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CHINA MINZHONG FOOD
CORPORATION LIMITED

China Minzhong

Earnings Presentation 2QFY2015

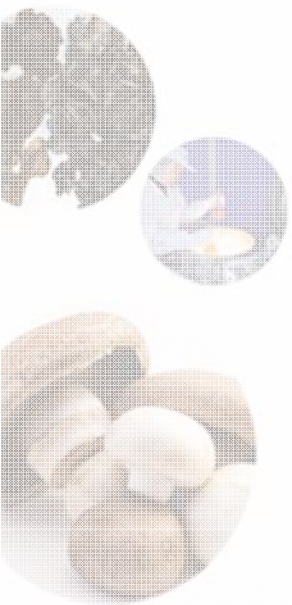
13 February 2015



Agenda

Financial Performance Review

Outlook & Growth Strategies



Income Statement Highlights

Financial Summary (Profitability)						
(RMB'million)	6 months ended 31 Dec			3 months ended 31 Dec		
	1H FY15	1H FY14	% Change	2Q FY15	2Q FY14	% Change
Revenue	1,021.5	1,542.8	(33.8%)	534.5	905.0	(40.9%)
Cost of sales	(749.5)	(1,055.9)	(29.0%)	(390.4)	(586.6)	(33.4%)
Gross Profit	272.0	486.8	(44.1%)	144.1	318.4	(54.7%)
<i>Gross profit margin</i>	26.6%	31.6%	(5.0ppt)	27.0%	35.2%	(8.2ppt)
Loss on fair value of biological assets	(4.9)	-	n.a.	(4.9)	-	n.a.
Other income	103.7	56.9	82.3%	55.1	46.1	19.6%
Selling and distribution expenses	(62.1)	(108.3)	(42.6%)	(36.8)	(38.2)	(3.8%)
Administrative expenses	(75.3)	(71.5)	5.2%	(38.3)	(36.2)	5.9%
Other expenses	(24.8)	(44.3)	(44.1%)	(16.0)	(33.2)	(51.9%)
Finance cost	(52.0)	(30.4)	71.3%	(20.5)	(17.7)	15.7%
Profit before income tax (PBT)	156.5	289.2	(45.9%)	82.8	239.2	(65.4%)
<i>PBT margin</i>	15.3%	18.7%	(3.4ppt)	15.5%	26.4%	(10.9ppt)
Income tax	(27.1)	(38.9)	(30.4%)	(10.8)	(37.3)	(71.1%)
Net profit	129.5	250.3	(48.3%)	72.0	201.9	(64.3%)
<i>Net income margin</i>	12.7%	16.2%	(3.5ppt)	13.5%	22.3%	(8.8ppt)
EBITDA⁽¹⁾	293.6	436.3	(32.7%)	146.4	312.3	(53.1%)
<i>EBITDA margin⁽¹⁾</i>	28.7%	28.3%	0.4ppt	27.4%	34.5%	(7.1ppt)

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 33.8% to RMB1,021.5 million, due to lower sales in processed and cultivation business segments, offset by an increase in sales in branded business segment.

❑ Gross profit and margin

✓ Gross profit decreased 44.1% while overall gross margin declined 5.0ppt to 26.6%.

✓ Gross margin from processed vegetables declined by 6.8ppt to 21.5%, primarily due to increased in raw material costs while gross margin from cultivation business segment decreased by 11.8ppt to 24.8% due to increased in labour costs.

❑ Other income

✓ Other income increased 82.2% to RMB103.7 million mainly due to an increases in interest income from bank deposits, rental income and refund of property tax.

❑ Selling & distribution expenses

✓ Selling & distribution expenses decreased 42.7% to RMB62.1 million, mainly due to lower marketing and advertising expenses.

❑ Administrative expenses

✓ Administrative expenses increased by 5.3% to RMB75.3 million due to a rise in depreciation expenses but partly offset by lower professional expenses.

❑ Other expenses

✓ Other expenses decreased 44.0% mainly due to lesser exchange losses and allowance for doubtful trade debts.

❑ Finance cost

✓ Finance cost increased by RMB21.6 million to RMB52.0 million, due to increased bank borrowings.

❑ Income tax

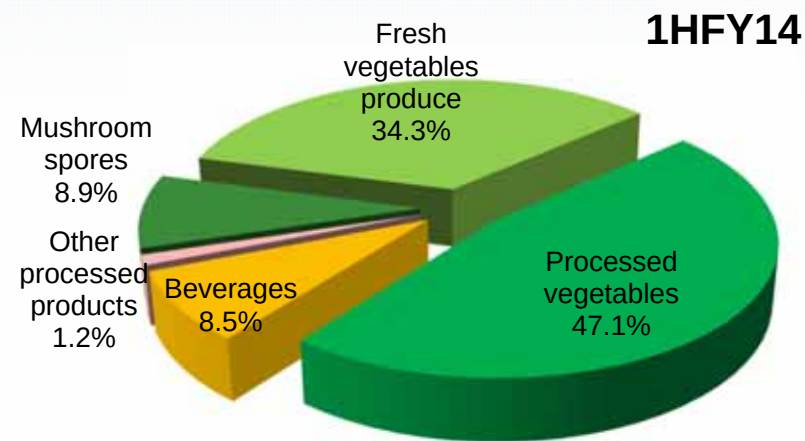
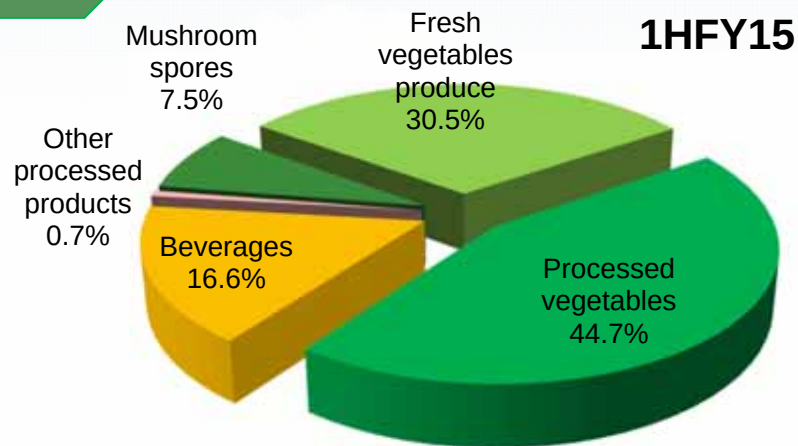
✓ Income tax expense decreased by 30.3% to RMB27.1 million, in tandem with the decrease in profit before tax.

Revenue and Gross Profit breakdown across business segments

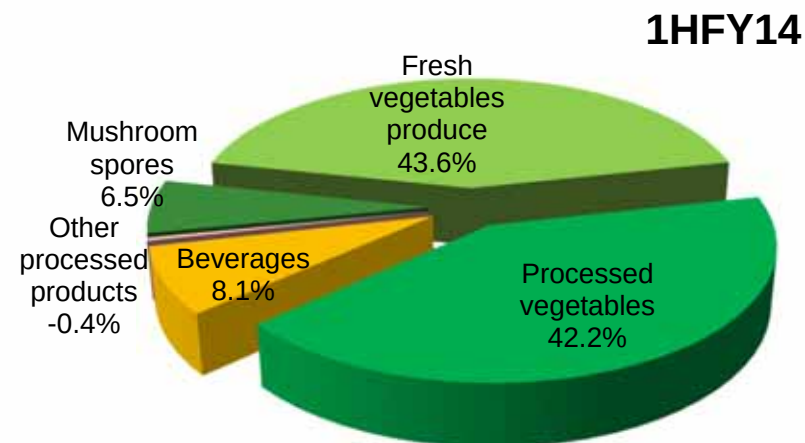
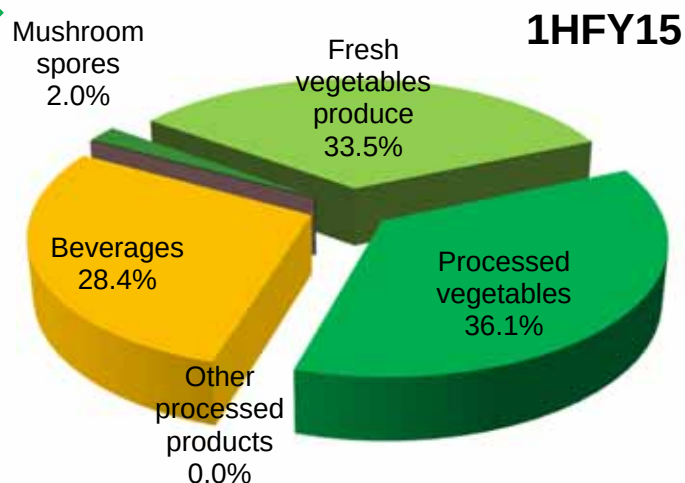
(RMB'million)	6 months ended 31 Dec			3 months ended 31 Dec		
	1H FY15	1H FY14	% Change	2Q FY15	2Q FY14	% Change
Revenue	1,021.5	1,542.8	(33.8%)	534.5	905.0	(40.9%)
Processed Business Segment	456.4	727.2	(37.2%)	259.2	476.1	(45.6%)
Processed vegetables	456.4	727.2	(37.2%)	259.2	476.1	(45.6%)
Cultivation Business Segment	388.7	665.4	(41.6%)	212.3	323.7	(34.4%)
Fresh vegetables produce	311.4	528.5	(41.1%)	174.1	323.7	(46.2%)
Mushroom spores	77.3	136.9	(43.5%)	38.2	-	n.a.
Branded Business Segment	176.4	150.2	17.4%	63.0	105.1	(40.1%)
Beverages	169.6	131.4	29.1%	57.2	97.8	(41.5%)
Others	6.8	18.8	(63.8%)	5.7	7.3	(21.9%)
Gross Profit	272.0	486.8	(44.1%)	144.1	318.4	(54.7%)
Processed Business Segment	98.1	205.7	(52.3%)	61.0	140.8	(56.7%)
Processed vegetables	98.1	205.7	(52.3%)	61.0	140.8	(56.7%)
Cultivation Business Segment	96.6	243.7	(60.4%)	58.7	144.2	(59.3%)
Fresh vegetables produce	91.0	212.2	(57.1%)	55.8	144.2	(61.3%)
Mushroom spores	5.6	31.4	(82.2%)	2.9	-	n.a.
Branded Business Segment	77.2	37.4	106.4%	24.4	33.4	(26.9%)
Beverages	77.3	39.5	95.7%	24.0	34.5	(30.4%)
Others	(0.1)	(2.1)	(95.2%)	0.4	(1.1)	n.m.
Gross Margin	26.6%	31.6%	(5.0ppt)	27.0%	35.2%	(8.2ppt)
Processed Business Segment	21.5%	28.3%	(6.8ppt)	23.5%	29.6%	(6.1ppt)
Processed vegetables	21.5%	28.3%	(6.8ppt)	23.5%	29.6%	(6.1ppt)
Cultivation Business Segment	24.8%	36.6%	(11.8ppt)	27.7%	44.5%	(16.8ppt)
Fresh vegetables produce	29.2%	40.2%	(11.0ppt)	32.1%	44.5%	(12.4ppt)
Mushroom spores	7.2%	22.9%	(15.7ppt)	7.6%	-	n.a.
Branded Business Segment	43.8%	24.9%	18.9ppt	38.7%	31.8%	6.9ppt
Beverages	45.6%	30.1%	15.5ppt	41.9%	35.3%	6.6ppt
Others	(0.5%)	(11.2%)	10.7ppt	6.3%	(15.1%)	21.4ppt

Segmental Revenue by Proportion

Revenue



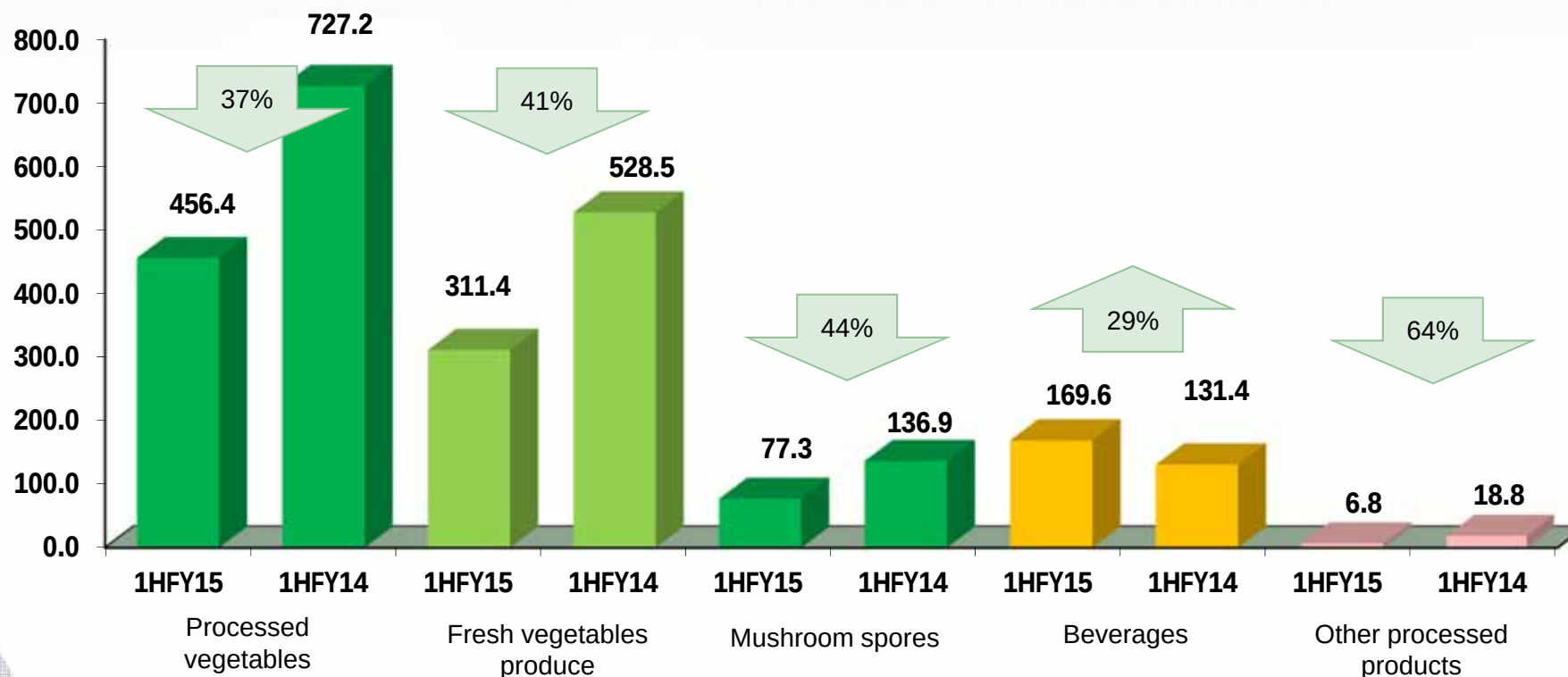
Gross Profit



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 from processed vegetables declined 37.2%, primarily due to decrease in sales volume by 38.2%.

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

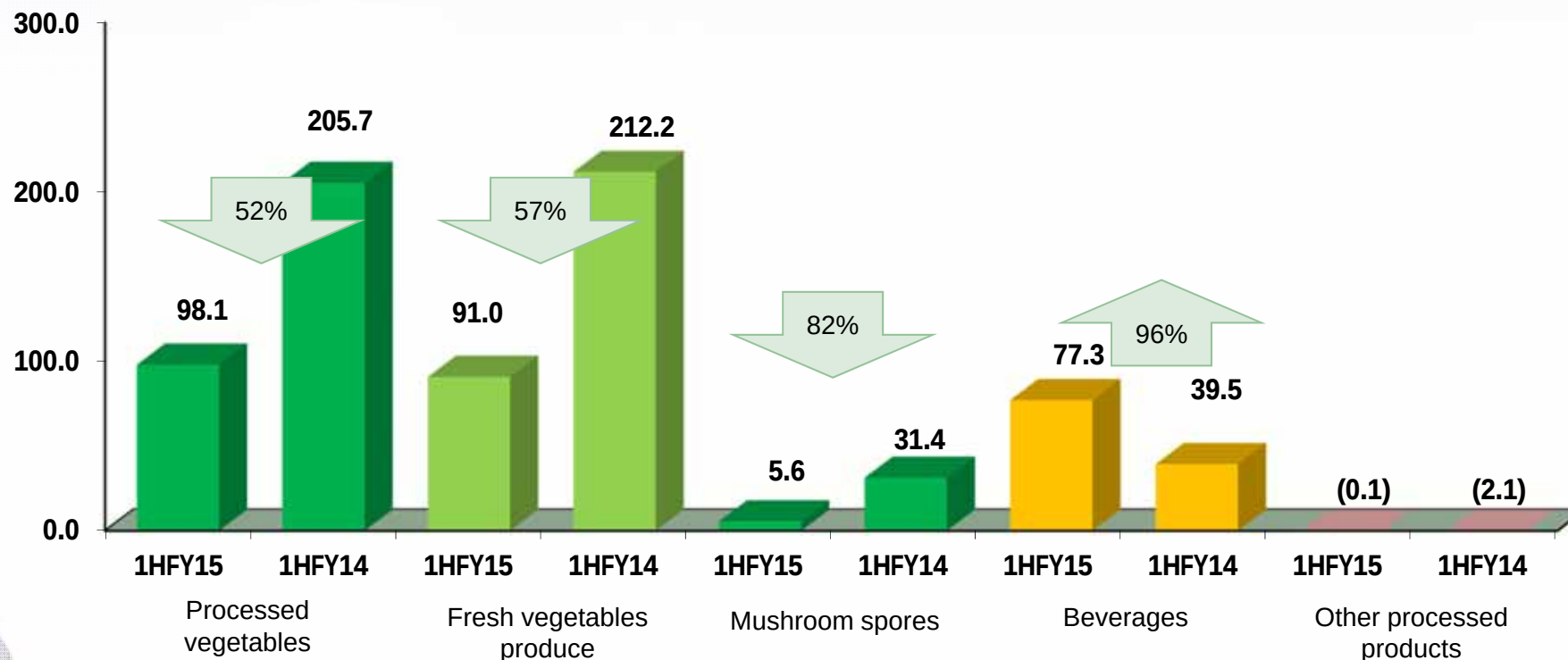
- ✓ Revenue from fresh vegetables produce and mushroom spores declined 41.1% and 43.5% respectively, due to shortage of rural labour for cultivation activities.

■ Branded business (Beverages, other processed products):

- ✓ Revenue from beverages increased 29.1%, underpinned by 18.0% rise in sales volume following the growth of our domestic distribution channels for our branded products

Gross profit breakdown across segments

RMB' million



■ Processed vegetables:

- ✓ Gross profit from processed vegetables decreased by 52.3%, while gross margin declined by 6.8ppt to 21.5% due to increased in raw material costs.

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

- ✓ Gross profit from cultivation business declined 60.4%, while gross margin decreased by 11.8ppt due to increased in labour costs.

■ Branded business (Beverages, other processed products):

- ✓ Gross profit from beverages increased 95.7% while gross margin improved 15.5ppt to 45.6%, primarily due to lower unit fixed costs as production volume increases.

ASP and Sales Volume Breakdown

	1HFY15 ASP/ RMB per kg	1HFY14 ASP/ RMB per kg	% Change	1HFY15 Sales volume/ '000 tonnes	1HFY14 Sales volume/ '000 tonnes	% Change
Processed vegetables ⁽¹⁾	34.45	33.89	1.6%	13.3	21.5	(38.2%)
Fresh vegetables produce	3.10	2.96	4.7%	100.4	178.4	(43.7%)

⁽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:

- ✓ Decline in sales volume due to overall decline in processed vegetables sales.
- ✓ Average selling prices remained relatively constant.

Fresh vegetables produce

- ✓ Decline in sales volume on the back of lesser cultivation activities.
- ✓ Increase in ASP due to a change in product mix.

Financial Summary

Balance Sheet (Key Highlights)			
(RMB'million)	As at 31 Dec 2014 (unaudited)	As at 30 June 2014 (audited)	% Change
Total Assets	7,282.6	7,021.9	3.7%
Non-current assets	2,762.9	2,934.0	(5.8%)
Property, plant and equipment	2,073.5	2,130.4	(2.7%)
Land use rights	133.0	134.7	(1.3%)
Land improvement costs	126.9	175.2	(27.6%)
Operating lease prepayments	269.6	328.8	(18.0%)
Current assets	4,519.7	4,087.9	10.6%
Inventories	70.4	106.6	(34.0%)
Trade receivables	416.7	476.6	(12.6%)
Other receivables and prepayments	121.4	149.9	(19.0%)
Cash and bank balances	3,830.7	3,267.4	17.2%
Total Liabilities	2,047.5	1,802.1	13.6%
Non-current liabilities	949.0	976.3	(2.8%)
Government grants	17.1	18.5	(7.6%)
Bank term loans	905.4	903.6	0.2%
Current liabilities	1,098.5	825.9	33.0%
Trade Payables	156.8	103.5	51.5%
Bank term loans	777.1	593.7	30.9%
Other payables and accruals	157.7	124.6	26.6%
Shareholders' equity	5,235.1	5,219.8	0.3%
Net Assets Value per share (RMB)	7.99	7.96	0.4%

Notes to Balance Sheet

Assets

- ❑ Property, plant and equipment (“PPE”) as at 31 December 2014 remained relatively unchanged compared to PPE as at 30 June 2014.
- ❑ Land improvement costs and operating prepayments decline as a result of amortization expenses.
- ❑ Inventory level remained declined 34.0% to RMB70.4 million as at 31 December 2014.
- ❑ Trade receivables level declined 12.6% to RMB416.7 million, on the back of prompt receivables collection.
- ❑ Other receivables and prepayments, comprising mainly advances to suppliers for raw material purchases as well as deposits paid for the construction of new industrialized farming facilities, declined from RMB149.9million to RMB121.4 million.
- ❑ Cash and bank balances improved from RMB3,267.4 million as at 30 June 2014 to RMB3,830.7 million as at 31 December 2014.

Liabilities

- ❑ Increase in short term bank borrowings from RMB593.7 million to RMB777.1 million due to working capital loans drawdown for the upcoming peak season
- ❑ Increase in trade payables by 51.5% to RMB156.8 million, due to raw material purchases before the peak season.
- ❑ Other payables and accruals increased from RMB124.6 million to RMB157.7 million.

Financial Summary

Cash Flow Highlights						
(RMB'million)	For 6 months ended 31 Dec			For 3 months ended 31 Dec		
	1HFY15	1HFY14	% Change	2QFY15	2QFY14	% Change
Net cash from operating activities	506.7	734.1	(31.0%)	162.4	227.1	(28.5%)
Net cash generated from investing activities	63.1	287.8	(78.1%)	9.5	313.9	(97.0%)
Net cash generated from/ (used in) financing activities	7.9	526.1	(98.5%)	(17.0)	256.9	n.a.
Net increase in cash and cash equivalents	577.7	1,548.0	(62.7%)	154.9	797.9	(80.6%)
Cash and cash equivalents at beginning of financial period	3,267.4	785.3	>100%	3,685.8	1,534.5	>100%
Effect of exchange rate changes	(14.4)	(4.6)	>100%	(10.0)	(3.7)	>100%
Pledged cash to notes payables ⁽¹⁾	-	20.0	n.a.	-	20.0	n.a.
Cash and cash equivalents at the end of financial period	3,830.7	2,348.7	63.1%	3,830.7	2,348.7	63.1%

- Net cash from operating activities amounted to RMB506.7 million in 1HFY15 and RMB162.4 million in 2QFY15, underpinned by healthy receipts of trade receivables.
- Net cash generated from investing activities amounted to RMB63.1 million in 1HFY15, mainly due to proceeds from disposal of operating lease prepayments and land improvement costs, refund of deposits for land use rights and construction.
- Increase in net cash generated from financing activities by RMB7.9 million in 1HFY15, attributable to net proceeds from bank borrowings and government grants, offset by dividends and interest payments.
- Cash and bank balances increased to RMB3.8 billion as at 31 Dec 2014 (30 June 2014: RMB2.3 billion)

Key Financial Indicators

	Key Financial Indicators	
	For 12 months ended	
	31 Dec 2014 (unaudited)	30 Jun 2014 (audited)
Working Capital Days		
Trade Receivable Turnover Days ^(1a)	99	99
Trade Payable Turnover Days ^(1b)	(40)	(38)
Inventory Turnover Days ^(1c)	23	25
Cash Conversion Days	82	86
Liquidity Ratios		
Total Cash and Cash Equivalents (RMB 'mil)	3,830.7	3,267.4
Total Debt (RMB 'mil)	1,682.5	1,497.3
Net Gearing Ratio ⁽²⁾	Net cash	Net cash
Current Ratio ⁽³⁾	4.1	4.9

- Cash conversion days improved from 86 days to 82 days, mainly due to an improvement in trade payable turnover and inventory payable turnover 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



Favorable industry conditions and strong government support

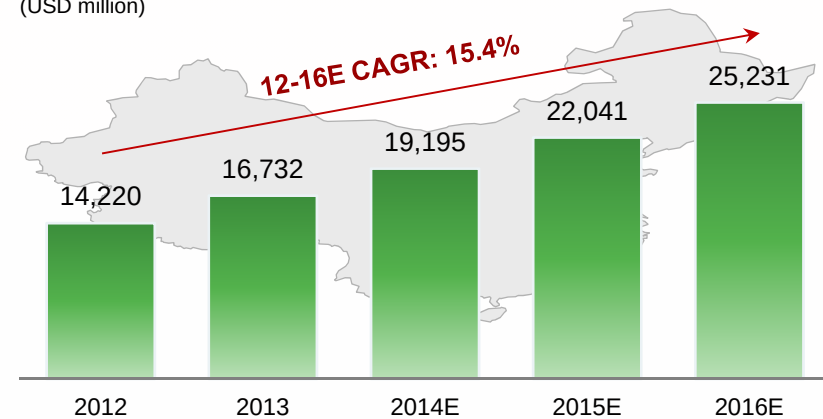
World's top producer of vegetables

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%

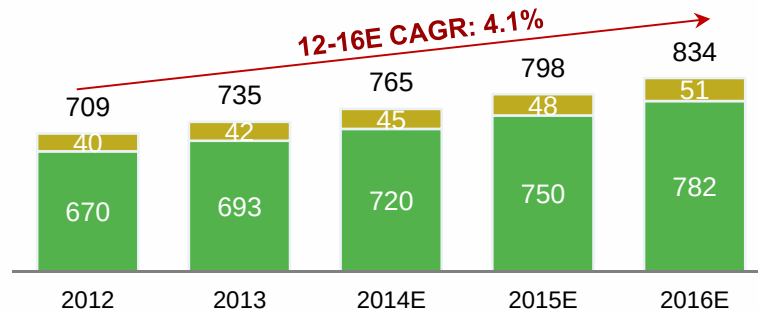
PRC vegetables export market poised for continued strong growth

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 for 2014 targets rural reform

China.org.cn

No.1 Central Document targets rural reform

Xinhua, January 20, 2014



The "No. 1 document," issued every January by the Party's Central Committee and the State Council, has focused on rural matters every year since 2004.
[photo / China.org.cn]

China's top policy priorities for 2014 will be improving the rural environment and maintaining food security, according to a key policy document issued yesterday.

The "No. 1 document," issued every January by the Party's Central Committee and the State Council, has focused on rural matters every year since 2004.

This year's document also focuses on the development of "modern agriculture" and lays out improvements in the way the countryside is governed.

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FACTBOX: China's 11 No.1 central documents on agriculture



English.news.cn | 2014-01-19 22:53:40 | Editor: yan

BEIJING, Jan. 19 (Xinhua) -- The Chinese government on Sunday unveiled its first policy document for 2014, underscoring more rural reforms and planning the development of modern agriculture.

The No. 1 Central Document comes from the Central Committee of the Communist Party of China and the State Council, the Cabinet.

China will improve the mechanisms for safeguarding food security, seek sustainable agricultural growth while balancing rural and urban development, deepening rural land reforms and promoting financial support for rural areas, the document said.

This is the 11th consecutive year that the No. 1 document has focused on rural issues. The 10 previous documents were as follows:

-- The No. 1 Central Document issued on Jan. 31, 2013, put the theme on "speeding up the modernization of agriculture and further strengthening the vitality of rural growth."

It listed ensuring grain security and supplies of major farm produce as the top priority in developing modern agriculture.

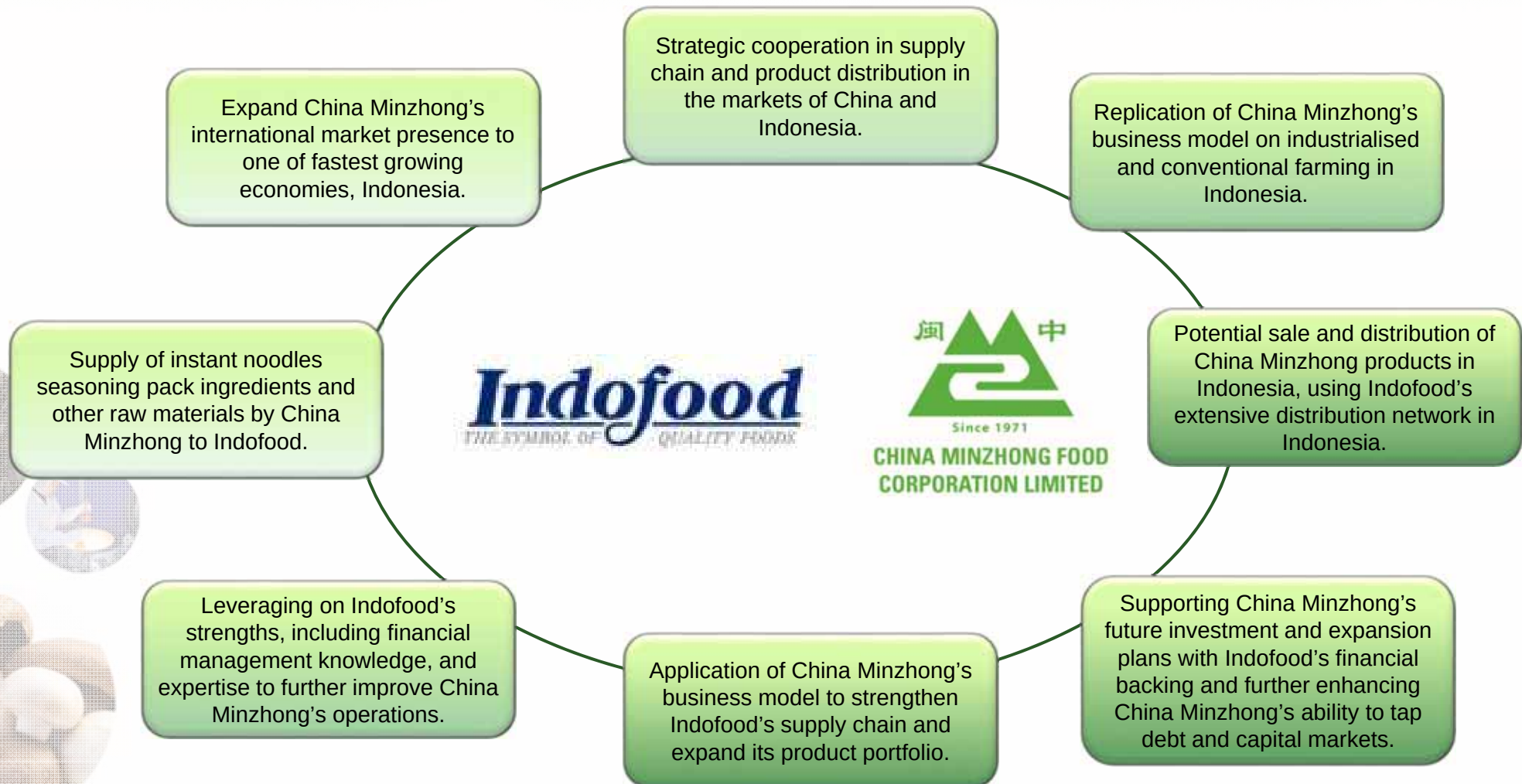
Policies to speed up the transfer of rural land and offer more subsidies to family farms and farmer's cooperatives were promised, in an effort to develop large-scale farming.

-- The No. 1 Central Document issued on Feb. 1, 2012, took "accelerating the scientific and technological innovation to strengthen supply of agricultural products" as its theme.

Sources: www.china.org.cn; xinhua net;

Strategic investment by Indofood

Indofood considers China Minzhong's business to be strategically complementary to Indofood's business and that various opportunities exist for strategic integration and synergies, including:



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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