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CHINA MINZHONG FOOD
CORPORATION LIMITED

China Minzhong

Earnings Presentation 1QFY2015
30 October 2014



Agenda

Financial Performance Review

Outlook & Growth Strategies



Income Statement Highlights

Financial Summary (Profitability)			
(RMB'million)	3 months ended 30 Sept		
	1QFY15	1QFY14	% Change
Revenue	487.0	637.8	(23.6%)
Cost of sales	(359.1)	(469.4)	(23.5%)
Gross Profit	127.9	168.4	(24.1%)
<i>Gross profit margin</i>	26.3%	26.4%	(0.1ppt)
Other income	48.5	10.8	> 100%
Selling and distribution expenses	(25.3)	(70.0)	(63.8%)
Administrative expenses	(37.0)	(35.4)	4.5%
Other expenses	(8.8)	(11.1)	(20.8%)
Finance cost	(31.6)	(12.7)	>100%
Profit before income tax (PBT)	73.7	50.0	47.5%
<i>PBT margin</i>	15.1%	7.8%	7.3ppt
Income tax	(16.3)	(1.6)	>100%
Net profit	57.4	48.4	18.7%
<i>Net income margin</i>	11.8%	7.6%	4.2ppt
EBITDA⁽¹⁾	147.2	123.9	18.8%
<i>EBITDA margin⁽¹⁾</i>	30.2%	19.4%	10.8ppt

Footnote:

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

Notes on Income Statement (1st Quarter Analysis)

□ Revenue

✓ Revenue decreased by 23.6% to RMB487.0 million. This is mainly due to decreases in sales of RMB53.8 million in the processed business segment and RMB165.3 million in the cultivation business segment, but partly offset by increase in sales of RMB68.3 million in the branded business segment.

□ Gross profit and margin

✓ Gross profit declined by 24.1% to RMB127.9 million and overall gross margin maintained stable at 26.3% (1QFY14: 26.4%)

□ Other income

✓ Other income of RMB48.5 million, comprised mainly of interest income of RMB24.8 million and rental income from leasing farmlands to third parties amounting to RMB13.6 million.

□ Selling & distribution expenses

✓ Selling & distribution expenses decreased by 63.8% (or RMB44.7 million) to RMB25.3 million, mainly due to a decrease in marketing and advertising expenses of RMB46.5 million for our branded products domestically.

□ Administrative expenses

✓ Administrative expenses remained relatively constant at RMB37.0 million (1QFY14: RMB35.4 million)

✓ Other expenses

✓ Other expenses, net totalling RMB8.8 million comprise mainly of rental expenses of RMB11.2 million, but partly offset by exchange gain of RMB2.4 million.

□ Finance cost

✓ Finance cost increased by RMB18.9 million to RMB31.6 million, on the back of a rise in bank borrowings.

□ Income tax

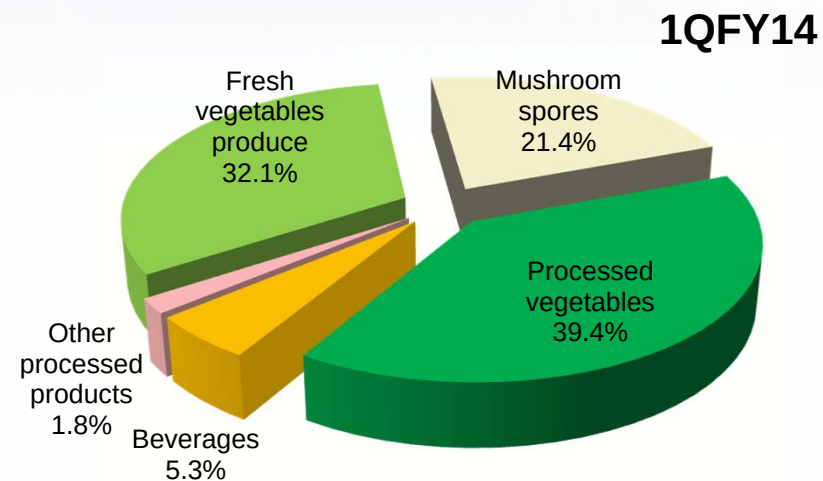
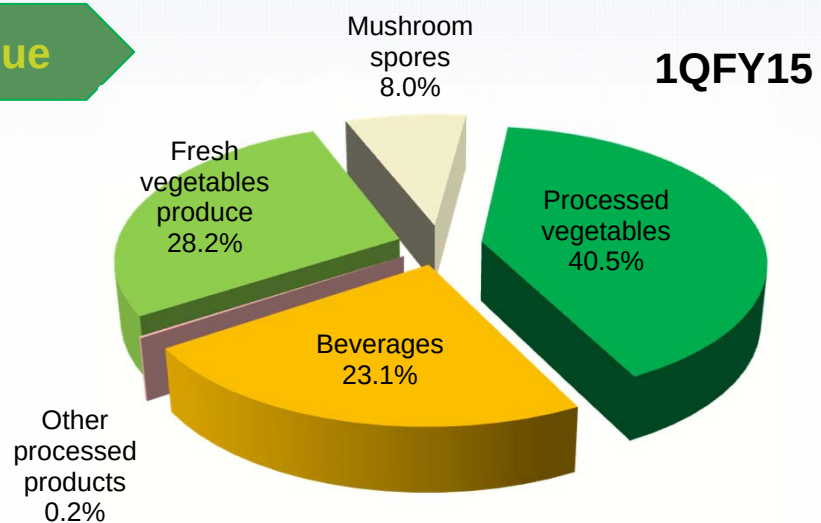
✓ Income tax expense increased by RMB14.7 million to RMB16.3 million. Fresh vegetables produce and certain categories of processed vegetables (eg. fresh-packed products) are exempted from income tax in PRC. In 1QFY15, the Group sold a higher proportion of products which are taxable (eg. processed vegetables and branded products).

Revenue and Gross Profit breakdown across business segments

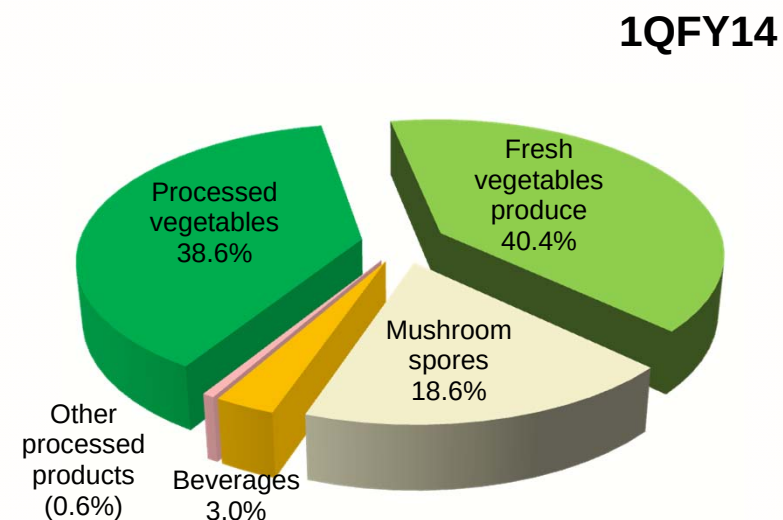
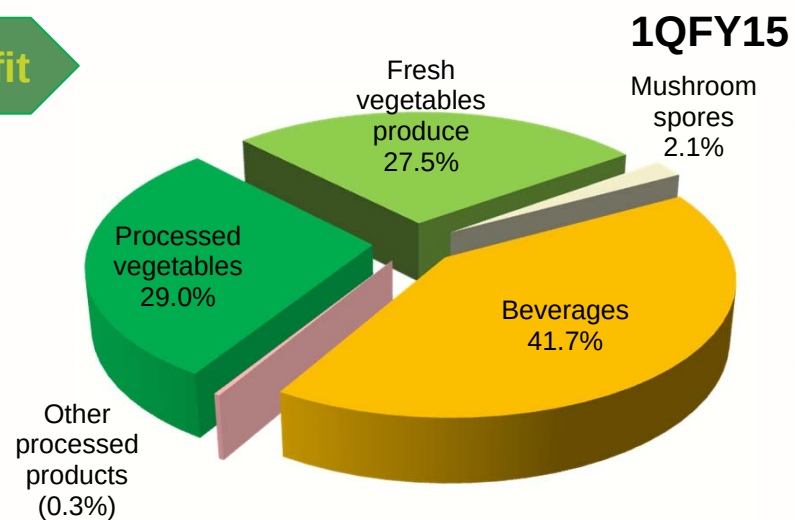
(RMB'million)	3 months ended 30 Sep		
	1QFY15	1QFY14	% Change
Revenue	487.0	637.8	(23.6%)
Processed Business Segment	197.2	251.0	(21.4%)
Processed vegetables	197.2	251.0	(21.4%)
Cultivation Business Segment	176.4	341.7	(48.4%)
Fresh vegetables produce	137.4	204.8	(32.9%)
Mushroom spores	39.0	136.9	(71.5%)
Branded Business Segment	113.4	45.1	> 100%
Beverages	112.3	33.6	> 100%
Others	1.1	11.5	(90.4%)
Gross Profit	127.9	168.4	(24.1%)
Processed Business Segment	37.1	65.0	(42.9%)
Processed vegetables	37.1	65.0	(42.9%)
Cultivation Business Segment	37.9	99.4	(61.9%)
Fresh vegetables produce	35.2	68.0	(48.2%)
Mushroom spores	2.7	31.4	(91.4%)
Branded Business Segment	52.9	4.0	> 100%
Beverages	53.3	5.0	> 100%
Others	(0.4)	(1.0)	(60.0%)
Gross Margin	26.3%	26.4%	(0.1ppt)
Processed Business Segment	18.8%	25.9%	(7.1ppt)
Processed vegetables	18.8%	25.9%	(7.1ppt)
Cultivation Business Segment	21.5%	29.1%	(7.6ppt)
Fresh vegetables produce	25.6%	33.2%	(7.6ppt)
Mushroom spores	6.9%	22.9%	(16.0ppt)
Branded Business Segment	46.6%	8.9%	37.7ppt
Beverages	47.4%	14.9%	32.5ppt
Others	N.A.	N.A.	N.A.

Segmental Revenue by Proportion

Revenue



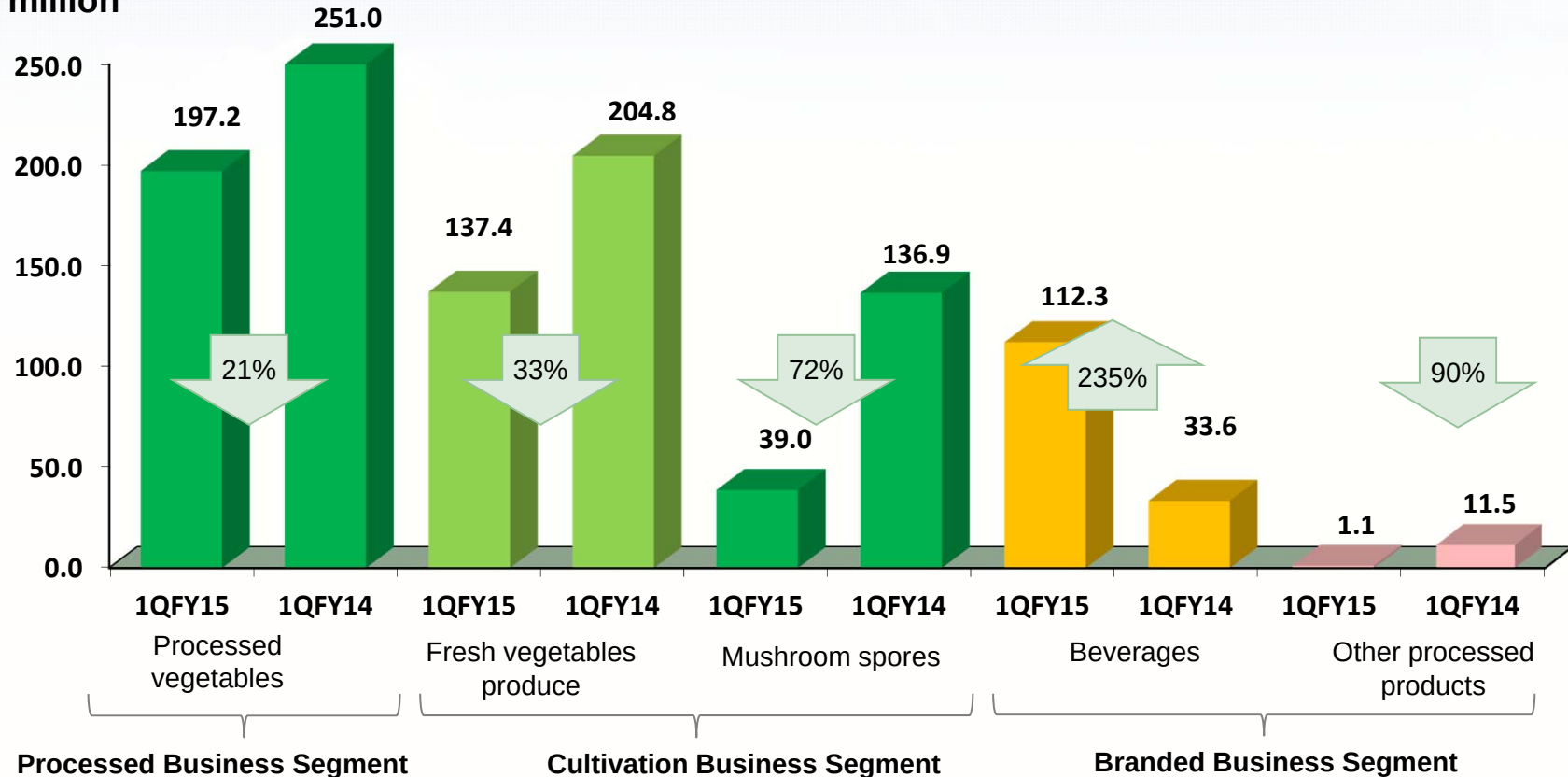
Gross Profit



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

Revenue breakdown across segments

RMB' million



■ Processed vegetables:

- ✓ Revenue from processed vegetables declined 21%, mainly due to a decline in sales volume as a result of raw materials shortage for vegetables processing and a decline in ASP due to a change in product mix.

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

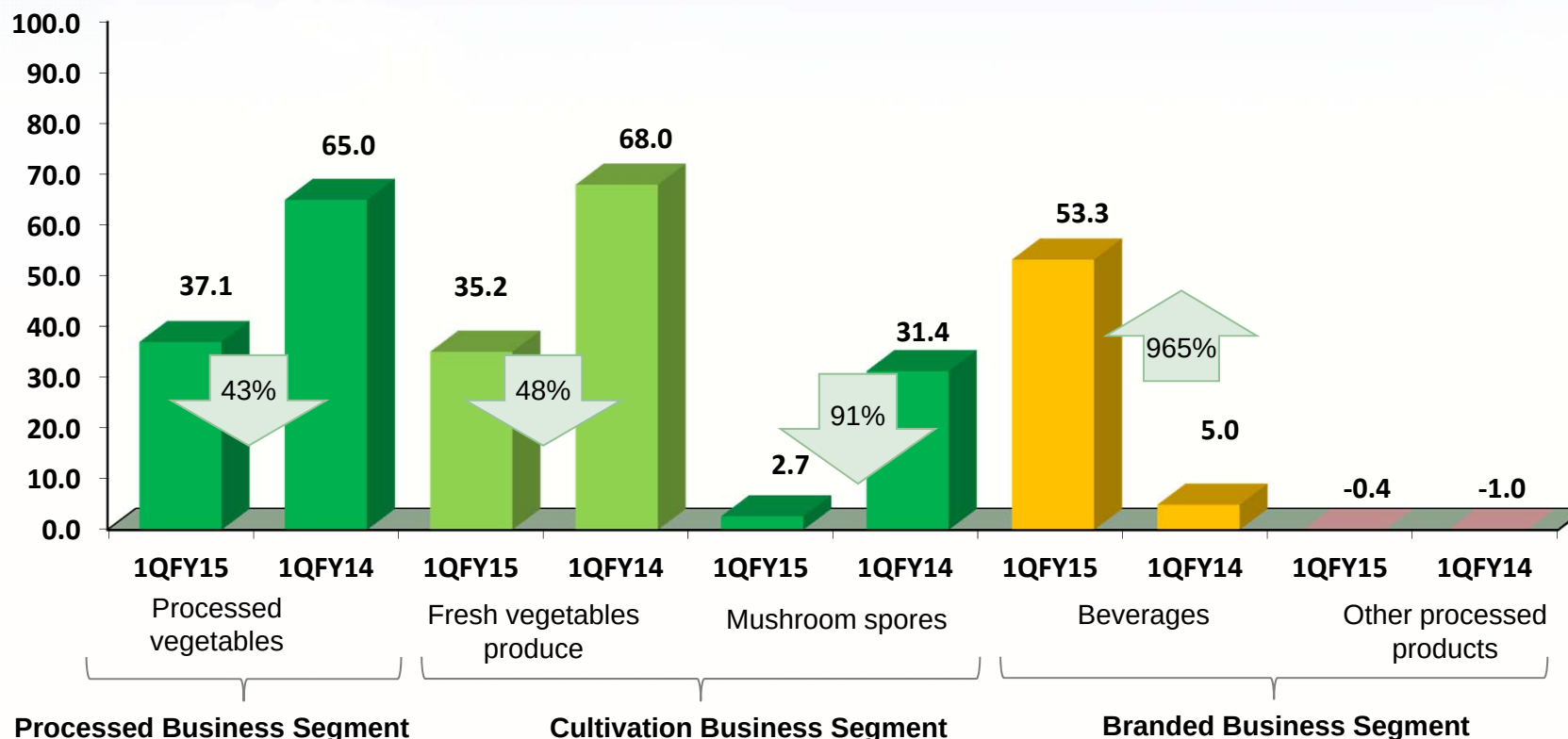
- ✓ Revenue from fresh vegetables produce declined 33%, due to a decrease in sales volume due to lesser availability of rural labour.
- ✓ Mushroom spores sales declined 72%, mainly due to timing differences in the trading activities, which typically occur during 1Q and 2Q.

■ Branded business (Beverages, other processed products):

- ✓ Revenue from beverages increased 235%, underpinned by a 225% surge in sales volume from 16.6 million units to 53.6 million units through an expansion of distribution channels and successful brand building efforts.

Gross profit breakdown across segments

RMB' million



■ Processed vegetables:

- ✓ Gross profit from processed vegetables decreased by 43%, while gross margin declined by 7.1ppt to 18.8% (1QFY14: 25.9%) due to increases in raw material costs.

■ Cultivation business (Fresh vegetables produce):

- ✓ Gross profit for cultivation business declined 48% while gross margin slipped 7.6ppt to 25.6% on rising labour costs.

■ Branded business (Beverages):

- ✓ Gross profit from beverages grew 965% while gross margin improved 32.5ppt to 47.4% (1QFY14: 14.9%) due to lower unit fixed costs as production volume increased.

ASP and Sales Volume Breakdown

	1QFY15 ASP/ RMB per kg	1QFY14 ASP/ RMB per kg	% Change	1QFY15 Sales volume/ '000 tonnes	1QFY14 Sales volume/ '000 tonnes	% Change
Processed vegetables ⁽¹⁾	28.56	32.57	(12.3%)	6.9	7.7	(10.4%)
Fresh vegetables produce	3.18	2.93	8.5%	43.3	70.0	(38.2%)

⁽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 due to a shortage of raw materials for vegetables processing.
- ✓ Decrease in average selling prices due to a change in product mix.

Fresh vegetables produce

- ✓ Decline in sales volume due to shortage of rural labour for cultivation activities.
- ✓ Increase in ASP due to an improved product mix.

Financial Summary

Balance Sheet (Key Highlights)			
(RMB'million)	As at 30 Sep 2014 (unaudited)	As at 30 June 2014 (audited)	% Change
Total Assets	7,243.4	7,021.9	3.2%
Non-current assets	2,837.4	2,934.0	(3.3%)
Property, plant and equipment	2,108.8	2,130.4	(1.0%)
Land use rights	133.8	134.7	(0.7%)
Land improvement costs	146.4	175.2	(16.4%)
Operating lease prepayments	283.6	328.8	(13.7%)
Current assets	4,406.0	4,087.9	7.8%
Inventories	122.6	106.6	15.0%
Trade receivables	369.1	476.6	(22.6%)
Other receivables and prepayments	138.2	149.9	(7.8%)
Cash and bank balances	3,685.8	3,267.4	12.8%
Total Liabilities	2,082.3	1,802.1	15.5%
Non-current liabilities	955.5	976.3	(2.1%)
Government grants	17.8	18.5	(3.8%)
Bank term loans	904.9	903.6	0.1%
Current liabilities	1,126.8	825.9	36.4%
Trade Payables	179.3	103.5	73.3%
Bank term loans	782.7	593.7	31.8%
Other payables and accruals	159.3	124.6	27.8%
Shareholders' equity	5,161.2	5,219.8	(1.1%)
Net Assets Value per share (RMB)	7.87	7.96	(1.1%)

Notes to Balance Sheet

Assets

- ❑ Property, plant and equipment (“PPE”) as at 30 September 2014 remained relatively constant at RMB2.1 billion, compared to PPE as at 30 June 2014.
- ❑ Land improvement costs and operating lease prepayments decline, due to disposal and the result of depreciation and amortization expenses.
- ❑ Inventory level increased from RMB106.6 million to RMB122.6 million, as the Group scaled up the operations for its beverage business.
- ❑ Trade receivables level declined from RMB476.6 million to RMB369.1 million, on the back of prompt receivables collection.
- ❑ Other receivables and prepayments, comprising mainly advances to suppliers for raw material purchases, declined from RMB149.9 million to RMB138.2 million
- ❑ Cash and bank balances improved from RMB3.3 billion as at 30 June 2014 to RMB3.7 billion as at 30 September 2014.

Liabilities

- ❑ Long term bank borrowings (term loan facility entered last year) remained relatively stable at RMB904.9 million.
- ❑ Increase in short term bank borrowings from RMB593.7 million to RMB782.7 million.
- ❑ Increase in trade payables from RMB103.5 million to RMB179.3 million, on the back of raw material purchases in preparation for the peak season ahead.
- ❑ Other payables and accruals increased from RMB124.6 million to RMB159.3 million.

Financial Summary

Cash Flow Highlights			
	For 3 months ended 30 September		
(RMB'million)	1QFY15	1QFY14	% Change
Net cash from operating activities	344.3	507.0	(32.1%)
Net cash from/ (used in) investing activities	53.5	(26.0)	N.A.
Net cash from financing activities	24.9	269.1	(90.8%)
Net increase in cash and cash equivalents	422.7	750.1	(43.6%)
Cash and cash equivalents at beginning of financial period	3,267.4	785.2	>100%
Effect of exchange rate changes	(4.3)	(0.9)	N.A.
Pledged of bank balances	-	35.6	N.A.
Cash and cash equivalents at the end of financial period	3,685.8	1,570.0	>100%

- Net cash from operating activities amounting to RMB344.3 million, mainly comprised of cash generated from operating activities before changes in working capital of RMB144.8 million, and net working capital inflow of RMB207.2 million.
- Net cash generated from investing activities amounted to RMB53.5 million in 1QFY15, mainly due to proceeds from the disposal of operating lease prepayments of RMB44.0 million and refund from the purchase of land use rights of RMB15.0 million.
- Decline in net cash generated from financing activities from RMB269.1 million in 1QFY14 to RMB24.9 million in 1QFY15, mainly net proceeds from bank borrowings, offset by dividend paid.

Key Financial Indicators

Key Financial Indicators		
	12 months ended 30 Sep 2014	12 months ended 30 Jun 2014
	1QFY15 (unaudited)	FY14 (audited)
Working Capital Days		
Trade Receivable Turnover Days ^(1a)	74	99
Trade Payable Turnover Days ^(1b)	(42)	(38)
Inventory Turnover Days ^(1c)	28	25
Cash Conversion Days	60	86
Liquidity Ratios		
Total Cash and Cash Equivalents (RMB 'mil)	3,685.8	3,267.4
Total Debt (RMB 'mil)	1,687.5	1,497.3
Net Gearing Ratio ⁽²⁾	Net cash	Net cash
Current Ratio ⁽³⁾	3.9	4.9

- Cash conversion days improved from 86 days to 60 days, mainly due to an improvement in trade receivable turnover from 99 days to 74 days.

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

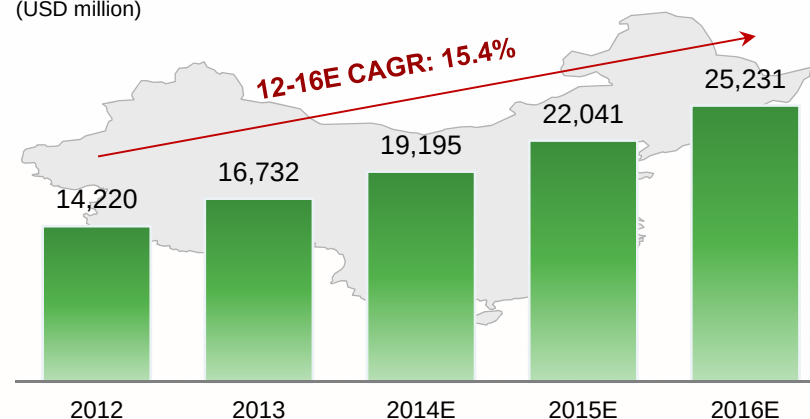
World's top producer of vegetables

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%

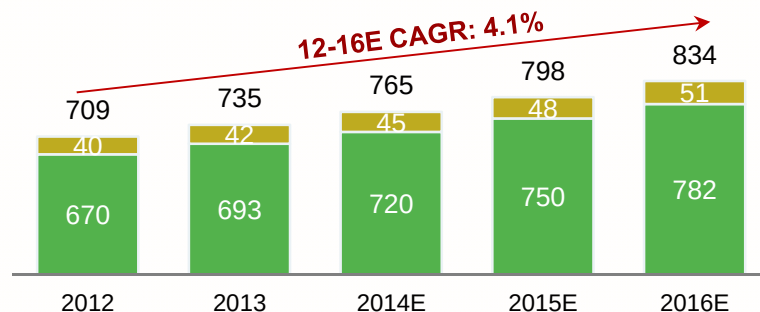
PRC vegetables export market poised for continued strong growth

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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