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Since 1971

CHINA MINZHONG FOOD CORPORATION LIMITED

# China Minzhong

## Earnings Presentation FY2015

## 29 July 2015













# Agenda

**Financial Performance Review**

Outlook & Growth Strategies



# Income Statement Highlights

## Financial Summary (Profitability)

| | Full year ended 30 Jun | | | 3 months ended 30 Jun | | |
|---|---|---|---|---|---|---|
| (RMB'million) | FY15 | FY14 | % Change | 4Q FY15 | 4Q FY14 | % Change |
| **Revenue** | **1,971.1** | **2,896.6** | **(32.0%)** | **463.8** | **663.6** | **(30.1%)** |
| Cost of sales | (1,359.7) | (1,944.5) | (30.1%) | (286.4) | (443.2) | (35.4%) |
| **Gross Profit** | **611.4** | **952.1** | **(35.8%)** | **177.4** | **220.4** | **(19.5%)** |
| *Gross profit margin* | *31.0%* | *32.9%* | *(1.9ppt)* | *38.3%* | *33.2%* | *5.1ppt* |
| Loss on fair value of biological assets | (16.7) | 8.8 | N.M. | (11.8) | 8.8 | N.M. |
| Other income | 209.0 | 136.4 | 53.2% | 55.3 | 44.4 | 24.5% |
| Selling and distribution expenses | (83.5) | (161.6) | (48.3%) | (9.7) | (41.9) | (76.9%) |
| Administrative expenses | (158.1) | (165.0) | (4.2%) | (36.0) | (47.8) | (24.7%) |
| Other expenses | (58.9) | (84.0) | (29.8%) | (31.9) | (17.8) | 79.2% |
| Finance cost | (100.8) | (65.0) | 54.8% | (18.3) | (15.5) | 18.4% |
| **Profit before income tax (PBT)** | **402.4** | **621.7** | **(35.3%)** | **125.0** | **150.6** | **(17.0%)** |
| *PBT margin* | *20.4%* | *21.5%* | *(1.1ppt)* | *27.0%* | *22.7%* | *4.3ppt* |
| Income tax | (81.9) | (112.2) | (27.0%) | (42.0) | (24.7) | 69.9% |
| **Net profit** | **320.5** | **509.5** | **(37.1%)** | **83.0** | **125.9** | **(34.0%)** |
| *Net income margin* | *16.3%* | *17.6%* | *(1.3ppt)* | *17.9%* | *19.0%* | *(1.1ppt)* |
| **EBITDA(1)** | **677.9** | **884.9** | **(23.4%)** | **193.5** | **202.8** | **(4.6%)** |
| *EBITDA margin(1)* | *34.4%* | *30.5%* | *3.9ppt* | *41.7%* | *30.6%* | *11.1ppt* |

Footnote:

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

# Notes on Income Statement (Full year analysis)

❑ **Revenue**

✓ Revenue for FY2015 declined by 32.0% to RMB1,971.1 million (FY2014: RMB2,896.6 million). The decline was mainly due to a decrease in sales of RMB531.0 million from the processed business segment and RMB352.7 million from the cultivation business segment.

❑ **Gross profit and margin**

✓ Gross profit for FY2015 decreased by 35.8% or RMB340.7 million, to RMB611.4 million (FY2014: RMB952.1 million), Overall gross profit margin for decreased by 1.9ppt to 31.0% (FY2014: 32.9%)

❑ **Other income**

✓ Other income increased by 53.2% or RMB72.6 million, to RMB209.0 million (FY2014: RMB136.4 million), mainly due to increase in interest income of RMB60.6 million, increase in rental income of RMB25.9 million, refund of property tax of RMB7.5 million offset by decrease in government grants of RMB20.0 million received.

❑ **Selling & distribution expenses**

✓ Selling and distribution expenses decreased by 48.3% or RMB78.1 million, to RMB83.5 million (FY2014: RMB161.6 million), mainly due to decrease in marketing and advertising expenses of RMB67.4 million.

❑ **Administrative expenses**

✓ Administrative expenses have remained relatively constant at RMB158.1 million.

❑ **Other expenses**

✓ Other expenses decreased by 29.8% or RMB25.0 million to RMB59.0 million (FY2014: RMB84.0 million), mainly due to decrease in exchange loss of RMB30.8 million and other expenses of RMB10.5 million offset by increase in rental expenses of RMB20.9 million.

❑ **Finance cost**

✓ Finance cost increased by 54.8% or RMB35.7 million, to RMB100.8 million (FY2014: RMB65.1 million) due to increased bank borrowings.

❑ **Income tax**

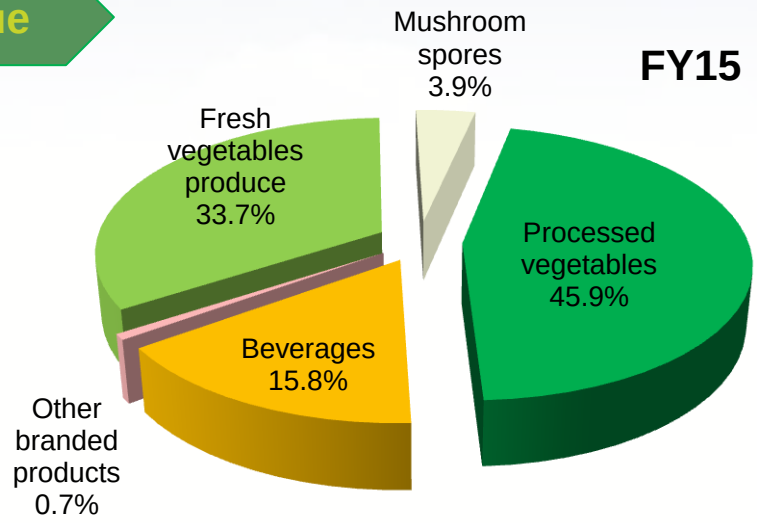
✓ Income tax expense decreased by 27.0% or RMB30.3 million, to RMB81.9 million (FY2014: RMB112.2 million), in tandem with the decrease of profit before tax.

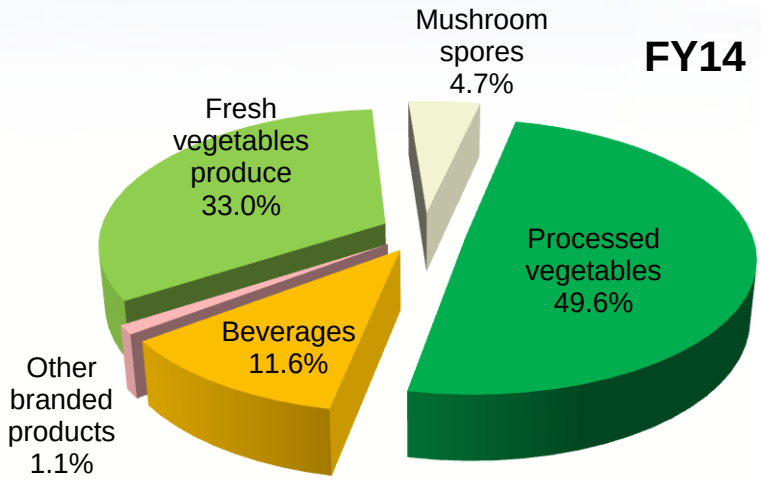
# Revenue and Gross Profit breakdown across business segments

| (RMB'million) | Full year ended 30 Jun | | | 3 months ended 30 Jun | | |
|---|---|---|---|---|---|---|
| | FY15 | FY14 | % Change | 4Q FY15 | 4Q FY14 | % Change |
| **Revenue** | **1,971.1** | **2,896.6** | **(32.0%)** | **463.8** | **663.6** | **(30.1%)** |
| **Processed Business Segment** | **904.8** | **1,435.8** | **(37.0%)** | **191.1** | **342.1** | **(44.1%)** |
| Processed vegetables | 904.8 | 1,435.8 | (37.0%) | 191.1 | 342.1 | (44.1%) |
| **Cultivation Business Segment** | **740.9** | **1,093.6** | **(32.3%)** | **172.5** | **199.2** | **(13.4%)** |
| Fresh vegetables produce | 663.6 | 956.7 | (30.6%) | 172.5 | 199.2 | (13.4%) |
| Mushroom spores | 77.3 | 136.9 | (43.5%) | - | - | N.A. |
| **Branded Business Segment** | **325.4** | **367.2** | **(11.4%)** | **100.2** | **122.3** | **(18.1%)** |
| Beverages | 312.3 | 335.6 | (6.9%) | 97.6 | 116.1 | (15.9%) |
| Others | 13.1 | 31.6 | (58.5%) | 2.6 | 6.2 | (58.1%) |
| **Gross Profit** | **611.4** | **952.1** | **(35.8%)** | **177.4** | **220.4** | **(19.5%)** |
| **Processed Business Segment** | **222.8** | **387.9** | **(42.6%)** | **60.2** | **85.6** | **(29.7%)** |
| Processed vegetables | 222.8 | 387.9 | (42.6%) | 60.2 | 85.6 | (29.7%) |
| **Cultivation Business Segment** | **244.8** | **436.0** | **(43.9%)** | **70.7** | **80.7** | **(12.4%)** |
| Fresh vegetables produce | 239.2 | 404.6 | (40.9%) | 70.7 | 80.7 | (12.4%) |
| Mushroom spores | 5.6 | 31.4 | (82.2%) | - | - | N.A. |
| **Branded Business Segment** | **143.8** | **128.2** | **12.2%** | **46.5** | **54.0** | **(13.9%)** |
| Beverages | 143.3 | 132.3 | 8.3% | 46.3 | 55.0 | (15.8%) |
| Others | 0.5 | (4.1) | N.M. | 0.2 | (1.0) | N.M. |
| **Gross Margin** | **31.0%** | **32.9%** | **(1.9ppt)** | **38.2%** | **33.2%** | **5.0ppt** |
| **Processed Business Segment** | **24.6%** | **27.0%** | **(2.4ppt)** | **31.5%** | **25.0%** | **6.5ppt** |
| Processed vegetables | 24.6% | 27.0% | (2.4ppt) | 31.5% | 25.0% | 6.5ppt |
| **Cultivation Business Segment** | **33.0%** | **39.9%** | **(6.9ppt)** | **41.0%** | **40.5%** | **0.5ppt** |
| Fresh vegetables produce | 36.0% | 42.3% | (6.3ppt) | 41.0% | 40.5% | 0.5ppt |
| Mushroom spores | 7.2% | 23.0% | (15.8ppt) | - | - | - |
| **Branded Business Segment** | **44.2%** | **34.9%** | **9.3ppt** | **46.4%** | **44.2%** | **2.2ppt** |
| Beverages | 45.9% | 39.4% | 6.5ppt | 47.4% | 47.4% | - |
| Others | 3.8% | (13.0%) | N.M. | 7.7% | (16.1%) | N.M. |

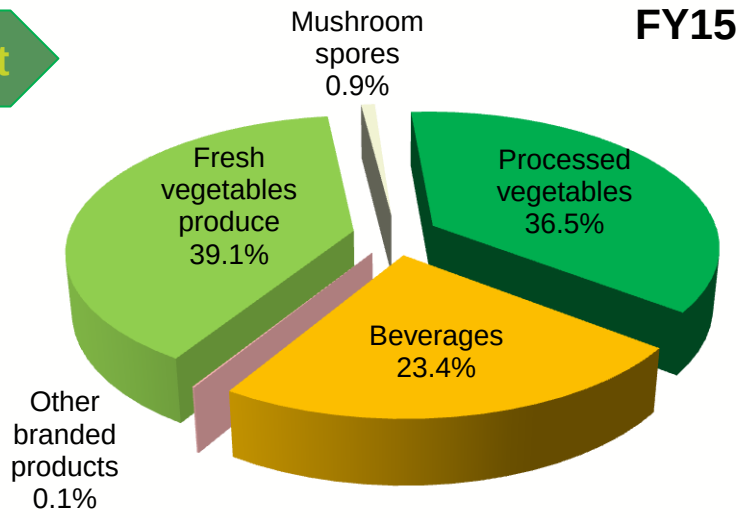
# Segmental Revenue by Proportion

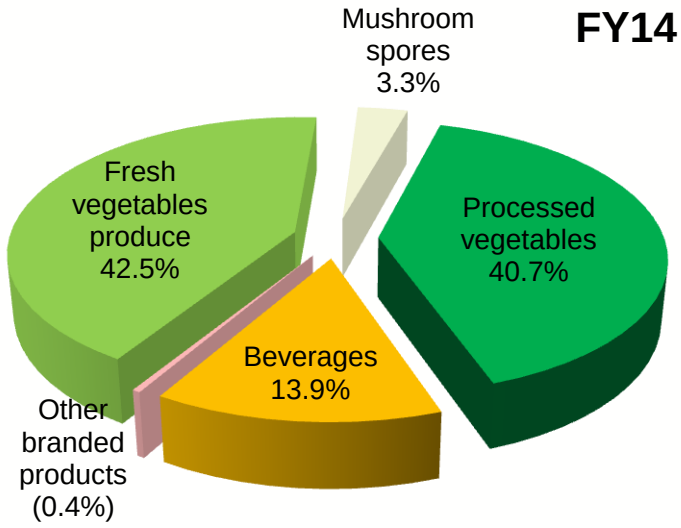
## Revenue




## Gross Profit

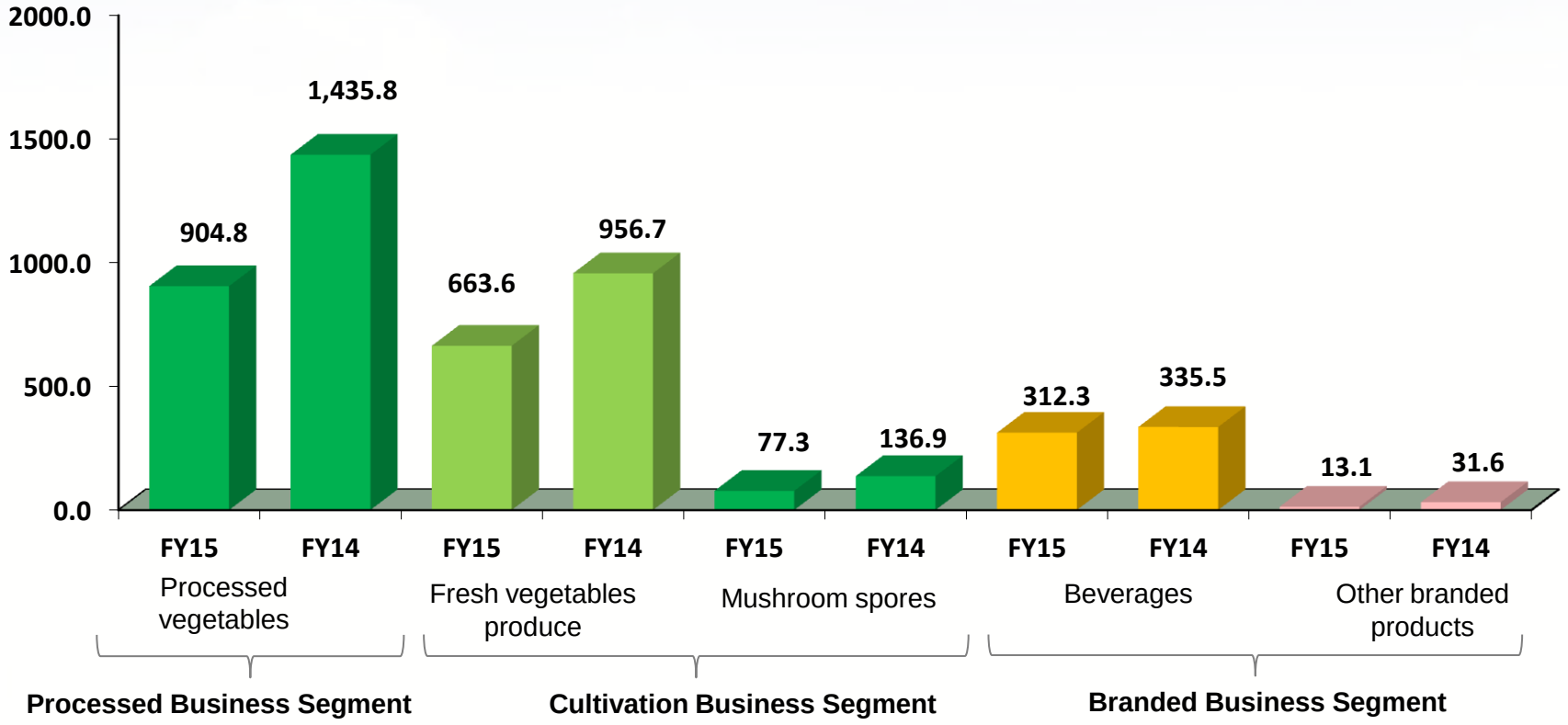



Footnote: "Other branded products" comprises of instant food and health food products.

# Revenue breakdown across segments

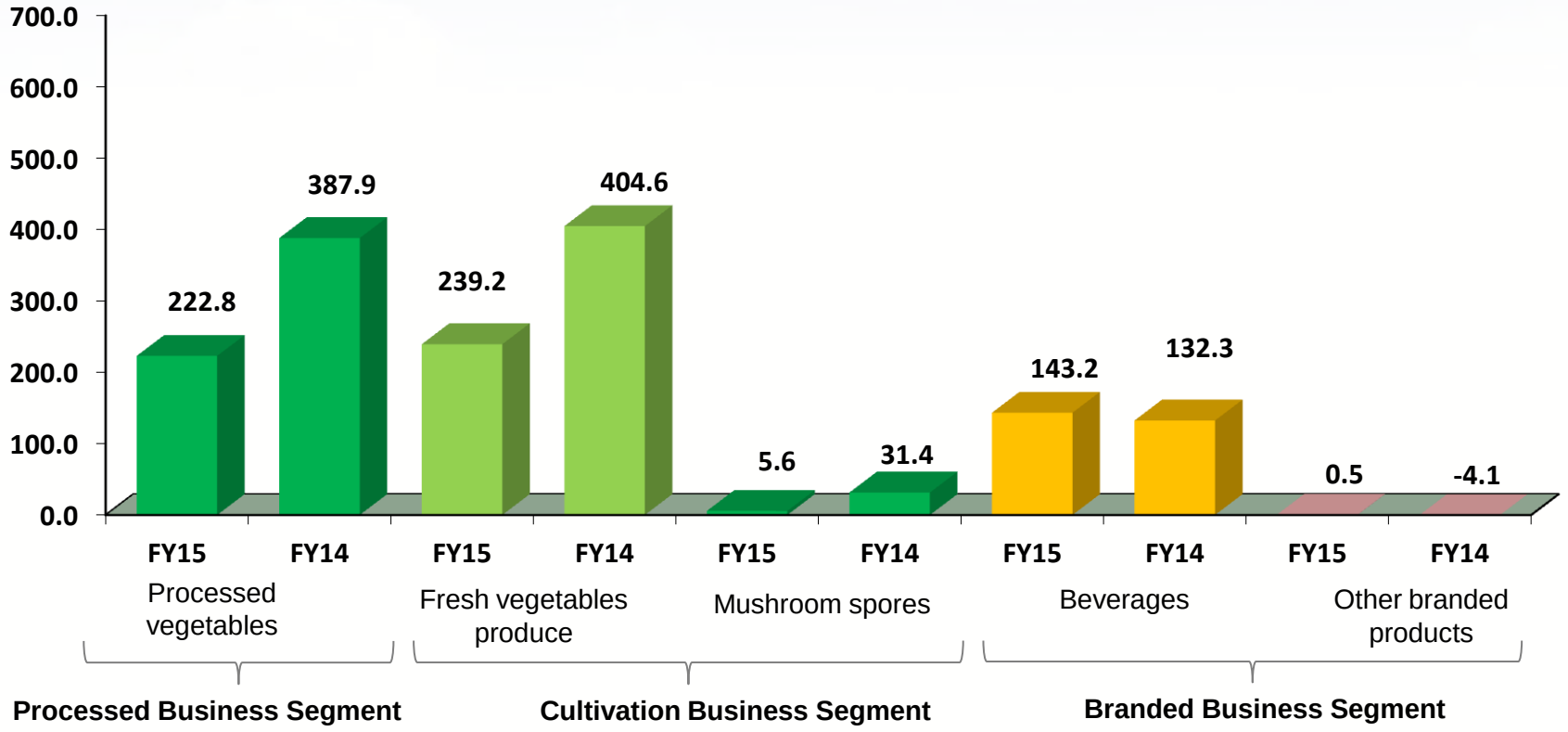
**RMB' million**




- **Processed vegetables:**
  - ✓ Revenue of processed business segment decreased by 37.0% to RMB904.8 million, as a result of weakened demand for processed vegetables.
- **Cultivation business (Fresh vegetables produce, mushroom spores):**
  - ✓ Revenue from fresh vegetables produce decreased by 30.6% to RMB663.6 million, mainly due to the scarcity of rural labour resulting in the decline of fresh vegetables volume output.
  - ✓ Mushroom spores sales decreased by 43.6% to RMB77.3 million as a result of shortage of rural labour for cultivation activities
- **Branded business (Beverages, other branded products):**
  - ✓ Revenue from beverages remained fairly constant at RMB312.4 million.

# Gross profit breakdown across segments

**RMB' million**




- **Processed vegetables:**
  - ✓ Gross profit from processed vegetables decreased by 43%, while gross margin declined by 2.4ppt to 24.6% due to increases in raw material costs.
- **Cultivation business (Fresh vegetables produce, mushroom spores):**
  - ✓ Gross profit from fresh vegetables produce declined 41% while gross margin is lower due to rising labour costs.
- **Branded business (Beverages, other branded products):**
  - ✓ Gross profit from beverages grew 8% while gross margin improved 6.5ppt to 45.9% primarily due to lower unit fixed costs.

# ASP and Sales Volume Breakdown

| | FY15 ASP/ RMB per kg | FY14 ASP/ RMB per kg | % Change | FY15 Sales volume/ '000 tonnes | FY14 Sales volume/ '000 tonnes | % Change |
|---|---|---|---|---|---|---|
| Processed vegetables (1) | 39.78 | 39.44 | 0.9% | 22.7 | 36.4 | (37.5%) |
| Fresh vegetables produce | 3.27 | 2.84 | 15.0% | 203.1 | 336.6 | (39.7%) |

(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 37.5%

✓ ASP maintained relatively constant.

**Fresh vegetables produce**

✓ Decrease in sales volume by 39.7%.

✓ Increase in ASP by 15%

# Revenue breakdown (top 6 vegetable types)

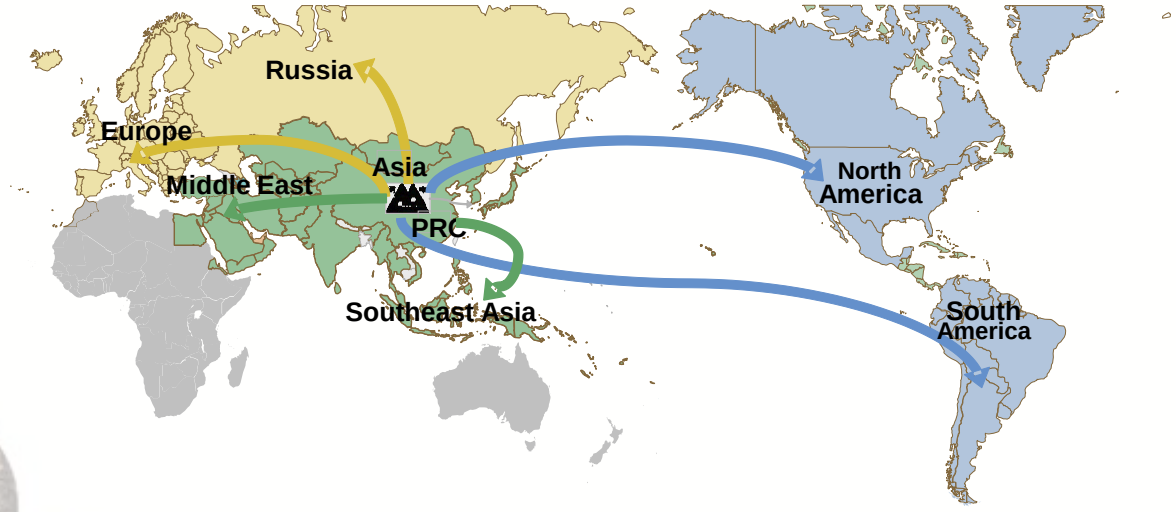
| Vegetable Type | | % Revenue Contribution (FY15)* | % Revenue Contribution (FY14)* | Remarks |
|---|---|---|---|---|
| Champignon mushrooms |  | 24.5% | 25.7% | Single largest product by revenue. The Group is building more industrialised farming capacity for champignon mushroom cultivation. |
| Black fungus |  | 20.8% | 22.6% | One of Group's high value crop which recorded a steady increase in yield over the past few years. |
| King oyster mushrooms |  | 7.2% | 4.9% | One of Group's high value crop, which is cultivated under industrialized farming approach. |
| Shiitake mushrooms |  | 5.1% | 6.4% | One of the Group's high value edible fungi products. |
| Shanghai Green |  | 3.7% | 7.9% | High margin vegetables, backed by healthy demand in PRC and rest of Asia markets. |
| Choy Sum |  | 3.6% | 5.8% | High margin vegetables, backed by healthy demand in PRC and rest of Asia markets. |

** As a percentage of total revenue less sales of mushroom spores, bamboo related products and branded products.*

Note: Variances in percentage contributions from different vegetable types is a function of prevailing market demand and supply availability (considering conducive weather conditions, etc).

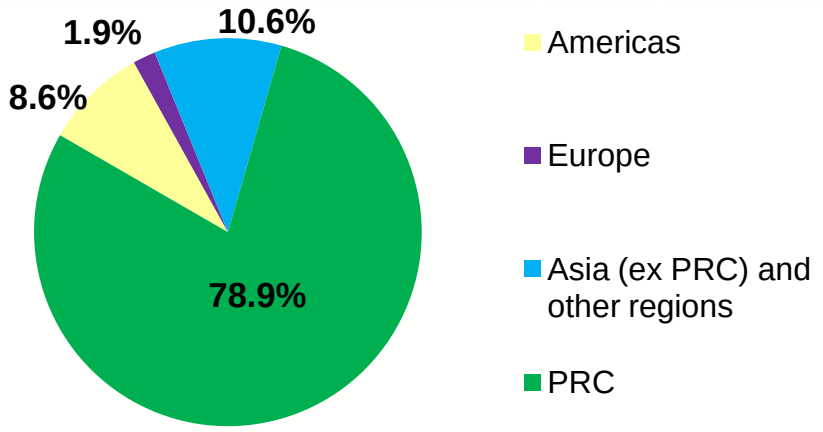
# Across Global Customer Base, Underpinned by Established Long-term Relationships

## Global distribution network across 4 continents and 26 countries

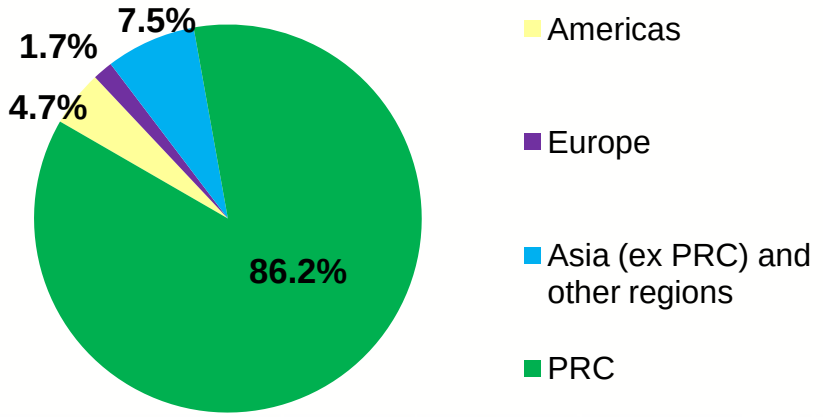



**In FY2015, approximately 80% of sales is denominated in RMB, with remaining 20% in USD**

## FY2015 Sales Breakdown by Geography




## FY2014 Sales Breakdown by Geography



# Financial Summary

| Balance Sheet (Key Highlights) | | | |
|---|---|---|---|
| (RMB'million) | As at 30 June 2015 (unaudited) | As at 30 June 2014 (audited) | % Change |
| **Total Assets** | **7,592.5** | **7,021.9** | **8.1%** |
| Non-current assets | 2,629.2 | 2,934.0 | (10.4%) |
| Property, plant and equipment | 2,019.8 | 2,130.4 | (5.2%) |
| Land use rights | 131.5 | 134.7 | (2.4%) |
| Land improvement costs | 88.1 | 175.2 | (49.7%) |
| Operating lease prepayments | 241.6 | 328.8 | (26.5%) |
| Current assets | 4,963.3 | 4,087.9 | 21.4% |
| Inventories | 61.5 | 106.6 | (42.3%) |
| Trade receivables | 421.1 | 476.6 | (11.6%) |
| Other receivables and prepayments | 136.1 | 149.9 | (9.2%) |
| Cash and bank balances | 4,261.9 | 3,267.4 | 30.4% |
| **Total Liabilities** | **2,359.5** | **1,802.1** | **30.9%** |
| Non-current liabilities | 872.0 | 976.3 | (10.7%) |
| Government grants | 15.9 | 18.5 | (14.1%) |
| Bank term loans | 810.8 | 903.6 | (10.3%) |
| Current liabilities | 1,487.5 | 825.9 | 80.1% |
| Trade Payables | 212.6 | 103.5 | >100% |
| Bank term loans | 944.4 | 593.7 | 59.1% |
| Other payables and accruals | 320.8 | 124.6 | >100% |
| **Shareholders' equity** | **5,233.0** | **5,219.8** | **0.3%** |
| **Net Assets Value per share (RMB)** | **7.98** | **7.96** | **0.3%** |

# Notes to Balance Sheet

## Assets

❑ Non-current assets decreased by approximately 10.4% to RMB2,629.2 million (30 June 2014: RMB2,934.0 million), primarily due to amortisation and depreciation expenses.

❑ Current assets increased by 21.4% to RMB4,963.3 million (30 June 2014: RMB4,087.9 million), primarily due to increase in cash and bank balances of RMB994.5 million offset by a decline in trade and other receivables and inventories of RMB69.3 million and RMB45.1 million respectively.

❑ Increase in cash and bank balances was mainly due to collections from trade debtors over the financial year.

## Liabilities

❑ Non-current liabilities decreased by RMB104.3 million to RMB872.0 million (30 June 2014: RMB976.3 million), mainly due to decreased in long term bank loan of RMB92.8 million.

❑ Current liabilities increased by 80.1% or RMB661.7 million, to RMB1,487.5 million (30 June 2014: RMB825.9 million), mainly attributable to increase in short term bank borrowings of RMB350.7 million and increased in trade and other payables of RMB305.3 million.

# Financial Summary

| Cash Flow Highlights | | | | | | |
|---|---|---|---|---|---|---|
| | For full year ended 30 Jun | | | For 3 months ended 30 Jun | | |
| (RMB'million) | FY15 | FY14 | % Change | 4QFY15 | 4QFY14 | % Change |
| Net cash from operating activities | 1,082.7 | 1,388.1 | (22.0%) | 378.3 | 148.6 | >100% |
| Net cash generated from investing activities | 76.3 | 263.6 | (71.1%) | 19.3 | 25.7 | (24.9%) |
| Net cash (used in) / generated from financing activities | (137.7) | 828.7 | N.M. | (177.2) | 34.7 | N.M. |
| **Net increase / (decrease) in cash and cash equivalents** | **1,021.3** | **2,480.4** | **(58.8%)** | **220.4** | **208.9** | **5.5%** |
| **Cash and cash equivalents at beginning of financial period** | **3,267.4** | **785.2** | **>100%** | **4,040.4** | **3,059.4** | **32.1%** |
| Effect of exchange rate changes | (26.8) | 1.8 | N.M. | 1.1 | (0.9) | N.M. |
| **Cash and cash equivalents at the end of financial year** | **4,261.9** | **3,267.4** | **30.4%** | **4,261.9** | **3,267.4** | **30.4%** |

- Net cash from operating activities amounted to RMB378.3 million in 4QFY15 and RMB1,082.7 million in FY15.
- Net cash generated from investing activities amounted to RMB76.3 million in FY15, attributable to proceeds from disposal of operating lease prepayments of RMB44 million, refund of deposits for land use right and construction of an aggregate amount of RMB54.9 million, and offset by property, plant and equipment additions of RMB22.6 million.
- Net cash used in financing activities of RMB137.7 million in FY15, mainly attributable to net proceeds from bank loans of RMB270.8 million offset by interest expenses paid for the bank loans of RMB88.9 million and dividend payout of RMB326.8 million.

# Key Financial Indicators

| Key Financial Indicators | Full Year | |
|---|---|---|
| | FY2015 (unaudited) | FY2014 (audited) |
| **Working Capital Days** | | |
| Trade Receivable Turnover Days (1a) | 83 | 99 |
| Trade Payable Turnover Days (1b) | (42) | (38) |
| Inventory Turnover Days (1c) | 36 | 25 |
| Cash Conversion Days | 77 | 86 |
| **Liquidity Ratios** | | |
| Total Debt (RMB 'mil) | 1,755.2 | 1,497.3 |
| **Net Gearing Ratio (2)** | Net cash | Net cash |
| **Current Ratio (3)** | 3.3 | 5.0 |

- Cash conversion days improved from 86 days to 77 days, mainly due to an improvement in trade receivable turnover from 99 days to 83 days.
- Group's net gearing remained at net cash level.

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

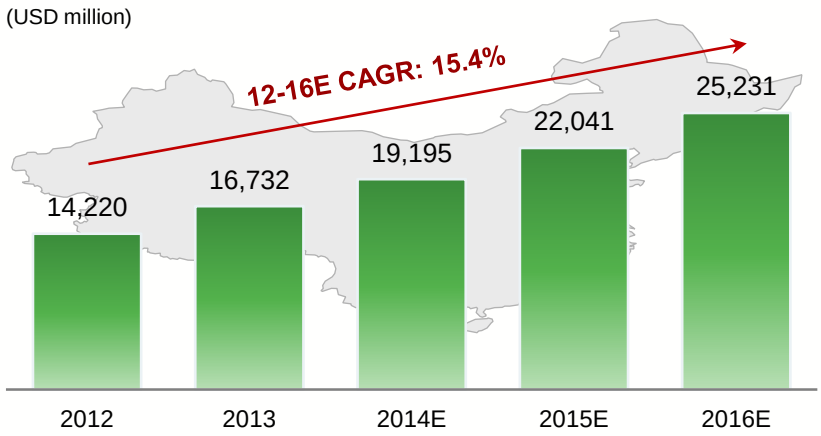
## World's top producer of vegetables

**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% |

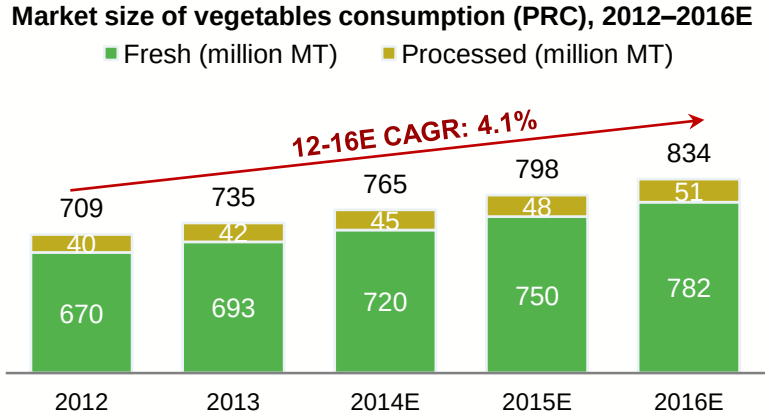
## PRC vegetables export market poised for continued strong growth

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




## Robust PRC vegetables consumption

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




## 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**

### 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 12th consecutive year



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**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

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