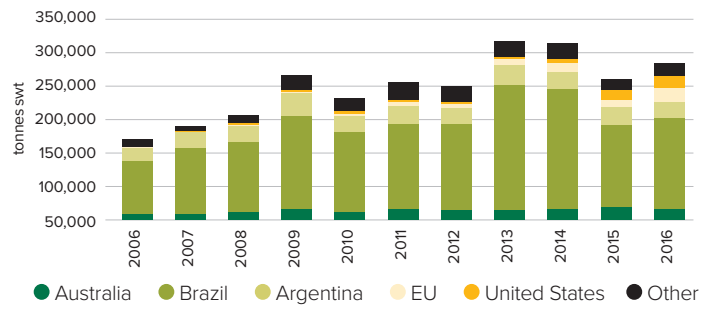
Source: GTA

Hong Kong CHILLED BEEF imports



- Australia
- Brazil
- United States
- Japan
- NZ
- Other

Hong Kong BEEF OFFAL imports

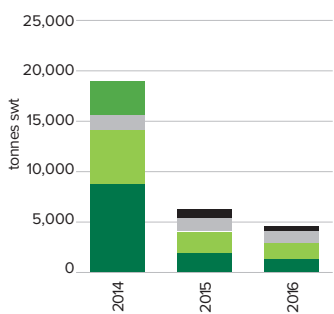


Source: GTA

Sheep and Goat Meat

- Hong Kong's frozen sheepmeat imports have fallen sharply in recent years. Frozen mutton imports peaked at 20,785 tonnes swt in 2010, dropping to 3,806 tonnes in 2016. This has been mainly due to a drop in demand from China.
- Australia, New Zealand and China are Hong Kong's main sheepmeat suppliers.
- Hong Kong's chilled lamb import volumes have been steadier. Australia has consistently been the leading supplier, with a volume share of 88% in 2016.
- Hong Kong has imported around 2,000 tonnes swt of goatmeat annually in recent years, mostly from China, with Australia supplying a small volume.

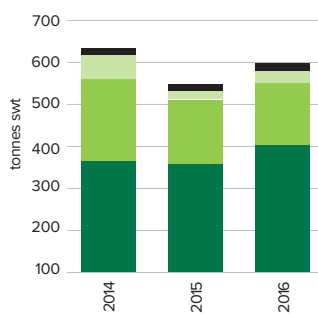
Hong Kong TOTAL SHEEPMEAT imports



- Australia
- NZ
- China
- Other

Source: GTA, China Customs

Hong Kong CHILLED SHEEPMEAT imports



- Australia
- NZ
- United Kingdom
- Other

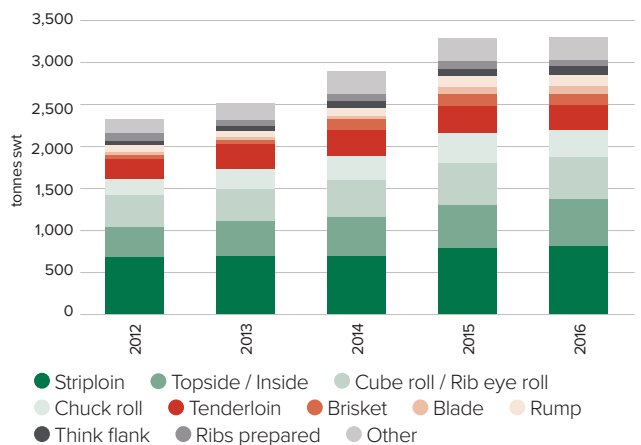
Offal

- Hong Kong is the world's largest importer of beef and sheep offal, with beef offal imports totalling 272,502 tonnes swt, valued at A\$1.1 billion – 98% is frozen and most is tripe.
- Brazil supplies more than 50% of Hong Kong's beef offal imports, followed by Argentina, the US and Australia.
- In 2016, Australia's chilled beef offal exports to Hong Kong (130 tonnes swt) were mostly cheek meat, skirt and tail.

SPOTLIGHT ON AUSTRALIAN PREMIUM RED MEAT EXPORTS TO HONG KONG

- In 2016, Australia's chilled beef exports to Hong Kong reached a 10-year high of 3,275 tonnes swt valued at A\$62.5 million.
- Unit prices earned were almost 80% higher (A\$19.49/kg) than the average of all Australia's chilled beef export markets (A\$10.48/kg).
- The proportion and quantity of grainfed beef has been increasing in recent years.
- Striploin comprised the largest proportion (25%) of chilled beef cuts exported to Hong Kong in 2016.

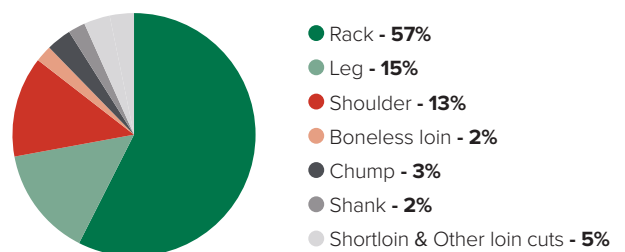
Australian chilled beef export to Hong Kong - Top 10 cuts



Source: DAWR

- Australia's chilled lamb exports to Hong Kong have consistently hovered near the 300-tonne mark for 10 years. In 2016, Australia exported 317 tonnes swt, valued at A\$7.7 million.
- Unit prices in 2016 were 40% higher (A\$12.71/kg) than the average of all Australia's chilled lamb export markets (A\$9.07/kg).
- Rack comprised the largest proportion (57%) of Australia's chilled lamb cuts exported to Hong Kong.

Australian chilled lamb exports to HK - Key Cuts 2016



Source: DAWR

Australian red meat exports to Hong Kong – summary table



Australian BEEF exports to Hong Kong

| volume – in tonnes swt | | 2016 | | 2015 | | 5 year average (2011-2015) | | change 2016 vs 5-yr av. | |
|------------------------|------------------|--------------|----------------|--------------|----------------|----------------------------|----------------|-------------------------|---------------|
| | | | % out of total | | % out of total | | % out of total | % | in tonnes swt |
| Total | | 4,494 | 100 | 6,655 | 100 | 8,335 | 100 | -46 | -3,841 |
| by storage / meat type | Chilled grassfed | 1,901 | 42 | 2,193 | 33 | 1,909 | 23 | 0 | -8 |
| | Chilled grainfed | 1,374 | 31 | 1,081 | 16 | 707 | 8 | 94 | 667 |
| | Frozen grassfed | 948 | 21 | 3,050 | 46 | 5,098 | 61 | -81 | -4,150 |
| | Frozen grainfed | 271 | 6 | 331 | 5 | 621 | 7 | -56 | -350 |

Source: DAWR

value – in A\$ 000

| by storage | | 2016 | | 2015 | | 5 year average (2011-2015) | | change 2016 vs 5-yr av. | |
|--------------|--|---------------|------------|---------------|------------|----------------------------|------------|-------------------------|---------------|
| | | | % | | % | | % | % | in A\$ 000 |
| Total | | 76,585 | 100 | 81,301 | 100 | 81,009 | 100 | -5 | -4,424 |
| Chilled | | 62,495 | 82 | 55,085 | 68 | 38,457 | 47 | 63 | 24,039 |
| Frozen | | 14,090 | 18 | 26,216 | 32 | 42,552 | 53 | -67 | -28,462 |

Source: ABS/GTA

Australian SHEEPMEAT exports to Hong Kong

| volume – in tonnes swt | | 2016 | | 2015 | | 5 year average (2011-2015) | | change 2016 vs 5-yr av. | |
|------------------------|----------------|--------------|----------------|--------------|----------------|----------------------------|----------------|-------------------------|---------------|
| | | | % out of total | | % out of total | | % out of total | % | in tonnes swt |
| Total | | 1,264 | 100 | 1,879 | 100 | 8,021 | 100 | -84 | -6,757 |
| by storage / meat type | Chilled lamb | 317 | 25 | 318 | 17 | 322 | 4 | -2 | -5 |
| | Chilled mutton | - | 0 | 1 | 0.1 | 0.8 | 0.01 | -100 | -0.8 |
| | Frozen lamb | 842 | 67 | 1,318 | 70 | 5,573 | 69 | -85 | -4,731 |
| | Frozen mutton | 105 | 8 | 242 | 13 | 2,125 | 26 | -95 | -2,020 |

Source: DAWR

value – in A\$ 000

| by storage | | 2016 | | 2015 | | 5 year average (2011-2015) | | change 2016 vs 5-yr av. | |
|--------------|--|---------------|------------|---------------|------------|----------------------------|------------|-------------------------|----------------|
| | | | % | | % | | % | % | in A\$ 000 |
| Total | | 12,161 | 100 | 15,041 | 100 | 36,414 | 100 | -67 | -24,253 |
| Chilled | | 7,700 | 63 | 8,129 | 54 | 8,316 | 23 | -7 | -616 |
| Frozen | | 4,462 | 37 | 6,912 | 46 | 28,098 | 77 | -84 | -23,637 |

Source: DAWR

Australian BEEF OFFAL exports to Hong Kong

| volume - by major cut (in tonnes swt) | | 2016 | | 2015 | | 5 year average (2011-2015) | | change 2016 vs 5-yr av. | |
|---------------------------------------|--|---------------|----------------|---------------|----------------|----------------------------|----------------|-------------------------|---------------|
| | | | % out of total | | % out of total | | % out of total | % | in tonnes swt |
| Tripe | | 19,790 | 96 | 22,832 | 95 | 21,216 | 96 | -7 | -1,426 |
| Tendon | | 652 | 3 | 1,046 | 4 | 561 | 3 | 16 | 91 |
| other | | 223 | 1 | 193 | 1 | 256 | 1 | -13 | -33 |
| Total | | 20,665 | 100 | 24,071 | 100 | 22,033 | 100 | -6 | -1,368 |

Source: DAWR

value – in A\$ 000

| Total | | 2016 | 2015 | 5 year average (2011-2015) | change 2016 vs 5-yr av. |
|-------|--|---------------|---------------|----------------------------|-------------------------|
| | | 58,919 | 84,411 | 70,972 | -17 |
| | | | | | -12,052 |

Source: DAWR

Australian SHEEP OFFAL exports to Hong Kong

| volume - by major cut (in tonnes swt) | | 2016 | | 2015 | | 5 year average (2011-2015) | | change 2016 vs 5-yr av. | |
|---------------------------------------|--|--------------|----------------|--------------|----------------|----------------------------|----------------|-------------------------|---------------|
| | | | % out of total | | % out of total | | % out of total | % | in tonnes swt |
| Tripe | | 9,075 | 99.4 | 9,268 | 98.7 | 8,511 | 95.9 | 7 | 565 |
| Tongues | | 25 | 0.3 | 7 | 0.1 | 3 | 0.04 | 638 | 22 |
| other | | 28 | 0.3 | 117 | 1.2 | 363 | 4.1 | -92 | -335 |
| Total | | 9,128 | 100 | 9,392 | 100 | 8,877 | 100 | 3 | 251 |

Source: DAWR

value – in A\$ 000

| Total | | 2016 | 2015 | 5 year average (2011-2015) | change 2016 vs 5-yr av. |
|-------|--|---------------|---------------|----------------------------|-------------------------|
| | | 29,780 | 28,699 | 29,864 | -0.3 |
| | | | | | -84 |

Source: DAWR

Australian GOATMEAT exports to Hong Kong

| volume - by major cut (in tonnes swt) | | 2016 | | 2015 | | 5 year average (2011-2015) | | change 2016 vs 5-yr av. | |
|---------------------------------------|--|----------|----------------|------------|----------------|----------------------------|----------------|-------------------------|---------------|
| | | | % out of total | | % out of total | | % out of total | % | in tonnes swt |
| Carcase | | 1 | 100 | 733 | 100 | 464 | 100 | -99.8 | -463 |
| Total | | 1 | 100 | 733 | 100 | 464 | 100 | -99.8 | -463 |

Source: DAWR

value – in A\$ 000

| Total | | 2016 | 2015 | 5 year average (2011-2015) | change 2016 vs 5-yr av. |
|-------|--|-----------|--------------|----------------------------|-------------------------|
| | | 12 | 5,682 | 3,743 | -99.7 |
| | | | | | -3,731 |

Source: DAWR