Since 1971

CHINA MINZHONG FOOD CORPORATION LIMITED

China Minzhong

Earnings Presentation 3Q FY2016

25 April 2016













Agenda

Financial Performance Review

Outlook & Growth Strategies



Income Statement Highlights

Financial Summary (Profitability)

	9 months ended 31 Mar			3 months ended 31 Mar		
(RMB'million)	9M FY16	9M FY15	% Change	3Q FY16	3Q FY15	% Change
Revenue	**1,442.6**	**1,507.3**	**-4.3**	**451.4**	**485.8**	**-7.1**
Cost of sales	(1,034.4)	(1,073.4)	-3.6	(302.0)	(323.9)	-6.8
Gross Profit	**408.2**	**433.9**	**-5.9**	**149.4**	**162.0**	**-7.7**
Gross profit margin	*28.3%*	*28.8%*	*(0.5ppt)*	*33.1%*	*33.3%*	*(0.2ppt)*
Loss on fair value of biological assets	0.3	(4.9)	>100	-	-	-
Other income	141.7	153.7	-7.8	35.0	50.0	-30.1
Selling and distribution expenses	(30.8)	(73.8)	-58.3	(7.0)	(11.7)	-40.0
Administrative expenses	(133.3)	(122.1)	9.2	(47.9)	(46.8)	2.4
Other expenses	(130.2)	(27.0)	>100	(21.4)	(2.2)	>100
Finance cost	(123.5)	(82.4)	49.8	(52.4)	(30.4)	72.4
Profit before income tax (PBT)	**132.4**	**277.4**	**-52.3**	**55.7**	**120.9**	**-54.0**
PBT margin	*9.2%*	*18.4%*	*(9.2ppt)*	*12.3%*	*24.9%*	*(12.6ppt)*
Income tax	(38.7)	(39.9)	-3.1	(6.6)	(12.9)	-49.0
Net profit	**93.7**	**237.5**	**-60.6**	**49.1**	**108.0**	**-54.6**
Net income margin	*6.5%*	*15.8%*	*(9.3ppt)*	*10.9%*	*22.2%*	*(11.3ppt)*
EBITDA(1)	**377.1**	**484.4**	**22.2**	**152.5**	**190.8**	**-20.1**
EBITDA margin(1)	*26.1%*	*32.1%*	*(6.0ppt)*	*33.8%*	*39.3%*	*(5.5ppt)*

Footnote:

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

Notes on Income Statement (9M analysis)

❑ **Revenue**

✓ Revenue for 9MFY2016 declined by 4.3% to RMB1,442.6 million (9MFY2015: RMB1,507.3 million). The decline was mainly due to a decrease in sales of RMB78.3 million from the branded business segment, offset by increase in sales of RMB13.0 million from the processed business segment and RMB0.6 million from the cultivation business segment.

❑ **Gross profit and margin**

✓ Gross profit for 9MFY2016 decreased by 5.9% to RMB408.1 million (9MFY2015: RMB433.9 million). Overall gross profit margin decreased by 0.5ppt to 28.3% (9MFY2015: 28.8%).

❑ **Other income**

✓ Other income decreased by 7.8% to RMB141.7 million (9MFY2015: RMB153.7 million), mainly due to decrease in interest income of RMB11.3 million.

❑ **Selling & distribution expenses**

✓ Selling and distribution expenses decreased by 58.3% to RMB30.8 million (9MFY2015: RMB73.8 million), mainly due to decrease of RMB24.2 million in marketing and advertising expenses, salary of RMB8.8 million and freight costs of RMB5.8 million.

❑ **Administrative expenses**

✓ Administrative expenses increased by 9.1% to RMB133.3 million (9MFY2015: RMB122.1 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 RMB103.2 million to RMB130.2 million (9MFY2015: RMB27.0 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 RMB86.0 million and RMB9.8 million respectively.

❑ **Income tax**

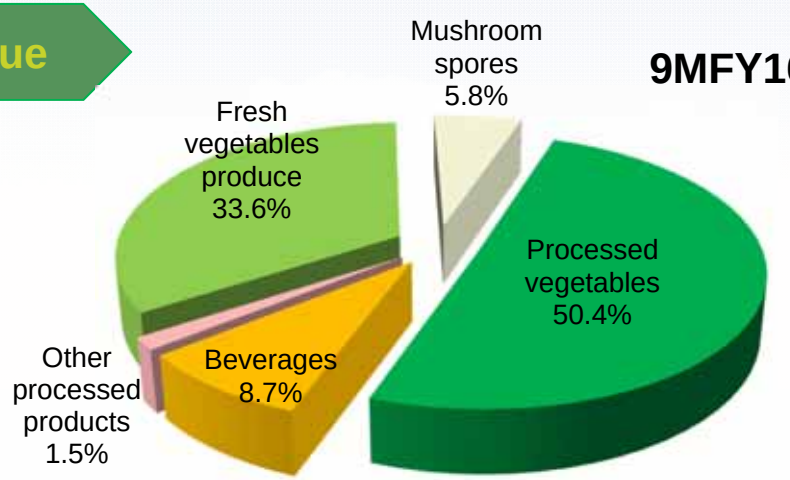
✓ Income tax expense decreased by 3.1% to RMB38.7 million (9MFY2015: RMB39.9 million), in tandem with the decrease of profit before tax.

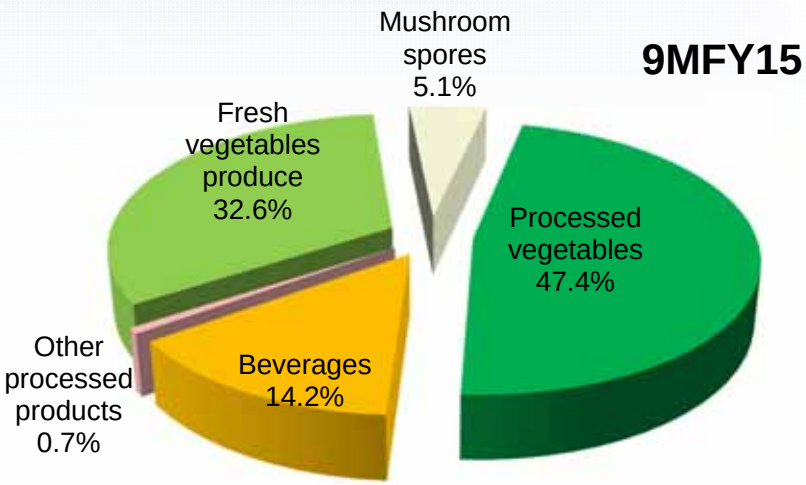
Revenue and Gross Profit breakdown across business segments

(RMB'million)	9 months ended 31 Mar			3 months ended 31 Mar		
	9M FY16	9M FY15	% Change	3Q FY16	3Q FY15	% Change
Revenue	**1,442.6**	**1,507.3**	**-4.3**	**451.4**	**485.8**	**-7.1**
Processed Business Segment	**726.7**	**713.7**	**1.8**	**240.2**	**257.3**	**-6.6**
Processed vegetables	726.7	713.7	1.8	240.2	257.3	-6.6
Cultivation Business Segment	**568.9**	**568.4**	**0.1**	**178.8**	**179.7**	**-0.5**
Fresh vegetables produce	485.3	491.1	-1.2	178.8	179.7	-0.5
Mushroom spores	83.6	77.3	8.2	-	-	-
Branded Business Segment	**147.0**	**225.2**	**-34.7**	**32.4**	**48.8**	**-33.8**
Beverages	125.4	214.7	-41.6	28.6	45.1	-36.7
Others	21.6	10.5	>100	3.8	3.7	1.5
Gross Profit	**408.1**	**433.9**	**28.3**	**149.4**	**162.0**	**-7.7**
Processed Business Segment	**165.2**	**162.6**	**1.6**	**54.3**	**64.4**	**-15.7**
Processed vegetables	165.2	162.6	1.6	54.3	64.4	-15.7
Cultivation Business Segment	**188.5**	**174.1**	**8.3**	**83.3**	**77.5**	**7.4**
Fresh vegetables produce	180.1	168.5	6.9	83.3	77.5	7.4
Mushroom spores	8.4	5.6	51.4	-	-	-
Branded Business Segment	**54.4**	**97.3**	**-44.0**	**11.8**	**20.0**	**-41.1**
Beverages	53.1	97.0	-45.2	11.8	19.7	-40.1
Others	1.3	0.3	>100	-	0.3	-98.2
Gross Margin	**28.3%**	**28.8%**	**(0.5ppt)**	**33.1%**	**33.3%**	**(0.2ppt)**
Processed Business Segment	**22.7%**	**22.8%**	**(0.1ppt)**	**22.6%**	**25.0%**	**(2.4ppt)**
Processed vegetables	22.7%	22.8%	(0.1ppt)	22.6%	25.0%	(2.4ppt)
Cultivation Business Segment	**33.1%**	**30.6%**	**2.5ppt**	**46.6%**	**43.1%**	**3.5ppt**
Fresh vegetables produce	37.1%	34.3%	2.8ppt	46.6%	43.1%	3.5ppt
Mushroom spores	10.1%	7.2%	2.9ppt	-	-	-
Branded Business Segment	**37.0%**	**43.2%**	**(6.2ppt)**	**36.5%**	**41.0%**	**(4.5ppt)**
Beverages	42.4%	45.2%	(2.8ppt)	41.3%	43.7%	(2.4ppt)
Others	6.0%	2.9%	3.1ppt	0.2%	8.1%	(7.9ppt)

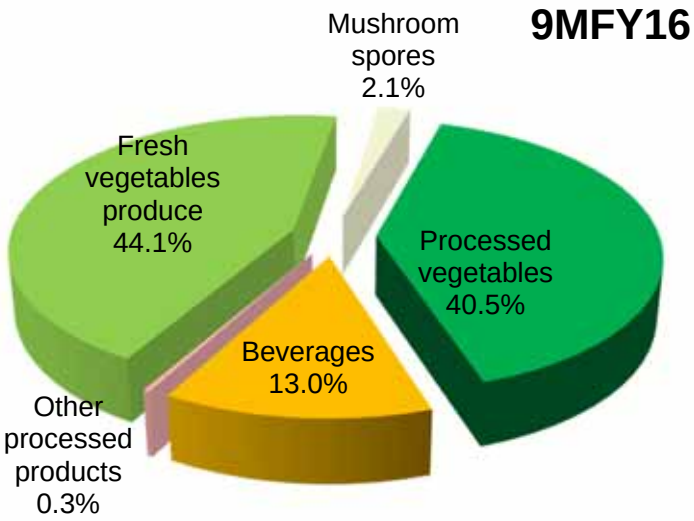
Segmental Revenue by Proportion

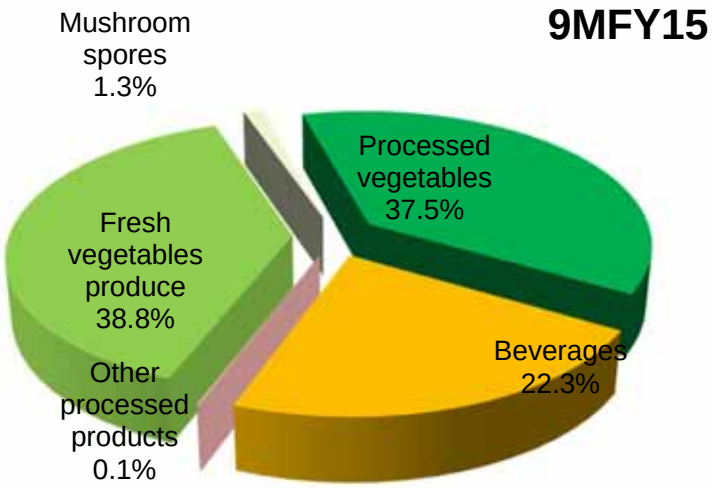
Revenue





Gross Profit

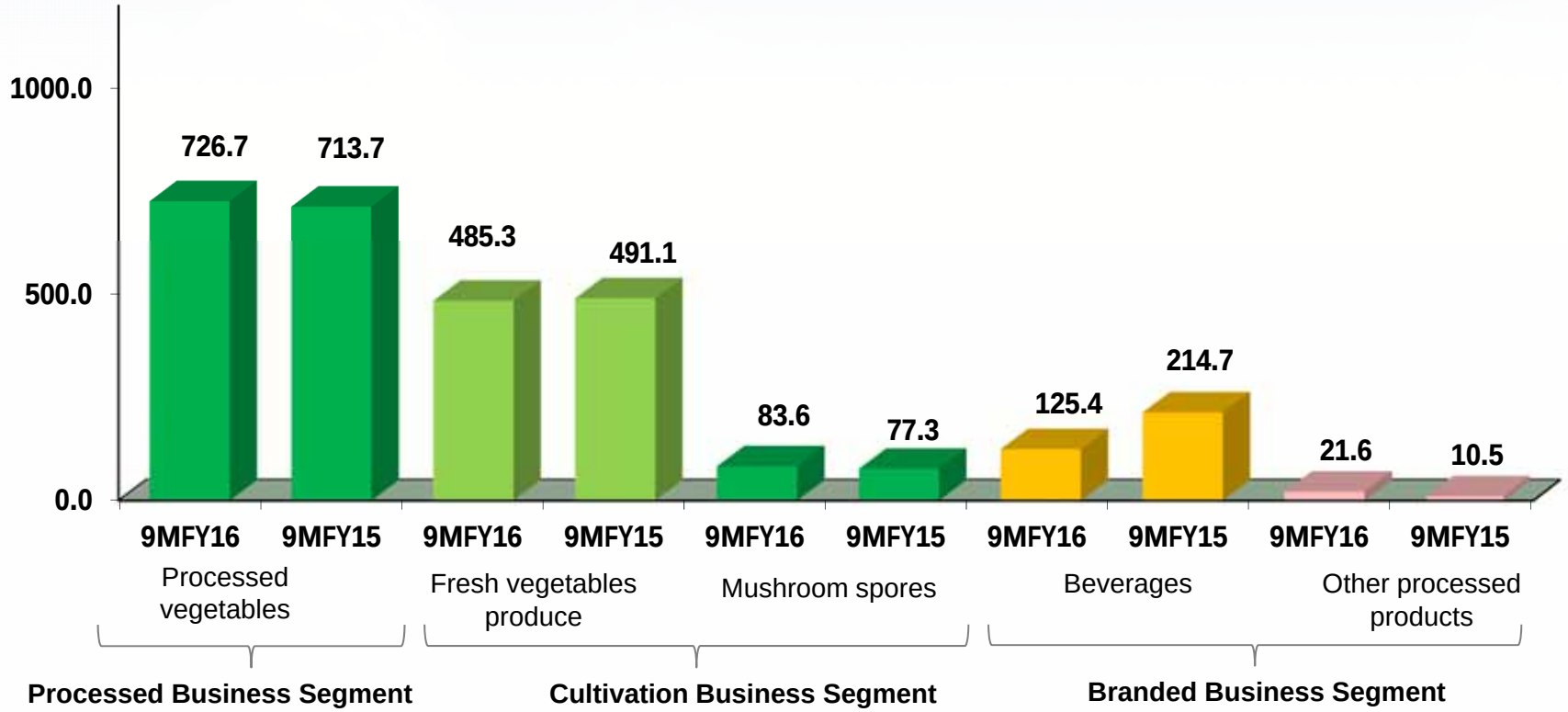




Footnote: "Other processed products" comprises of miscellaneous products (such as instant food and health food products).

Revenue breakdown across segments

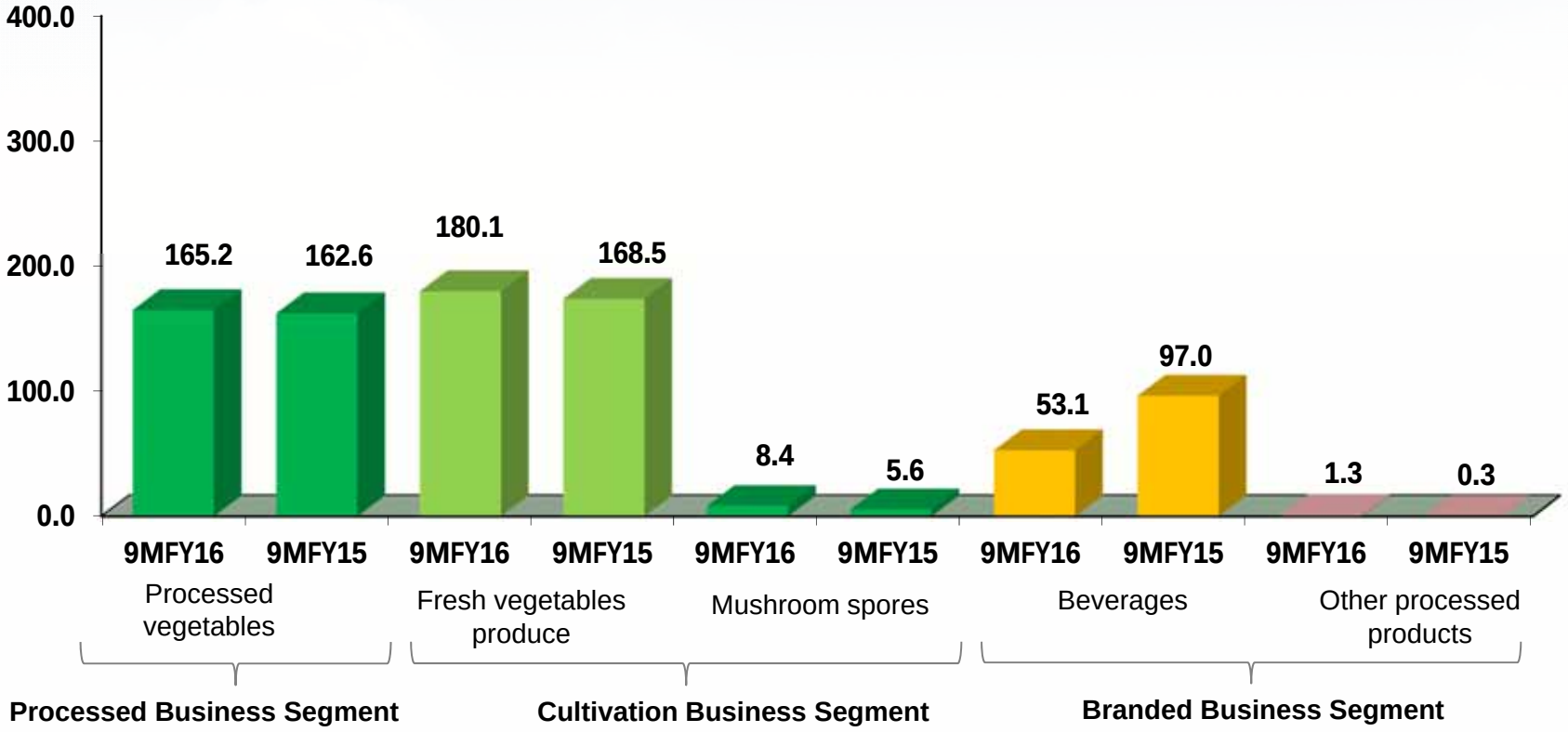
RMB' million



- **Processed vegetables:**
  - ✓ Revenue of processed business segment increased by 1.8% to RMB726.7 million, primarily due to increase in average selling price by 14.7%.
- **Cultivation business (Fresh vegetables produce, mushroom spores):**
  - ✓ Revenue from fresh vegetables produce remains relatively constant at RMB568.9 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 41.6%, 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.

Gross profit breakdown across segments

RMB' million



- **Processed vegetables:**
  - ✓ Gross profit from processed vegetables increased by 1.6%, in tandem with the increase in revenue.
- **Cultivation business (Fresh vegetables produce, mushroom spores):**
  - ✓ Gross profit from fresh vegetables produce increase by 8.3%, and gross margin increase by 2.5ppt due to increase in average selling price.
- **Branded business (Beverages, other processed products):**
  - ✓ Gross profit from beverages decreased 45.2%, in tandem with the decrease in revenue.

ASP and Sales Volume Breakdown

	9MFY16 ASP/ RMB per kg	9MFY15 ASP/ RMB per kg	% Change	9MFY16 Sales volume/ '000 tonnes	9MFY15 Sales volume/ '000 tonnes	% Change
Processed vegetables (1)	42.42	36.99	14.7%	17.1	19.3	-11.2%
Fresh vegetables produce	3.63	3.29	10.5%	133.6	149.4	-10.5%

(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 14.7% to RMB42.42 per kg.



Fresh vegetables produce

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

✓ Average selling prices increased by 10.5% to RMB3.63 per kg.

Financial Summary

Balance Sheet (Key Highlights)			
(RMB'million)	As at 31 Mar 2016 (unaudited)	As at 30 June 2015 (audited)	% Change
Total Assets	**7,727.7**	**7,592.5**	**1.8%**
Non-current assets	2,773.1	2,629.2	5.5%
Property, plant and equipment	2,206.1	2,019.8	(9.2%)
Land use rights	129.1	131.5	(1.8%)
Land improvement costs	40.1	88.1	(54.5%)
Operating lease prepayments	200.3	241.6	(17.1%)
Current assets	4,954.6	4,963.3	(0.2%)
Inventories	40.6	61.5	(34.1%)
Trade receivables	418.4	421.1	(0.6%)
Other receivables and prepayments	108.6	136.1	(20.2%)
Cash and bank balances	4,308.1	4,261.9	1.1%
Total Liabilities	**2,349.3**	**2,359.5**	**(0.4%)**
Non-current liabilities	724.6	872.0	(16.9%)
Government grants	13.6	15.9	(14.5%)
Bank term loans	666.0	810.8	(17.9%)
Current liabilities	1,624.7	1,487.5	9.2%
Trade Payables	130.7	212.6	(38.5%)
Bank term loans	1,235.1	944.4	30.8%
Other payables and accruals	244.1	320.8	(23.9%)
Shareholders' equity	**5,378.4**	**5,233.0**	**2.8%**
Net Assets Value per share (RMB)	**8.21**	**7.98**	**2.9%**

Notes to Balance Sheet

Assets

❑ Non-current assets increased by approximately 5.5% or RMB143.9 million, to RMB2,773.1 million (30 June 2015: RMB2,629.2 million), primarily due to plant and equipment additions of RMB263.8 million and the result of amortisation and depreciation expenses and increase of RMB50.6 million from derivative financial instruments.

❑ Current assets have remained relatively constant at RMB4,954.6 million (30 June 2015: RMB4,963.3 million).

Liabilities

❑ Non-current liabilities decreased by 16.9% or RMB147.4 million, to RMB724.6 million (30 June 2015: RMB872.0 million), primarily due to reclassification of long term loan due within one year into short term loan in current liabilities.

❑ Current liabilities increased by 9.2% or RMB137.1 million, to RMB1,624.6 million (30 June 2015: RMB1,487.5 million). This was largely attributable to reclassification of non-current liabilities, increase in short term bank financing of RMB146.0 million offset by decrease in trade and other payables and accruals of RMB158.6 million.



Financial Summary

Cash Flow Highlights

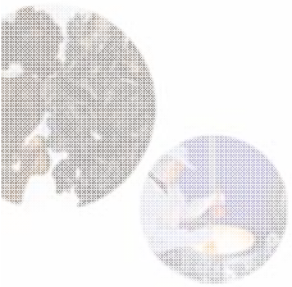
(RMB'million)	For 9 months ended 31 Mar			For 3 months ended 31 Mar		
	9MFY16	9MFY15	% Change	3QFY16	3QFY15	% Change
Net cash from operating activities	361.6	676.5	(46.5%)	(76.5)	184.1	(>100%)
Net cash (used in) / generated from investing activities	(267.1)	57.0	(>100%)	(3.3)	(6.0)	(45.8%)
Net cash (used in) / generated from financing activities	(48.3)	39.5	(>100%)	(347.4)	31.6	(>100%)
Net (decrease) / increase in cash and cash equivalents	**46.2**	**773.0**	(94.0%)	**(427.2)**	**209.7**	(>100%)
Cash and cash equivalents at beginning of financial period	**4,261.9**	**3,267.4**	**30.4%**	**4,735.3**	**3,830.7**	**23.6%**
Cash and cash equivalents at the end of financial year	**4,308.1**	**4,040.4**	**6.6%**	**4,308.1**	**4,040.4**	**6.6%**

- Net cash generated from operating activities amounted to RMB361.6 million. This comprised cash generated from operating activities before changes in working capital of RMB454.3 million, net working capital outflow of RMB100.8 million, income tax payment of RMB34.7 million and interest income of RMB42.8 million received.
- Net cash used in investing activities of RMB267.1 million was mainly due to property, plant and equipment additions of RMB266.7 million.
- Net cash used in financing activities of RMB48.3 million was mainly attributable to interest paid, of RMB124.2 million, offset by the net proceeds from bank loans of RMB71.6 million.

Key Financial Indicators

Key Financial Indicators	For trailing 12 months ended	
	31 Mar 2016 (unaudited)	30 Jun 2015 (audited)
Working Capital Days		
Trade Receivable Turnover Days (1a)	79	83
Trade Payable Turnover Days (1b)	(39)	(42)
Inventory Turnover Days (1c)	21	36
Cash Conversion Days	61	77
Liquidity Ratios		
Total cash and cash equivalents (RMB'mil)	4,308.10	4,261.90
Total Debt (RMB 'mil)	1,901.10	1,755.20
Net Gearing Ratio (2)	Net cash	Net cash
Current Ratio (3)	3.0	3.3

- Cash conversion days decrease from 77 days to 61 days.
- Net gearing in net cash status while current ratio remain 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

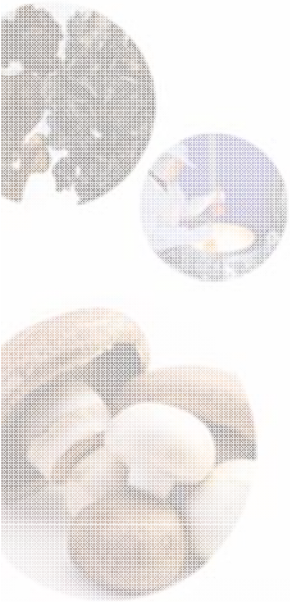
(2) Net Gearing Ratio is calculated by dividing total debt less cash and cash equivalents over equity.

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

Agenda

Financial Performance Review

Outlook & Growth Strategies



Favorable industry conditions and strong government support

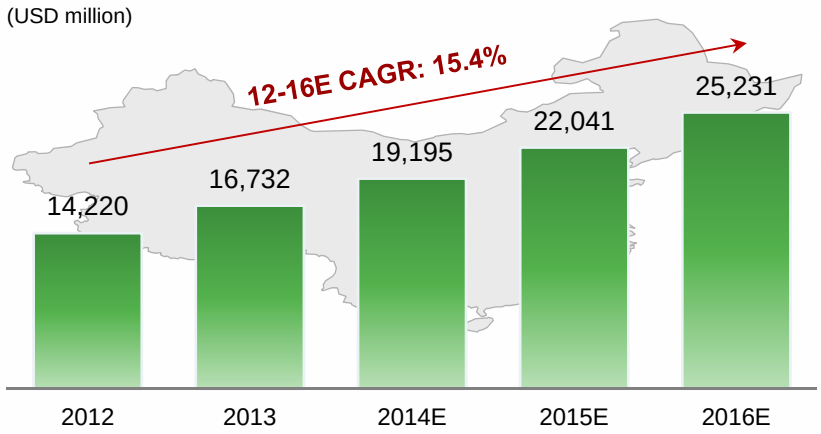
World's top producer of vegetables

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%

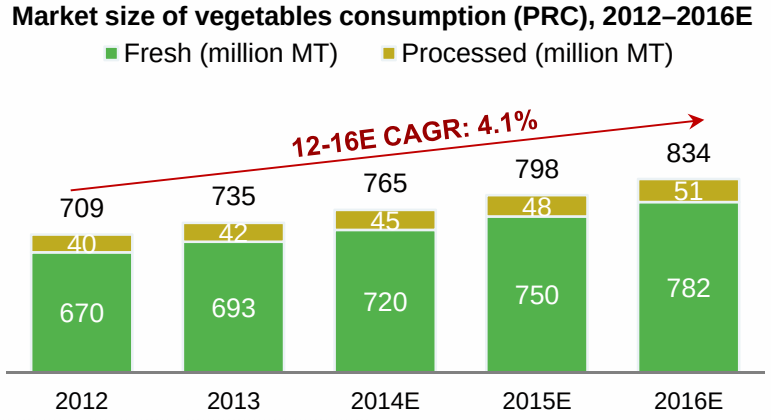
PRC vegetables export market poised for continued strong growth

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

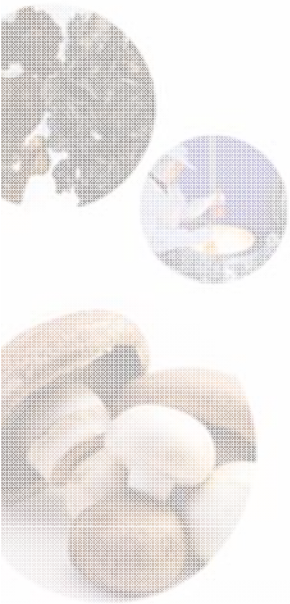
- Enhance animal & plant **disease prevention and control** and improve agricultural products **quality assurance**

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

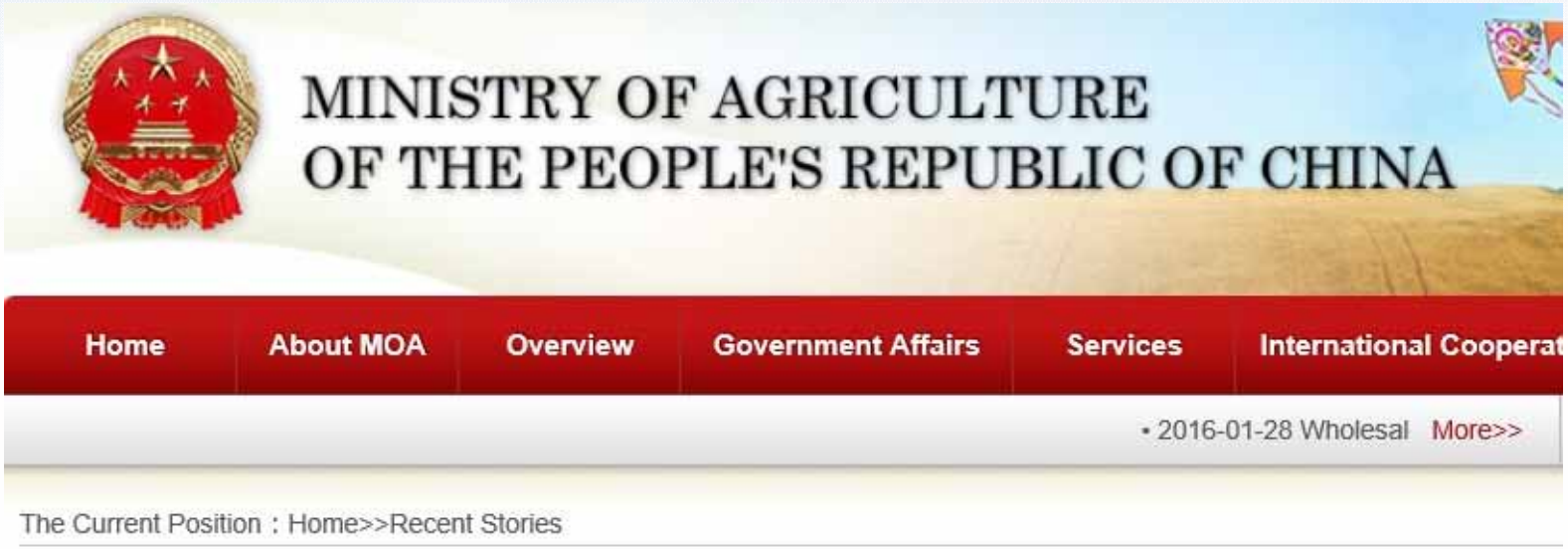
- Promote **establishment / integration of modern technologies** in agriculture, **mechanization** of labor and **information management** of production



- ✓ 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 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

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