



Since 1971

CHINA MINZHONG FOOD
CORPORATION LIMITED

China Minzhong

Earnings Presentation 1QFY2016
3 November 2015



Agenda

Financial Performance Review

Outlook & Growth Strategies



Income Statement Highlights

Financial Summary (Profitability)

%% (RMB'million)	3 months ended 30 Sept		
	1QFY16	1QFY15	% Change
Revenue	467.7	487.0	(4.0%)
Cost of sales	(349.6)	(359.1)	(2.7%)
Gross Profit	118.1	127.9	(7.6%)
<i>Gross profit margin</i>	25.3%	26.3%	(1.0ppt)
Other income	47.3	48.5	(2.6%)
Selling and distribution expenses	(9.0)	(25.3)	(64.3%)
Administrative expenses	(43.6)	(37.0)	17.9%
Other expenses	(42.1)	(8.8)	>100%
Finance cost	(36.9)	(31.6)	17.0%
Profit before income tax (PBT)	33.8	73.7	(54.1%)
<i>PBT margin</i>	7.2%	15.1%	(7.9ppt)
Income tax	(18.4)	(16.3)	12.8%
Net profit	15.5	57.4	(73.1%)
<i>Net income margin</i>	3.3%	11.8%	(8.5ppt)
EBITDA⁽¹⁾	111.4	147.2	(24.3%)
<i>EBITDA margin⁽¹⁾</i>	23.8%	30.2%	(6.4ppt)

Footnote:

(1) EBITDA refers to earnings before interest, tax, depreciation and amortisation.

Notes on Income Statement (1st Quarter Analysis)

□ Revenue

✓ Revenue for 1QFY2016 declined by 4.0% to RMB467.7 million (1QFY2015: RMB487.0 million). The decline was mainly due to a decrease in sales of RMB48.1 million from the branded business segment, offset by an increase in sales of RMB29.7 million from the cultivation business segment.

□ Gross profit and margin

✓ Gross profit declined by 7.6% to RMB118.1 million and overall gross margin decrease by 1.0ppt to 25.3% (1QFY2015: 26.3%)

□ Other income

✓ Other income decreased by 2.6% to RMB47.3 million (1QFY2015: RMB48.6 million), mainly due to decrease in other income of RMB7.4 million offset by increase in rental income of RMB6.3 million, in tandem with the increase in rental expenses.

□ Selling & distribution expenses

✓ Selling and distribution expenses decreased by 64.3% to RMB9.0 million (1QFY2015: RMB25.3 million), which was mainly due to a decrease in RMB6.6 million in staff costs and RMB6.7 million for marketing and advertising expenses

□ Administrative expenses

✓ Administrative expenses had increased by 17.9% to RMB43.6million (1QFY2015: RMB37.0 million) mainly due to increase in repair and maintenance expenses of RMB4.3 million, increase in staff salaries of RMB0.8 million and increase in depreciation of administrative assets of RMB1.0 million.

□ Other expenses

✓ Other expenses increased by RMB33.3 million mainly due to increase in exchange loss of RMB23.6 million, arising from revaluation of foreign currency assets and liabilities at the Company level, increase in rental expenses of RMB4.4 million which is in tandem with the increase in rental income and write off of RMB5.3 million of biological assets which were destroyed during the typhoon.

□ Finance cost

✓ Finance cost increased by RMB5.3 million, to RMB36.9 million (1QFY2015: RMB31.6 million) due to increased bank borrowings.

□ Income tax

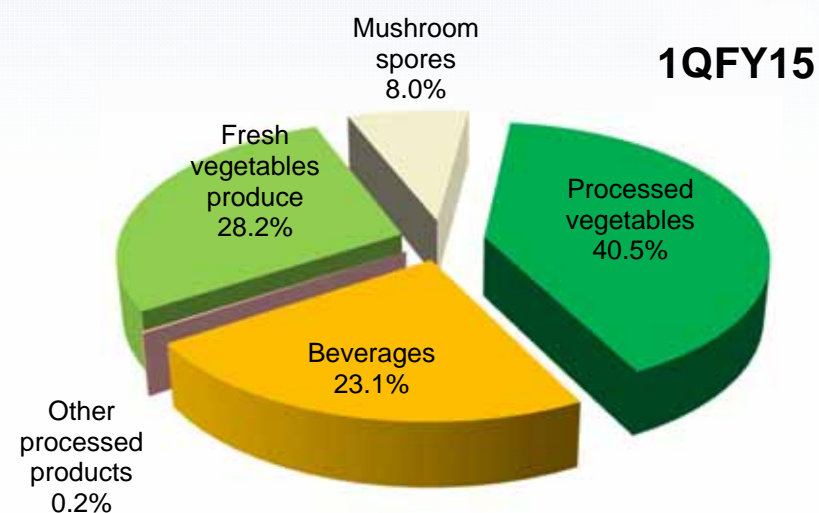
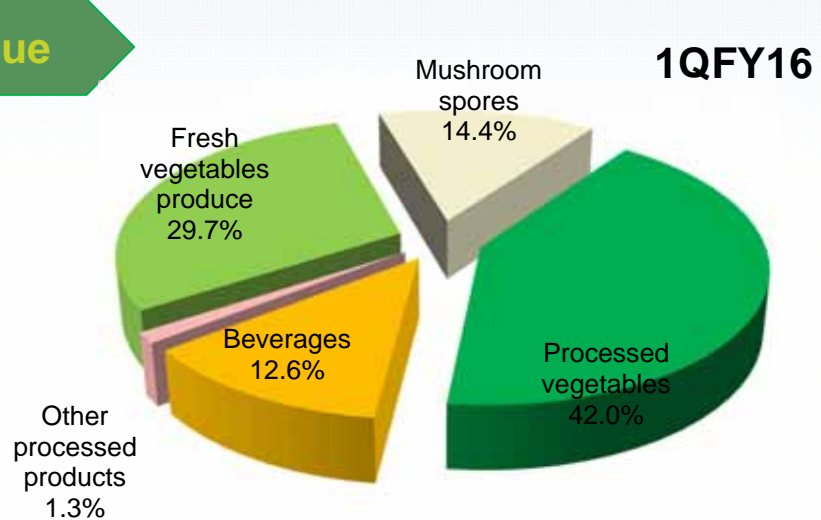
✓ Income tax expense increased by RMB2.1 million, to RMB18.4 million (1QFY2015: RMB16.3 million) mainly due to RMB1.6 million of deferred tax assets expensed off.

Revenue and Gross Profit breakdown across business segments

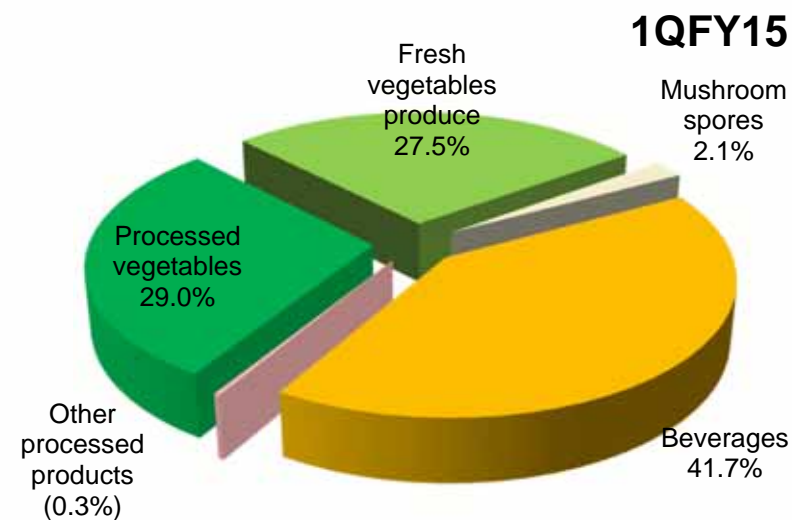
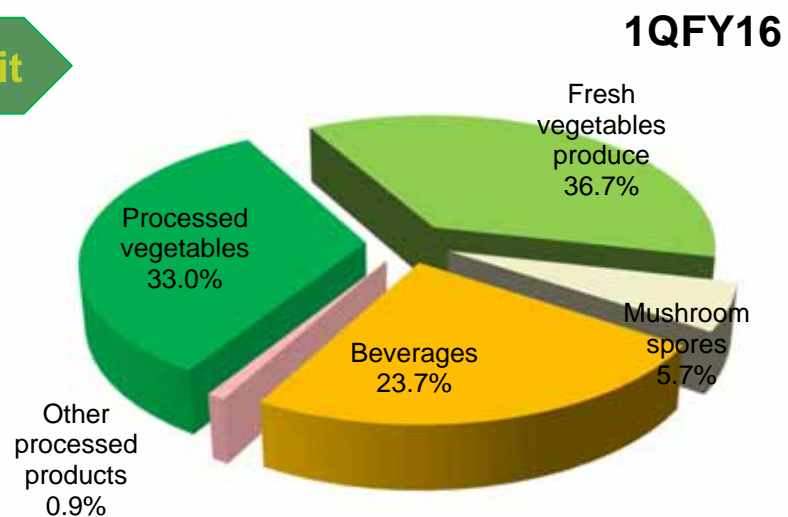
(RMB'million)	3 months ended 30 Sep		
	1QFY16	1QFY15	% Change
Revenue	467.7	487.0	(4.0%)
Processed Business Segment	196.3	197.2	(0.4%)
Processed vegetables	196.3	197.2	(0.4%)
Cultivation Business Segment	206.1	176.4	16.8%
Fresh vegetables produce	138.8	137.4	1.0%
Mushroom spores	67.3	39.0	72.4%
Branded Business Segment	65.3	113.4	(42.4%)
Beverages	58.8	112.3	(47.6%)
Others	6.5	1.1	>100%
Gross Profit	118.1	127.9	(7.6%)
Processed Business Segment	39.0	37.1	5.2%
Processed vegetables	39.0	37.1	5.2%
Cultivation Business Segment	50.1	37.9	32.3%
Fresh vegetables produce	43.3	35.2	23.0%
Mushroom spores	6.8	2.7	>100%
Branded Business Segment	29.0	52.9	(45.1%)
Beverages	27.9	53.3	(47.6%)
Others	1.1	(0.4)	(>100%)
Gross Margin	25.3%	26.3%	(1.0ppt)
Processed Business Segment	19.9%	18.8%	1.1ppt
Processed vegetables	19.9%	18.8%	1.1ppt
Cultivation Business Segment	24.3%	21.5%	2.8ppt
Fresh vegetables produce	31.2%	25.6%	5.6ppt
Mushroom spores	10.1%	6.9%	3.2ppt
Branded Business Segment	44.4%	46.6%	(2.2ppt)
Beverages	47.5%	47.4%	0.1ppt
Others	16.9%	N.A.	N.A.

Segmental Revenue by Proportion

Revenue



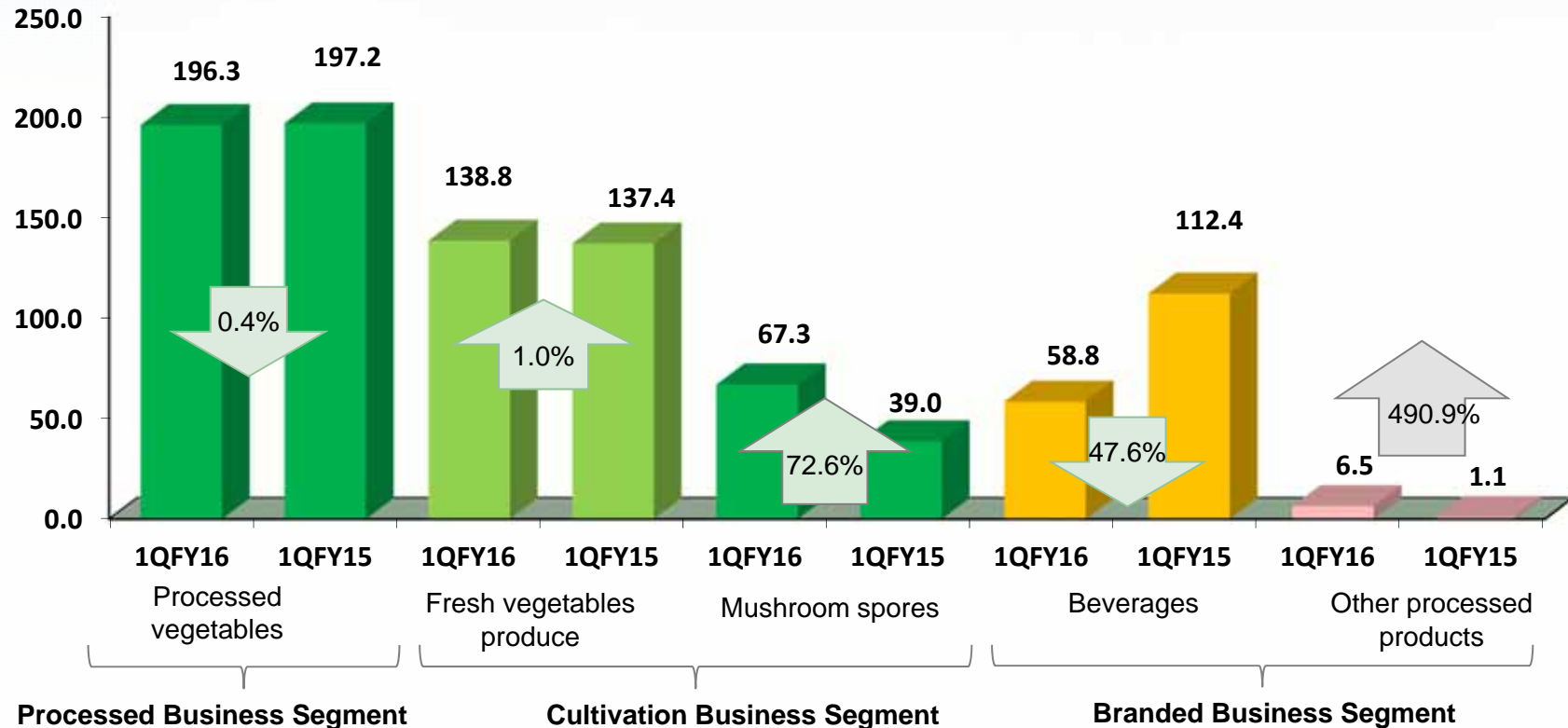
Gross Profit



Footnote: "Other processed products" comprises of instant food and health food products.

Revenue breakdown across segments

RMB' million



■ Processed vegetables:

- ✓ Revenue of processed business segment remains relatively constant at RMB196.3 million.

■ Cultivation business (Fresh vegetables produce, mushroom spores):

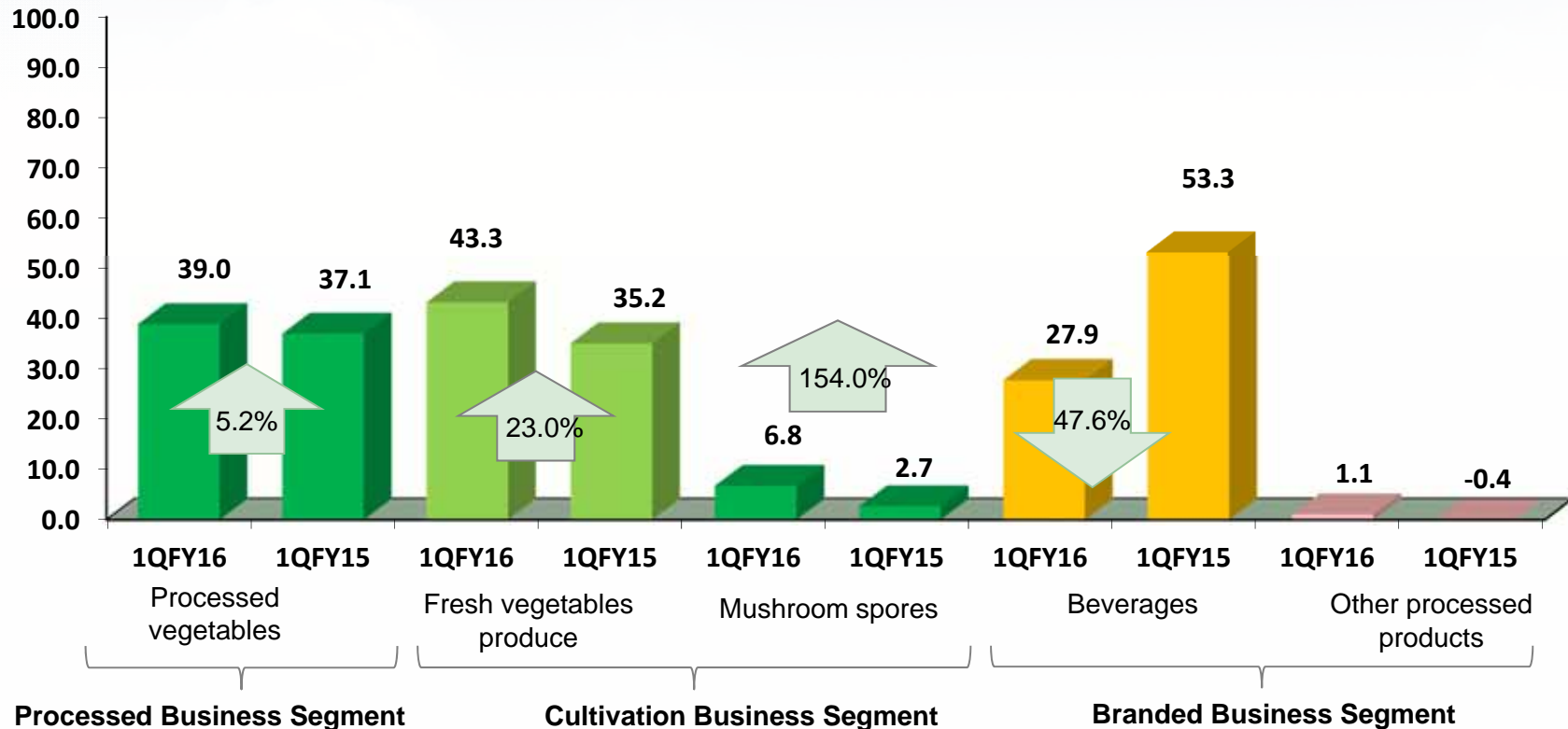
- ✓ Revenue from the sales of fresh vegetables remains relatively constant at RMB138.8 million.
- ✓ Revenue from trading of mushroom spores increased by 72.4% to RMB67.3 million due to timing difference of mushroom spores trading.

■ Branded business (Beverages, other processed products):

- ✓ Revenue of beverage business decreased by 47.6% or RMB53.5 million to RMB58.8 million (1QFY2015: RMB112.4 million) primarily due to the slowdown of the economy and the effect arising from a reduction in advertising and promotion expenses.

Gross profit breakdown across segments

RMB' million



■ Processed vegetables:

- ✓ Gross profit of processed business segment increased by 5.2% to RMB39.0 million. Gross profit margin of processed business segment had increased by 1.1ppt to 19.9% primarily due to higher selling ASP.

■ Cultivation business (Fresh vegetables produce):

- ✓ Gross profit for cultivation business improved 23.0% to RMB43.3 million while gross margin had increased by 5.6ppt to 31.2% primarily due to higher selling ASP.

■ Branded business (Beverages):

- ✓ Gross profit from the beverage business decreased by 47.6% to RMB27.9 million, in tandem with the decreased in revenue. Gross profit margin for beverage business had remained relatively stable at 47.5%.

ASP and Sales Volume Breakdown

	1QFY16 ASP/ RMB per kg	1QFY15 ASP/ RMB per kg	% Change	1QFY16 Sales volume/ '000 tonnes	1QFY15 Sales volume/ '000 tonnes	% Change
Processed vegetables ⁽¹⁾	37.04	28.56	29.7%	5.3	6.9	(23.2%)
Fresh vegetables produce	3.47	3.18	9.4%	40.0	43.3	(7.7%)

⁽¹⁾ The ASP and sales volume for processed vegetables may change due to different processing mix (eg. air-dried vs brining). Compared to fresh vegetables, ASP for processed vegetables is generally higher due to the higher value added processing, while volume for processed vegetables (particularly air-dried and freeze-dried products) is generally lower, due to the removal of water content during processing.

Processed vegetables:

- ✓ Decrease in sales volume by 23.2%
- ✓ Increase in ASP of 29.7% due to a change in product mix

Fresh vegetables produce

- ✓ Decrease in sales volume by 7.7%
- ✓ Increase in ASP by 9.4% due to a change in product mix

Financial Summary

Balance Sheet (Key Highlights)

(RMB'million)	As at 30 Sep 2015 (unaudited)	As at 30 June 2015 (audited)	% Change
Total Assets	7,712.6	7,592.5	1.6%
Non-current assets	2,565.9	2,629.2	(2.4%)
Property, plant and equipment	1,991.3	2,019.8	(1.4%)
Land use rights	130.7	131.5	(0.6%)
Land improvement costs	69.5	88.1	(21.1%)
Operating lease prepayments	227.8	241.6	(5.7%)
Current assets	5,146.7	4,963.3	3.7%
Inventories	79.6	61.5	29.4%
Trade receivables	487.7	421.1	15.8%
Other receivables and prepayments	101.2	136.1	(25.6%)
Cash and bank balances	4,391.9	4,261.9	3.1%
Total Liabilities	2,503.2	2,359.5	6.1%
Non-current liabilities	945.0	872.0	8.4%
Government grants	15.0	15.9	(5.7%)
Bank term loans	846.5	810.8	4.4%
Current liabilities	1,558.2	1,487.5	4.8%
Trade Payables	243.4	212.6	14.5%
Bank term loans	991.5	944.4	5.0%
Other payables and accruals	312.3	320.8	(2.6%)
Shareholders' equity	5,209.3	5,233.0	(0.5%)
Net Assets Value per share (RMB)	7.95	7.98	(0.5%)

Notes to Balance Sheet

Assets

- Property, plant and equipment (“PPE”) as at 30 September 2015 remained relatively constant at RMB2.0 billion, compared to PPE as at 30 June 2015.
- Land improvement costs and operating lease prepayments decline, as a result of depreciation and amortization expenses.
- Inventory level increased from RMB61.5 million to RMB79.6 million, as the Group scaled up the operations for its peak season.
- Trade receivables level rose from RMB421.1 million to RMB487.7 million, as the Group approaching its peak season.
- Other receivables and prepayments, comprising mainly advances to suppliers for raw material purchases, declined from RMB136.1 million to RMB101.2 million.
- Cash and bank balances improved from RMB4.3 billion as at 30 June 2015 to RMB4.4 billion as at 30 September 2015.

Liabilities

- Long term bank borrowings increased from RMB810.8 million as at 30 June 2015 to RMB846.5 million as at 30 September 2015, as a result of exchange rate changes.
- Increase in short term bank borrowings from RMB944.4 million to RMB991.5 million.
- Increase in trade payables from RMB212.6 million to RMB243.4 million, on the back of raw material purchases in preparation for the peak season ahead.
- Other payables and accruals decreased from RMB320.8 million to RMB312.3 million.

Financial Summary

Cash Flow Highlights

(RMB'million)	For 3 months ended 30 September		
	1QFY16	1QFY15	% Change
Net cash from operating activities	93.6	344.3	(72.8%)
Net cash (used in) / from investing activities	(1.7)	53.5	n.a.
Net cash from financing activities	2.2	24.9	(91.2%)
Net increase in cash and cash equivalents	94.1	422.7	(77.7%)
Cash and cash equivalents at beginning of financial period	4,261.9	3,267.4	30.4%
Effect of exchange rate changes	35.9	(4.3)	n.a.
Cash and cash equivalents at the end of financial period	4,391.9	3,685.8	19.2%

- Net cash from operating activities amounting to RMB93.6 million, mainly comprised of cash generated from operating activities before changes in working capital of RMB110.0 million, and net working capital outflow of RMB12.2 million.
- Net cash generated from investing activities amounted to RMB1.7 million in 1QFY16, mainly due to purchase of property, plant and equipment of RMB1.4 million and addition to land improvement costs of RMB0.3 million.
- Decline in net cash generated from financing activities from RMB24.9 million in 1QFY15 to RMB2.2 million in 1QFY16, mainly net proceeds from bank borrowings, offset by repayment from bank term loans.

Key Financial Indicators

Key Financial Indicators		
	12 months ended 30 Sep 2015	12 months ended 30 Jun 2015
	1QFY16 (unaudited)	FY15 (audited)
Working Capital Days		
Trade Receivable Turnover Days ^(1a)	80	83
Trade Payable Turnover Days ^(1b)	(57)	(42)
Inventory Turnover Days ^(1c)	44	36
Cash Conversion Days	67	77
Liquidity Ratios		
Total Cash and Cash Equivalents (RMB 'mil)	4,391.9	4,261.9
Total Debt (RMB 'mil)	1,838.0	1,755.2
Net Gearing Ratio ⁽²⁾	Net cash	Net cash
Current Ratio ⁽³⁾	3.3	3.3

Footnote:

(1a) Average trade receivables/ revenue x 365 days

(1b) Average trade payables/ cost of goods sold x 365 days

(1c) Average inventory balance/ cost of goods sold for processed products x 365 days

(2) Net Gearing Ratio is calculated by dividing total debt less cash and cash equivalents over equity.

(3) Current Ratio is calculated by dividing current assets over current liabilities.

Agenda

Financial Performance Review




Outlook & Growth Strategies



Favorable industry conditions and strong government support

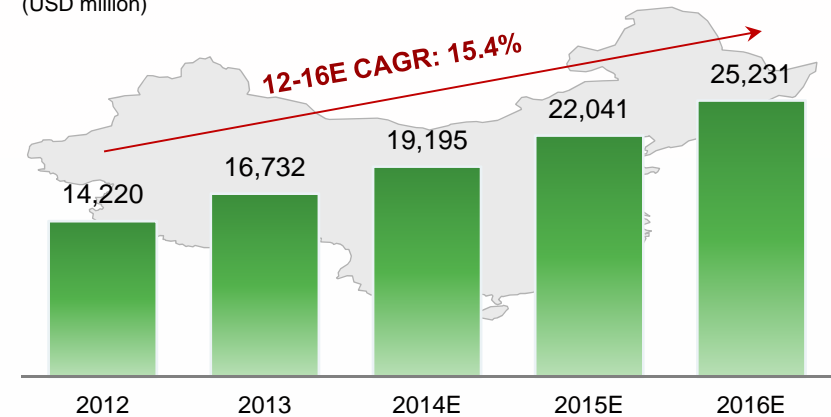
World's top producer of vegetables

Estimated breakdown of production volume of fresh vegetables produce and processed vegetables by nations (2011)

Country	Production (million MT)	Share of global production
1. China 	677.0	56.3%
2. India 	125.5	10.4%
3. US 	38.4	3.2%

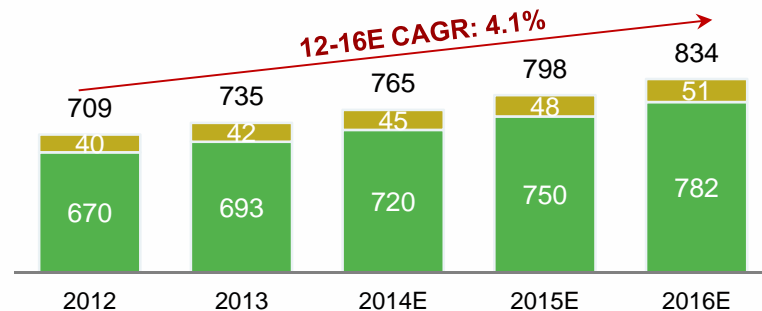
PRC vegetables export market poised for continued strong growth

Market size of vegetables exports (PRC), 2012–2016E
(USD million)



Robust PRC vegetables consumption

Market size of vegetables consumption (PRC), 2012–2016E
■ Fresh (million MT) ■ Processed (million MT)



Positive industry fundamentals

- ✓ Favorable PRC government initiatives supporting large-scale farming
- ✓ Fast response to changes in the market
- ✓ Low cost competitive advantage
- ✓ Strong demographics and steady growth in population
- ✓ Increasing awareness for a healthier diet

Source: FAO of United Nations, Ministry of Agriculture of PRC, China Customs, Frost & Sullivan

PRC government's supportive initiatives

PRC's 12th Five Year Plan continues to support large-scale farming

1 Food security / ensuring food supply

- Optimizing variety structure, improving yield and **standardizing the management of large-scale farmland**

3 Improve farmers' living standards

- Provide **more benefits** to farmers, broaden their **income channels** and improve **farmers' living and working standards**

2 Food safety

- Enhance animal & plant **disease prevention and control** and improve agricultural products **quality assurance**

4 Development of modern agriculture

- Promote **establishment / integration of modern technologies** in agriculture, **mechanization** of labor and **information management** of production

- ✓ Status of "National Leading Dragon Head Enterprise" in the agricultural sector enabled Minzhong to **secure good agricultural farmland with ease** and **receive government subsidies** for projects
- ✓ Less than 2% of PRC's total vegetable production is contributed by large-scale corporations and collective enterprises, signifying **ample room for growth and consolidation**
- ✓ **Higher cultivation yield** relative to individual farmers
- ✓ **Strong financial capabilities** to lease land from farmers and employ farmers. Farmers earn at least twice their annual income through leasing their farmland to the corporations and providing labour .

Source:
USDA Foreign Agriculture Service; China's 12th Five Year Plan; equity research reports

PRC's No. 1 Central Document focuses on agriculture for 12th consecutive year



 **MINISTRY OF AGRICULTURE
OF THE PEOPLE'S REPUBLIC OF CHINA**

[Home](#) [About MOA](#) [Overview](#) [Government Affairs](#) [Services](#) [International Cooperation](#) [More>>](#)

The Current Position : [Home>>Recent Stories](#)

China's No.1 Central Document focuses on agriculture for 12th consecutive year

DATE:2015-02-03 SOURCE:MOA

Agriculture, rural community and farmer related issues are once again the topic of China's "No. 1 Central Document" this year, the first policy document jointly released by the Central Committee of the Communist Party of China and the State Council on Feb. 1, 2015.

The Document calls for reforms and innovation in agriculture to speed up the modernization drive in this sector. It marks the 12th consecutive year that the "No. 1 Central Document" has focused on agricultural issues.

Source:
Ministry of Agriculture, PRC

Key growth strategies

1

Continued shift of product mix towards higher value products

- Rising affluence of China's population → increased demand for champignon mushrooms, king oyster mushrooms and black fungus
- Introduction of wider range of products and optimization of product mix to meet demands of changing demographics and market factors



3

Expansion of sales and distribution networks

- Expands domestic and international sales and distribution networks
- Targets expansion in areas of increasing affluence
- Increases points of sale and distribution

2

Continued expansion of industrialized farming operations

- Increases production capacity, yields and scale of operations
- Decreases direct labor costs
- Reduces risks of adverse weather



Cultivation of champignon mushrooms using industrialized farming



Front view of Tianjin Minzhong's second phase of industrialized farming facilities

Strategy

- ✓ During peak season – industrialized farming of champignon mushrooms in-house for processing needs. This reduces the Group's working capital needs in outsourcing cultivation to contract farmers.
- ✓ During off-peak season – to sell fresh champignon mushrooms in domestic PRC markets to capitalize on the high selling prices.
- ✓ Group will continue to explore the industrialized farming of other high value crops to tap on the rising affluence in the PRC markets and overseas.

Advantages of Industrialized farming

What is industrialized farming?

- Cultivation of vegetables under closed-room, air-conditioned environment
- Centralized system control of cultivation parameters such as temperature, humidity, air-circulation flow, etc to ensure optimal conditions for the growth of crops full-year round



Fermentation of mushroom substrate



Introduction of mushroom spores into substrate



Quality Control Process



Packaging

Advantages of industrialized farming

- ✓ Ability to grow vegetables even during off-peak seasons when local climatic conditions are not conducive
- ✓ Centralized system-controlled and 24 hours monitoring of cultivation conditions enables real-time fine-tuning of cultivation parameters such as temperature, humidity and air circulation flow to suit the various phases of cultivation
- ✓ Less labor intensive and standardized cultivation procedures allow for higher productivity of labor due to specialization
- ✓ Consistent yield which is not susceptible to changes in weather patterns.
- ✓ Stack farming methodology (up to 2 meters in height) to fully optimize use of space
- ✓ Factory environment allows grower to source for labor at provincial or even national level

Contact Us

China Minzhong Food Corporation Limited

229 Mountbatten Road #02-05

Mountbatten Square

Singapore 398007

Tel: +65 6346 7506

Fax: +65 6346 0787

www.chinaminzhong.com

