Since 1971
CHINA MINZHONG FOOD
CORPORATION LIMITED

China Minzhong

Earnings Presentation 2QFY2016

5 February 2016








Agenda

Financial Performance Review

Outlook & Growth Strategies



Income Statement Highlights

Financial Summary (Profitability)

	6 months ended 31 Dec			3 months ended 31 Dec		
(RMB'million)	1H FY16	1H FY15	% Change	2Q FY16	2Q FY15	% Change
Revenue	**991.2**	**1,021.5**	**(3.0%)**	**523.5**	**534.5**	**(2.0%)**
Cost of sales	(732.5)	(749.5)	(2.3%)	(382.9)	(390.4)	(1.9%)
Gross Profit	**258.7**	**272.0**	**(4.9%)**	**140.6**	**144.1**	**(2.4%)**
Gross profit margin	26.1%	*26.6%*	(0.5ppt)	26.9%	*27.0%*	(0.1ppt)
Loss on fair value of biological assets	0.4	(4.9)	n.a	0.4	(4.9)	n.a
Other income	106.7	103.7	3.0%	59.4	55.1	7.8%
Selling and distribution expenses	(23.8)	(62.1)	(61.7%)	(14.7)	(36.8)	(60.0%)
Administrative expenses	(85.4)	(75.3)	13.5%	(41.9)	(38.3)	9.2%
Other expenses	(108.8)	(24.8)	>100%	(66.7)	(16.0)	>100%
Finance cost	(71.1)	(52.0)	36.7%	(34.2)	(20.5)	(67.1%)
Profit before income tax (PBT)	**76.7**	**156.5**	**(51.0%)**	**42.9**	**82.8**	**(48.2%)**
PBT margin	*7.7%*	*15.3%*	*(7.6ppt)*	*8.2%*	*15.5%*	*(7.3ppt)*
Income tax	(32.1)	(27.1)	18.8%	(13.8)	(10.8)	27.8%
Net profit	**44.6**	**129.5**	**(65.6%)**	**29.1**	**72.0**	**(59.5%)**
Net income margin	4.5%	*12.7%*	(8.2ppt)	5.6%	*13.5%*	(7.9ppt)
EBITDA(1)	**224.6**	**293.6**	**(23.5%)**	**113.2**	**146.4**	**(22.7%)**
EBITDA margin(1)	*22.7%*	*28.7%*	*(6.0ppt)*	*21.6%*	*27.4%*	*(5.8ppt)*

Footnote:

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

(2) N.A. – Not Applicable

Notes on Income Statement (1H analysis)

❑ **Revenue**

✓ Revenue declined by 3.0% to RMB991.2 million, due to a decrease in sales of RMB61.7million from the branded business segment, offset by an increase in sales of RMB30.0 million from the processed business segment and RMB1.4 million from the cultivation business segment.

❑ **Gross profit and margin**

✓Gross profit decreased 4.9%, in tandem with the decline of overall gross margin by 5.0ppt to 26.1%.

❑ **Other income**

✓Other income increased 3.0% to RMB106.7 million mainly due to increase in rental income of RMB6.9 million, in tandem with the increase in rental expenses, and increase in reversal of allowance for doubtful debts of RMB4.3 million offset by decrease in other income of RMB6.5 million .

❑ **Selling & distribution expenses**

✓ Selling & distribution expenses decreased 61.7% to RMB23.7 million, mainly due to decrease of RMB22.5 million for marketing and advertising expenses.

❑ **Administrative expenses**

✓Administrative expenses increased by 13.5% to RMB85.4 million, mainly due to increase in depreciation expenses of RMB3.8 million and increase in repairs and maintenance expenses of RMB4.4 million.

❑ **Other expenses**

✓Other expenses increased by RMB84 million to RMB108.8 million, mainly due to increase in exchange loss, arising from revaluation of foreign currency assets and liabilities at the Company level, and other receivables written off, of RMB64.6 million and RMB9.8 million respectively.

❑ **Finance cost**

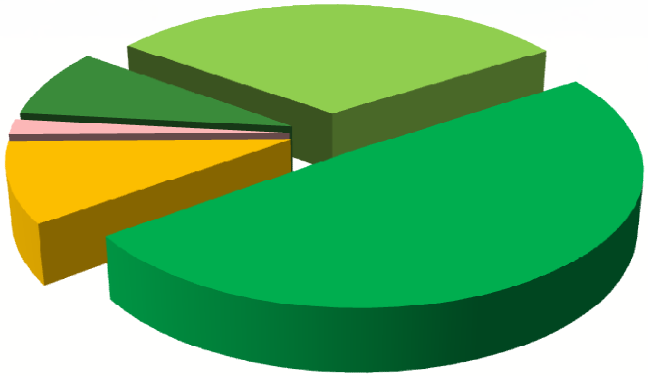
✓Finance cost increased by RMB19.1 million to RMB71.1 million, due to increased borrowings.

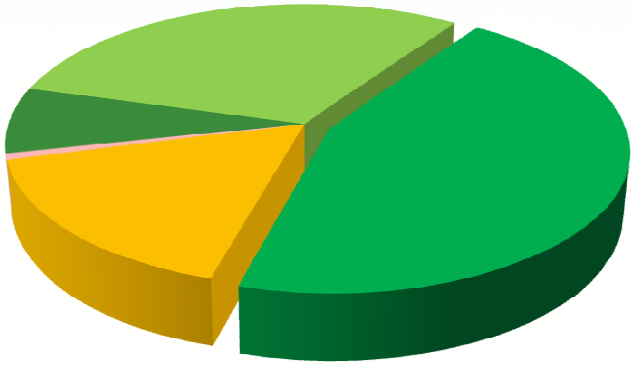
❑ **Income tax**

✓ Income tax expense increased by RMB5.1 million to RMB32.1 million, due to higher taxable income as a result of higher non-deductible expenses (i.e. exchange loss arising from revaluation).

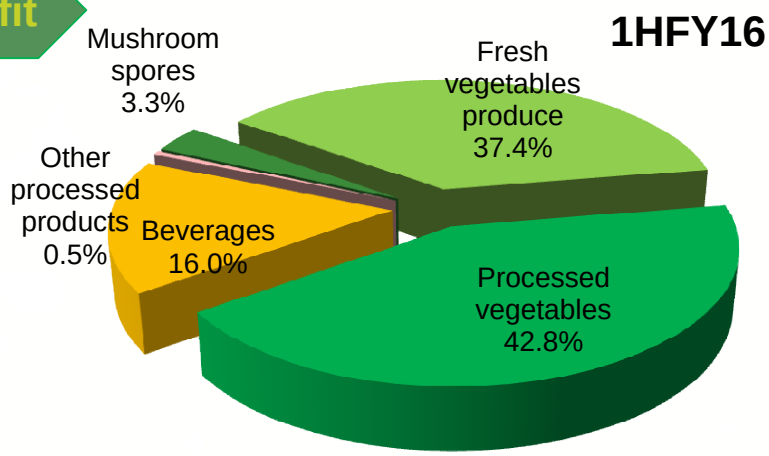
Revenue and Gross Profit breakdown across business segments

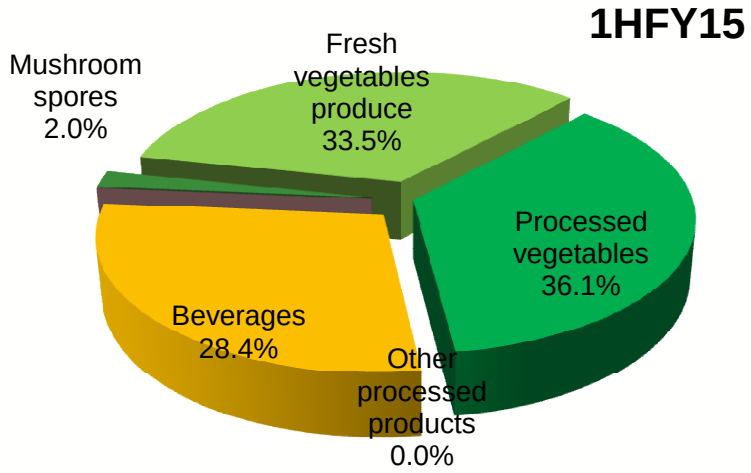
	6 months ended 31 Dec			3 months ended 31 Dec		
(RMB'million)	1H FY16	1H FY15	% Change	2Q FY16	2Q FY15	% Change
Revenue	**991.2**	**1,021.5**	**(3.0%)**	**523.5**	**534.5**	**(2.0%)**
Processed Business Segment	**486.4**	**456.4**	**6.6%**	**290.1**	**259.2**	**11.9%**
Processed vegetables	486.4	456.4	6.6%	290.1	259.2	11.9%
Cultivation Business Segment	**390.1**	**388.7**	**0.4%**	**184.1**	**212.3**	**(13.3%)**
Fresh vegetables produce	306.5	311.4	(1.6%)	167.8	174.1	(3.6%)
Mushroom spores	83.6	77.3	8.2%	16.3	38.2	(57.4%)
Branded Business Segment	**114.7**	**176.4**	**(35.0%)**	**49.3**	**63.0**	**(21.6%)**
Beverages	96.8	169.6	(42.9%)	38.0	57.2	(33.6%)
Others	17.9	6.8	>100%	11.3	5.8	98.2%
Gross Profit	**258.8**	**272.0**	**(4.9%)**	**140.6**	**144.1**	**(2.4%)**
Processed Business Segment	**110.8**	**98.1**	**12.9%**	**71.8**	**61.0**	**17.6%**
Processed vegetables	110.8	98.1	12.9%	71.8	61.0	17.6%
Cultivation Business Segment	**105.3**	**96.6**	**9.0%**	**55.2**	**58.7**	**(6.0%)**
Fresh vegetables produce	96.9	91.0	6.4%	53.6	55.8	(4.0%)
Mushroom spores	8.4	5.6	51.4%	1.6	2.9	(43.4%)
Branded Business Segment	**42.7**	**77.3**	**(44.8%)**	**13.6**	**24.4**	**(44.1%)**
Beverages	41.3	77.3	(46.5%)	13.4	24.0	(44.1%)
Others	1.4	-	>100%	0.2	0.4	(45.7%)
Gross Margin	**26.1%**	**26.6%**	**(0.5ppt)**	**26.9%**	**27.0%**	**(0.1ppt)**
Processed Business Segment	**22.8%**	**21.5%**	**1.3ppt**	**24.7%**	**23.5%**	**1.2ppt**
Processed vegetables	22.8%	21.5%	1.3ppt	24.7%	23.5%	1.2ppt
Cultivation Business Segment	**27.0%**	**24.8%**	**2.2ppt**	**30.0%**	**27.7%**	**2.3ppt**
Fresh vegetables produce	31.6%	29.2%	2.4ppt	31.9%	32.1%	(0.2ppt)
Mushroom spores	10.1%	7.2%	2.9ppt	10.1%	7.6%	2.5ppt
Branded Business Segment	**37.2%**	**43.8%**	**(6.6ppt)**	**27.6%**	**38.7%**	**(11.1ppt)**
Beverages	42.7%	45.6%	(2.9ppt)	35.3%	41.9%	(6.6ppt)
Others	7.2%	(0.5%)	(7.7ppt)	1.7%	6.3%	(4.6ppt)



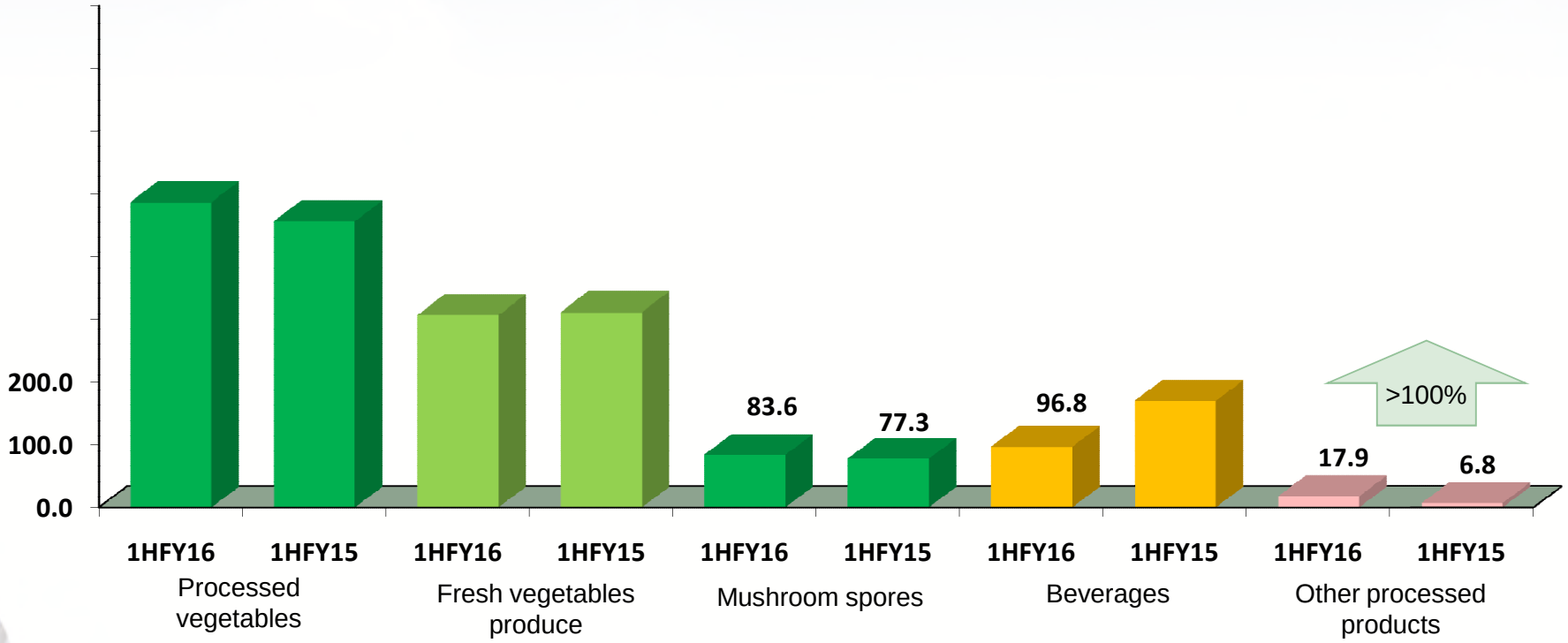


Gross Profit

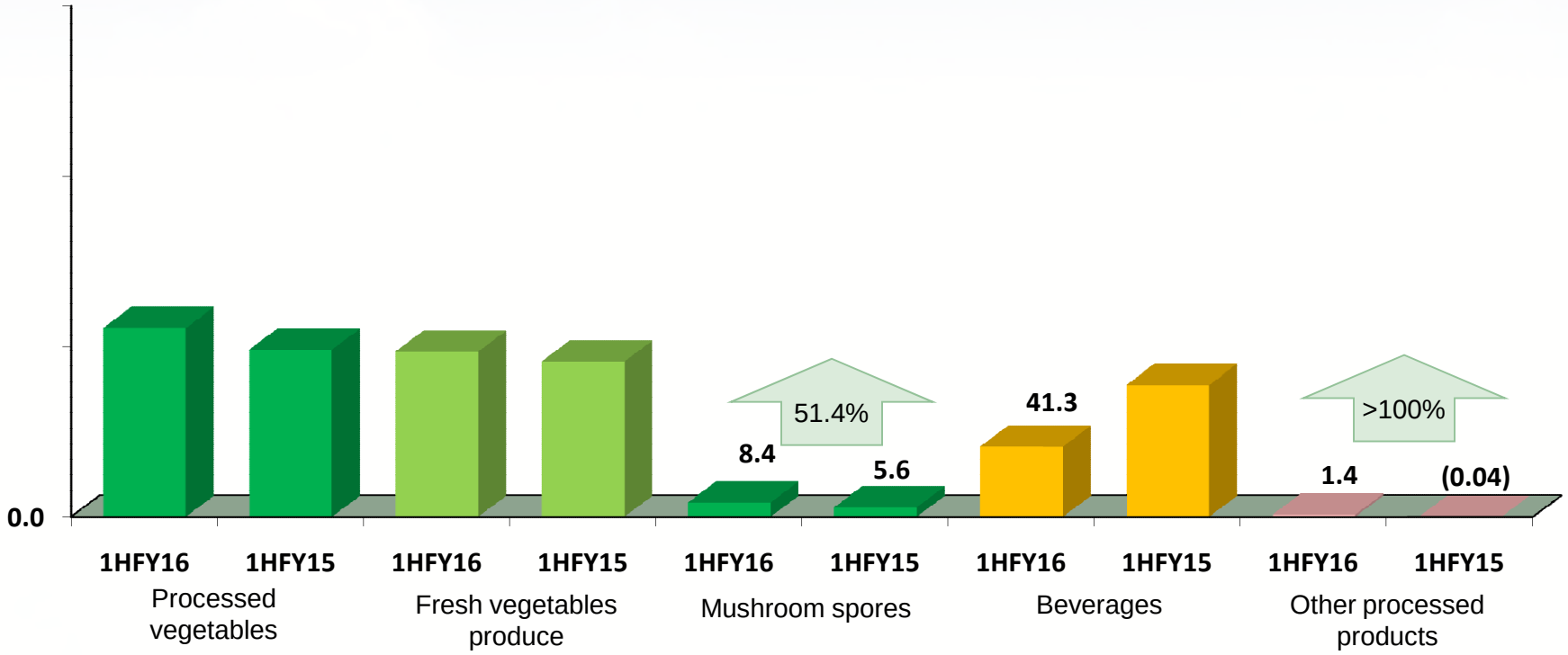




Footnote: "Other processed products" comprises of miscellaneous products (such as instant food and health food products).



- **Processed vegetables:**
  - ✓ Revenue from processed vegetables raised 6.6%, primarily due to increase in average selling price by 12.4%.
- **Cultivation business (Fresh vegetables produce, mushroom spores):**
  - ✓ Revenue from fresh vegetables produce remains relatively constant at RMB306.5 million while revenue from trading of mushroom spores increased by 8.2%, mainly due to an increase average selling price by approximately 15.2%.
- **Branded business(Beverages, other processed products):**
  - ✓ Revenue from beverages decreased 42.9%, primarily due to the slowdown of the economy and the effect arising from a reduction in advertising and promotion expenses as we embarked on a comprehensive review of this business segment.



- **Processed vegetables:**
  - ✓ Gross profit from processed vegetables increased by 12.9%, and gross margin increased by 1.3ppt to 22.8% due to increase in average selling price.
- **Cultivation business (Fresh vegetables produce, mushroom spores):**
  - ✓ Gross profit from cultivation business increased 9.0%, and gross margin increased by 2.2ppt due to increased in average selling price.
- **Branded business (Beverages, other processed products):**
  - ✓ Gross profit from beverages decreased 46.5%, in tandem with the decrease in revenue.

ASP and Sales Volume Breakdown

	1HFY16 ASP/ RMB per kg	1HFY15 ASP/ RMB per kg	% Change	1HFY16 Sales volume/ '000 tonnes	1HFY15 Sales volume/ '000 tonnes	% Change
Processed vegetables (1)	38.73	34.45	12.4%	12.6	13.3	(5.2%)
Fresh vegetables produce	3.42	3.10	10.1%	89.8	100.4	(10.6%)

(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:

✓ Decline in sales volume due to weakened demand, arising from higher raw materials cost.

✓ Average selling prices increased by 12.4% to RMB38.73 per kg.

Fresh vegetables produce

✓ Decline in sales volume on the back of lesser cultivation activities.

✓ Average selling prices increased by 10.1% to RMB3.42 per kg.

Financial Summary

Balance Sheet (Key Highlights)			
(RMB'million)	As at 31 Dec 2015 (unaudited)	As at 30 June 2015 (audited)	% Change
Total Assets	**8,154.9**	**7,592.5**	**7.4%**
Non-current assets	2,778.1	2,629.2	5.7%
Property, plant and equipment	2,234.3	2,019.8	10.6%
Land use rights	129.9	131.5	(1.2%)
Land improvement costs	53.0	88.1	(39.9%)
Operating lease prepayments	214.0	241.6	(11.4%)
Current assets	5,376.8	4,963.3	8.3%
Inventories	41.7	61.5	(32.3%)
Trade receivables	429.0	421.1	1.9%
Other receivables and prepayments	93.3	136.1	(31.4%)
Cash and bank balances	4,735.3	4,261.9	11.1%
Total Liabilities	**2,944.8**	**2,359.5**	**24.8%**
Non-current liabilities	992.2	872.0	13.8%
Government grants	14.3	15.9	(10.1%)
Bank term loans	864.4	810.8	6.6%
Current liabilities	1,952.6	1,487.5	31.3%
Trade Payables	148.3	212.6	(30.3%)
Bank term loans	918.3	944.4	(2.8%)
Other payables and accruals	873.2	320.8	>100%
Shareholders' equity	**5,210.0**	**5,233.0**	**(0.4%)**
Net Assets Value per share (RMB)	**7.95**	**7.98**	**(0.4%)**

Notes to Balance Sheet

Assets

❑ Property, plant and equipment ("PPE") as at 31 December 2015 increased by 10.6% to RMB2,234.3 million compared to PPE as at 30 June 2015.

❑ Land improvement costs and operating prepayments decline as a result of amortization expenses.

❑ Inventory level remained declined 32.3% to RMB41.7 million as at 31 December 2015.

❑ Trade receivables level increased 1.9% to RMB429.0 million as at 31 December 2015.

❑ Other receivables and prepayments declined 31.4% to RMB93.3 million as at 31 December 2015.

❑ Cash and bank balances improved from RMB4,261.9 million as at 30 June 2015 to RMB4,735.3 million as at 31 December 2015.

Liabilities

❑ Decrease in short term bank borrowings from RMB944.4 million to RMB918.3 million.

❑ Decrease in trade payables by 30.3% to RMB148.3 million

❑ Other payables and accruals increased from RMB320.8 million to RMB873.2 million.

Financial Summary

Cash Flow Highlights

(RMB'million)	For 6 months ended 31 Dec			For 3 months ended 31 Dec		
	1HFY16	1HFY15	% Change	2QFY16	2QFY15	% Change
Net cash from operating activities	378.9	506.7	(25.2%)	285.2	162.4	75.6%
Net cash generated from / (used in) investing activities	(263.8)	63.1	(>100%)	(262.1)	9.5	(>100%)
Net cash generated from / (used in) financing activities	299.1	7.9	>100%	296.9	(17.0)	>100%
Net increase in cash and cash equivalents	**414.2**	**577.7**	**19.0%**	**320.0**	**154.9**	**>100%**
Cash and cash equivalents at beginning of financial period	**4,261.9**	**3,267.4**	**30.4%**	**4,391.9**	**3,685.8**	**19.2%**
Effect of exchange rate changes	59.2	(14.4)	>100%	23.4	(10.0)	n.a.
Cash and cash equivalents at the end of financial period	**4,735.3**	**3,830.7**	**23.6%**	**4,735,3**	**3,830.7**	**23.6%**

- Net cash from operating activities amounted to RMB378.9 million. This comprised cash generated from operating activities before changes in working capital of RMB230.8 million, net working capital inflow of RMB134.0 million, income tax payment of RMB24.2 million and interest income of RMB38.3 million received.
- Net cash used in investing activities of RMB263.8 million was mainly due to property, plant and equipment additions of RMB263.5 million.
- Net cash generated from financing activities of RMB299.1 million was mainly attributable to advance from other payable of RMB400.0 million offset by the net repayment to bank amounting to RMB33.1 million and interest paid of RMB71.3million.
- Cash and bank balances increased to RMB4,735.3 million in 1HFY16.

Key Financial Indicators

Key Financial Indicators

	For 12 months ended	
	31 Dec 2015 (unaudited)	30 Jun 2015 (audited)
Working Capital Days		
Trade Receivable Turnover Days (1a)	80	83
Trade Payable Turnover Days (1b)	(41)	(42)
Inventory Turnover Days (1c)	24	36
Cash Conversion Days	63	77
Liquidity Ratios		
Total Cash and Cash Equivalents (RMB 'mil)	4735.3	4,261.9
Total Debt (RMB 'mil)	1,782.8	1,755.2
Net Gearing Ratio (2)	Net cash	Net cash
Current Ratio (3)	2.8	3.3

- Cash conversion days decreased from 77 days to 63 days, .
- Net gearing in net cash status while current ratio remains healthy.

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.

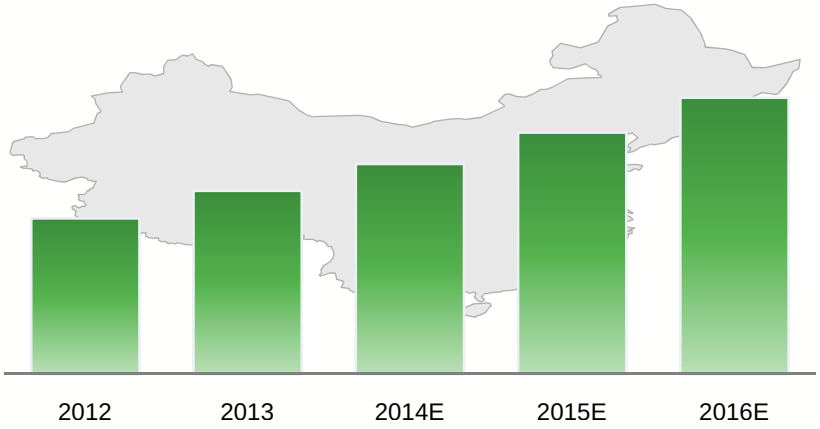
Agenda

Financial Performance Review

Outlook & Growth Strategies

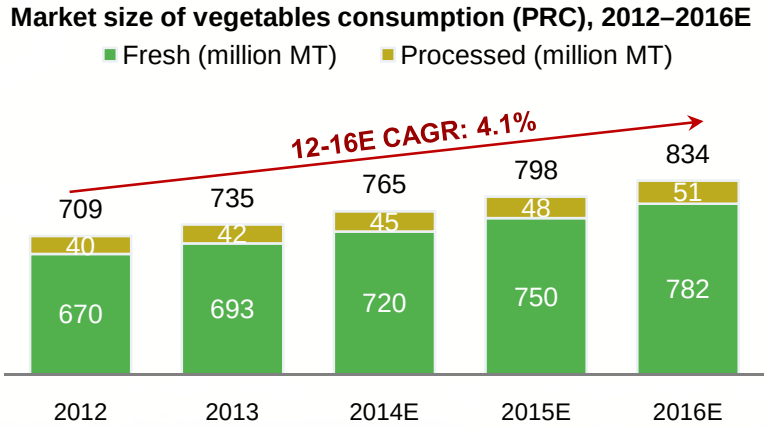


1.	**China**	**677.0**	**56.3%**
2.	India	125.5	10.4%
3.	US	38.4	3.2%



Robust PRC vegetables consumption

Market size of vegetables consumption (PRC), 2012–2016E



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

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**

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**

2 Food safety

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

3 Improve farmers' living standards

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

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 13th consecutive year



China's No.1 Central Document focuses on agriculture for 13th consecutive year

DATE:2016-01-28 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 January 27, 2016.

China will apply its new concept of development to agricultural modernization to make the process more efficient, inclusive and environment-friendly.

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

