



Since 1971

CHINA MINZHONG FOOD  
CORPORATION LIMITED

# China Minzhong

Earnings Presentation FY2016  
11 August 2016



# Agenda

**Financial Performance Review**

Outlook & Growth Strategies



## Income Statement Highlights

### Financial Summary (Profitability)

	Full year ended 30 Jun			3 months ended 30 Jun		
	FY16	FY15 (Restated)	% Change	4Q FY16	4Q FY15 (Restated)	% Change
(RMB'million)						
<b>Revenue</b>	<b>1,822.5</b>	<b>1,971.1</b>	<b>(7.5%)</b>	<b>379.9</b>	<b>463.8</b>	<b>(18.1%)</b>
Cost of sales	(1,313.2)	(1,359.7)	(3.4%)	(278.8)	(286.4)	(2.7%)
<b>Gross Profit</b>	<b>509.3</b>	<b>611.4</b>	<b>(16.7%)</b>	<b>101.1</b>	<b>177.4</b>	<b>(43.0%)</b>
<i>Gross profit margin</i>	27.9%	31.0%		26.6%	38.3%	
Other income	202.5	209.0	(3.1%)	60.8	55.3	10.0%
Selling and distribution expenses	(39.0)	(83.5)	(53.3%)	(8.2)	(9.7)	(15.0%)
Administrative expenses	(170.6)	(158.8)	7.5%	(36.7)	(36.1)	1.7%
Other expenses	(189.0)	(59.0)	>100%	(58.8)	(31.9)	84.0%
Finance cost	(149.7)	(100.8)	48.5%	(26.2)	(18.4)	42.6%
<b>Profit before income tax (PBT)</b>	<b>163.5</b>	<b>418.3</b>	<b>(60.9%)</b>	<b>32.0</b>	<b>136.6</b>	<b>(76.6%)</b>
<i>PBT margin</i>	9.0%	20.4%		8.4%	29.4%	
Income tax	(30.7)	(81.9)	(62.6%)	8.0	(42.0)	nm
<b>Net profit</b>	<b>132.8</b>	<b>336.4</b>	<b>(60.5%)</b>	<b>40.0</b>	<b>94.6</b>	<b>(57.7%)</b>
<i>Net income margin</i>	7.3%	17.1%		10.5%	20.4%	

Footnote:

nm Not meaningful

## Notes on Income Statement (Full year analysis)

### □ Revenue

✓ Revenue for FY2016 decreased by 7.5% or RMB148.6 million, to RMB1,822.5 million (FY2015: RMB1,971.1 million). This was mainly due to a decrease in sales of RMB39.6 million from the cultivation business segment and RMB156.8 million from the branded business segment offset by increased in sales of RMB47.8 million from the processed business segment.

### □ Gross profit and margin

✓ Gross profit for FY2016 decreased by 16.7% or RMB102.1 million, to RMB509.3 million (FY2015: RMB611.4 million), Overall gross profit margin for decreased by 3.1ppt to 27.9% (FY2015: 31.0%).

### □ Other income

✓ Other income for FY2016 remains relatively stable at RMB202.5 million (FY2015: RMB209.0 million).

### □ Selling & distribution expenses

✓ For FY2016, selling and distribution expenses decreased by 53.3% or RMB44.5 million, to RMB39.0 million (FY2015: RMB83.5 million), mainly due to decrease in marketing and advertising expenses of RMB23.4 million and salaries of RMB9.4 million.

### □ Administrative expenses

✓ Administrative expenses in FY2016 have increased by 7.5% to RMB170.6 million (FY2015: RMB158.8 million), mainly due to increase in professional fees of RMB4.9 million and repair & maintenance costs of RMB4.3 million.

### □ Other expenses

✓ For FY2016, other expenses have increased by RMB130.0 million to RMB189.0 million (FY2015: RMB59.0 million), mainly due to increase in currency exchange loss of RMB118.2 million.

### □ Finance cost

✓ The increase in finance cost of RMB48.9 million for FY2016 is mainly due to increased borrowings.

### □ Income tax

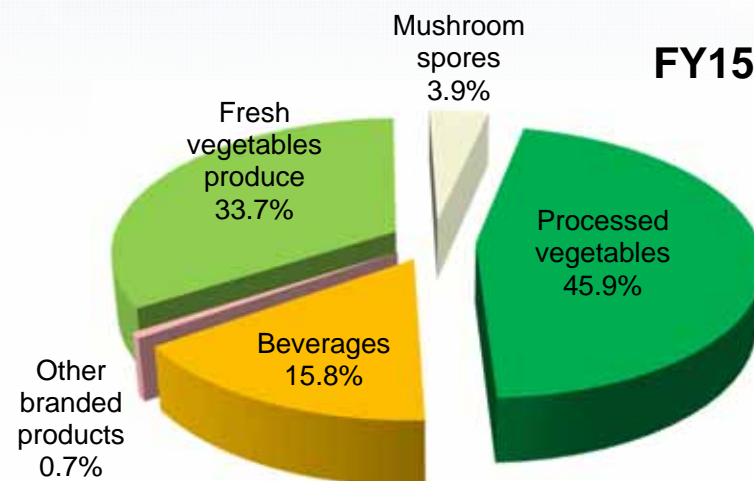
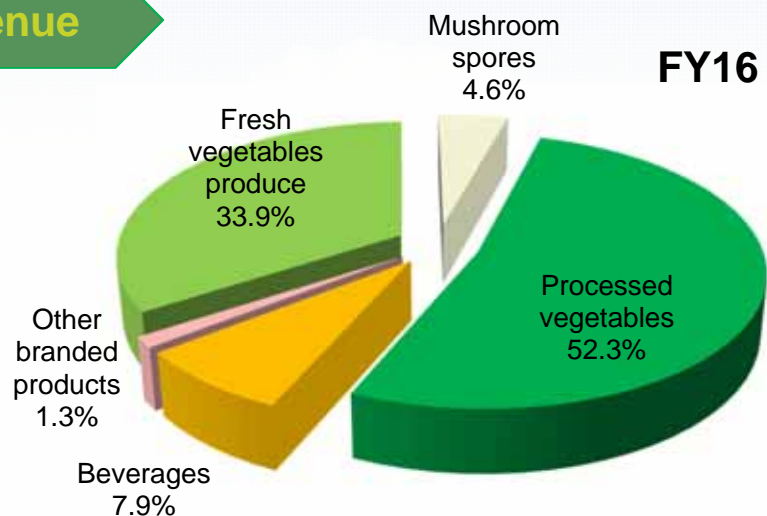
✓ For FY2016, income tax decreased by 62.6% was in tandem with the decrease in profit before income tax.

## Revenue and Gross Profit breakdown across business segments

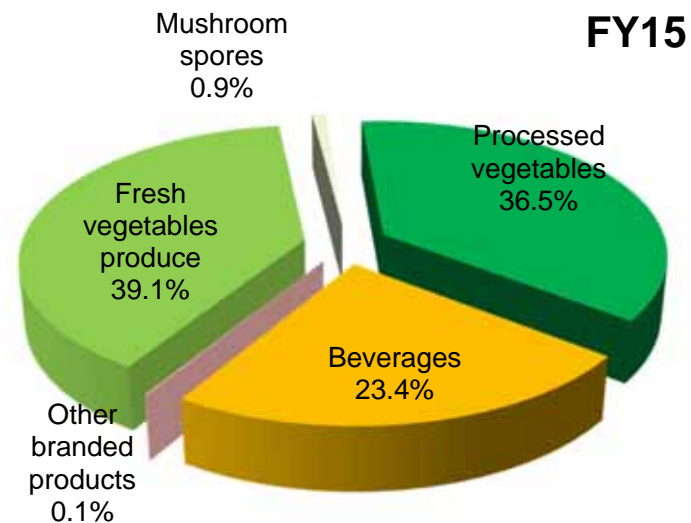
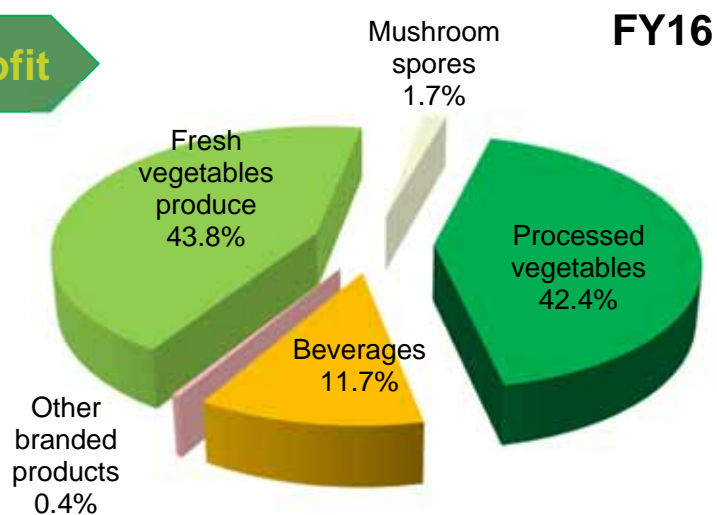
(RMB'million)	Full year ended 30 Jun			3 months ended 30 Jun		
	FY16	FY15	% Change	4Q FY16	4Q FY15	% Change
<b>Revenue</b>	<b>1,822.5</b>	<b>1,971.1</b>	<b>(7.5%)</b>	<b>379.9</b>	<b>463.8</b>	<b>(18.1%)</b>
<b>Processed Business Segment</b>	<b>952.6</b>	<b>904.8</b>	<b>5.3%</b>	<b>225.9</b>	<b>191.1</b>	<b>18.2%</b>
Processed vegetables	952.6	904.8	5.3%	225.9	191.1	18.2%
<b>Cultivation Business Segment</b>	<b>701.3</b>	<b>740.9</b>	<b>(5.3%)</b>	<b>132.4</b>	<b>172.5</b>	<b>(23.3%)</b>
Fresh vegetables produce	617.7	663.6	(6.9%)	132.4	172.5	(23.3%)
Mushroom spores	83.6	77.3	8.2%	-	-	n.a.
<b>Branded Business Segment</b>	<b>168.6</b>	<b>325.4</b>	<b>(48.2%)</b>	<b>21.6</b>	<b>100.2</b>	<b>(78.4%)</b>
Beverages	143.8	312.3	(54.0%)	18.4	97.6	(81.2%)
Others	24.8	13.1	89.9%	3.2	2.6	26.4%
<b>Gross Profit</b>	<b>509.3</b>	<b>611.4</b>	<b>(16.7%)</b>	<b>101.1</b>	<b>177.4</b>	<b>(43.0%)</b>
<b>Processed Business Segment</b>	<b>215.8</b>	<b>222.8</b>	<b>(3.1%)</b>	<b>50.7</b>	<b>60.2</b>	<b>(15.9%)</b>
Processed vegetables	215.8	222.8	(3.1%)	50.7	60.2	(15.9%)
<b>Cultivation Business Segment</b>	<b>231.8</b>	<b>244.8</b>	<b>(5.3%)</b>	<b>43.2</b>	<b>70.7</b>	<b>(38.9%)</b>
Fresh vegetables produce	223.3	239.2	(6.6%)	43.2	70.7	(38.9%)
Mushroom spores	8.5	5.6	51.4%	-	-	n.a.
<b>Branded Business Segment</b>	<b>61.7</b>	<b>143.8</b>	<b>(57.1%)</b>	<b>7.2</b>	<b>46.5</b>	<b>(84.3%)</b>
Beverages	59.7	143.3	(58.3%)	6.6	46.3	(85.7%)
Others	2.0	0.5	>100%	0.6	0.2	>100%
<b>Gross Margin</b>	<b>27.9%</b>	<b>31.0%</b>	<b>(3.1ppt)</b>	<b>26.6%</b>	<b>38.3%</b>	<b>(11.7ppt)</b>
<b>Processed Business Segment</b>	<b>22.7%</b>	<b>24.6%</b>	<b>(1.9ppt)</b>	<b>22.4%</b>	<b>31.5%</b>	<b>(9.1ppt)</b>
Processed vegetables	22.7%	24.6%	(1.9ppt)	22.4%	31.5%	(9.1ppt)
<b>Cultivation Business Segment</b>	<b>33.0%</b>	<b>33.0%</b>	<b>-</b>	<b>32.6%</b>	<b>41.0%</b>	<b>(8.4ppt)</b>
Fresh vegetables produce	36.2%	36.0%	0.2ppt	32.6%	41.0%	(8.4ppt)
Mushroom spores	10.1%	7.2%	2.9ppt	-	-	n.a.
<b>Branded Business Segment</b>	<b>36.6%</b>	<b>44.2%</b>	<b>(7.6ppt)</b>	<b>33.7%</b>	<b>46.4%</b>	<b>(12.7ppt)</b>
Beverages	41.5%	45.9%	(4.4ppt)	35.9%	47.4%	(11.5ppt)
Others	8.0%	4.0%	4.0ppt	21.2%	9.0%	12.2ppt

# Segmental Revenue by Proportion

## Revenue



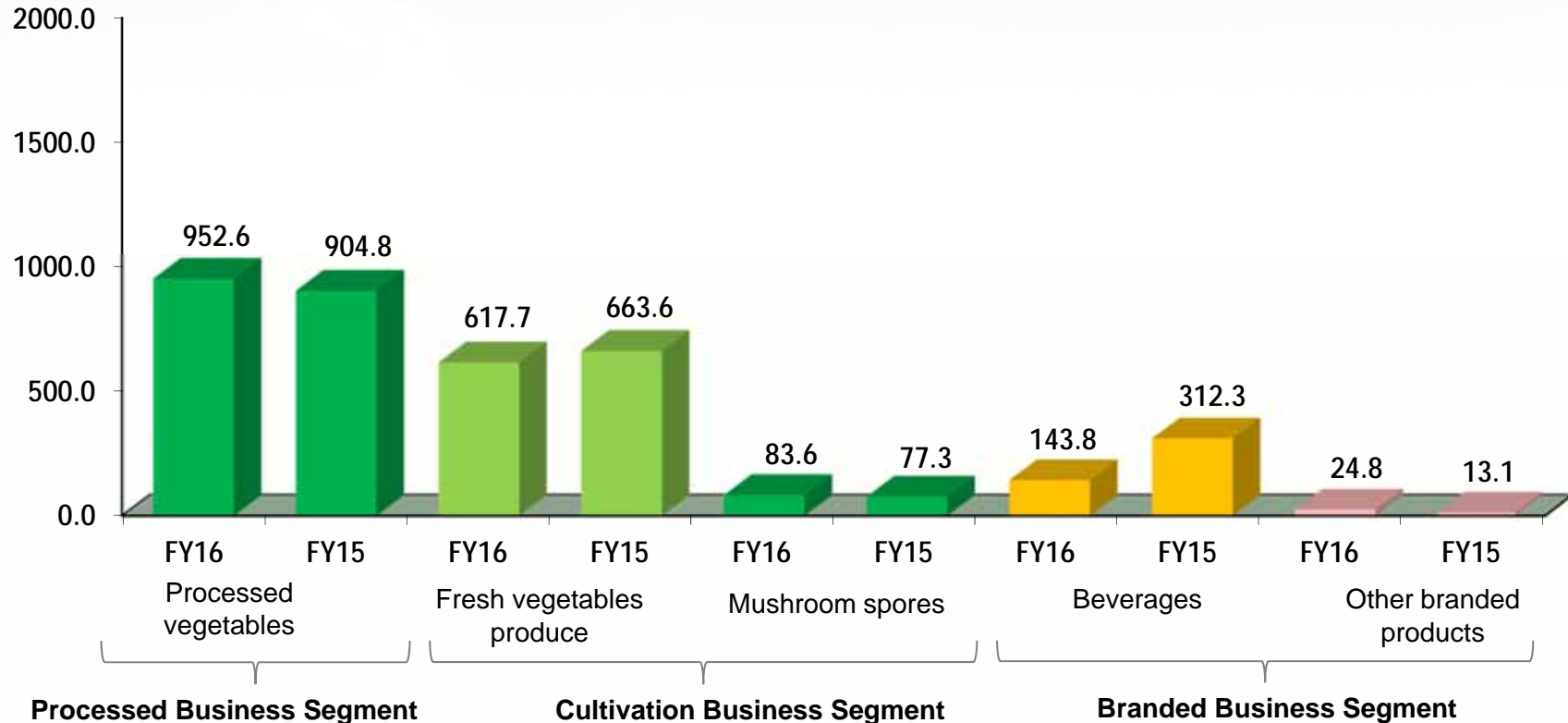
## Gross Profit



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 increased by 5.3% was primarily due to increase in average selling price by 12.4%, offset by a decrease in sales volume by 6.3%. The weakened demand for processed products was primarily due to higher selling price arising from higher raw materials cost for vegetables processing.

### ■ Cultivation business (Fresh vegetables produce):

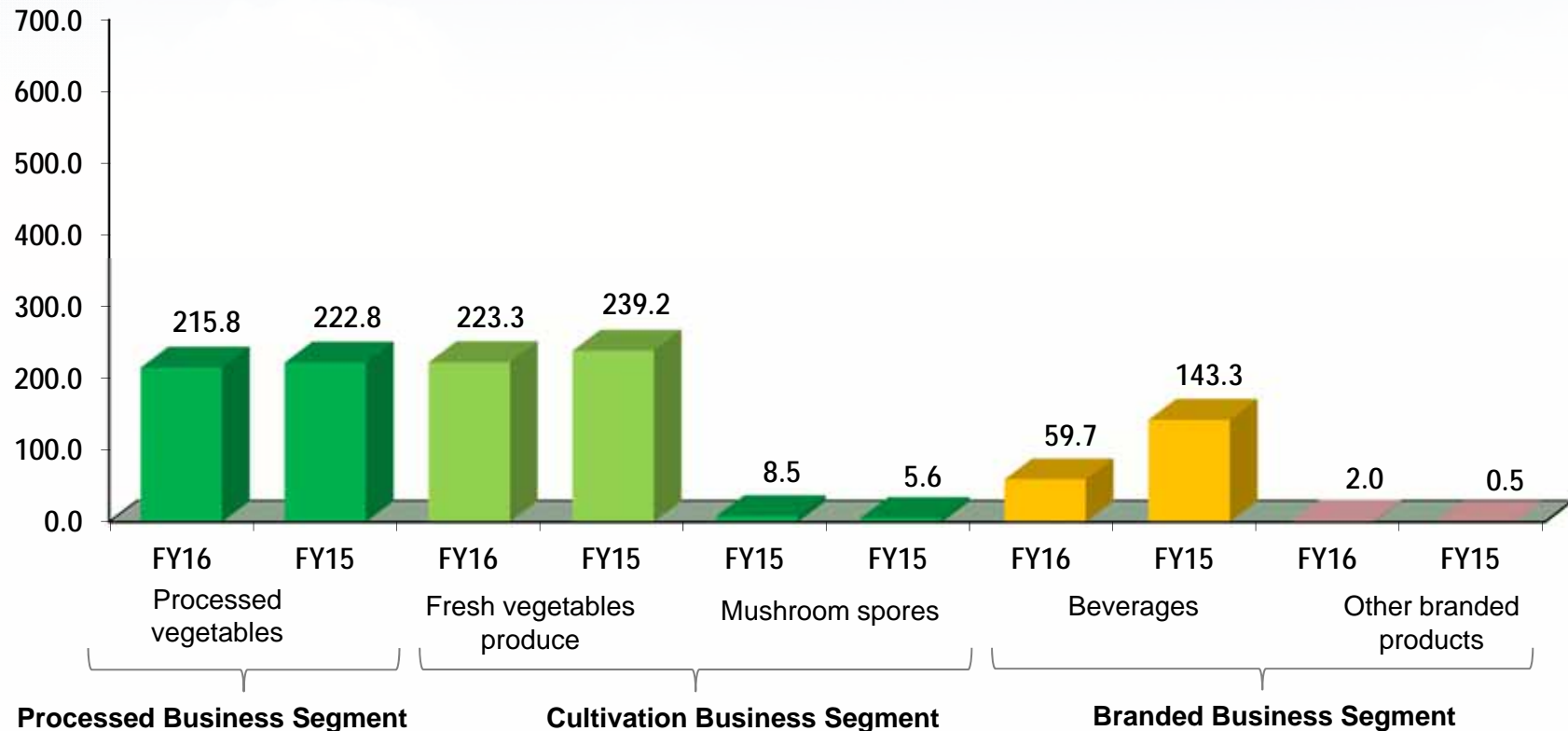
- ✓ Revenue from the sales of fresh vegetables decreased by 6.9% from RMB663.7 million to RMB617.7 million mainly due to decline in sales volume by 15.6% offset by an increase in average selling price by 10.3%.

### ■ Branded business (Beverages):

- ✓ Revenue from beverage business decreased by RMB168.6 million to RMB143.8 million primarily due to the slowdown of the economy and re-focusing of our corporate strategy to the core business.

## Gross profit breakdown across segments

RMB' million



### ■ Processed vegetables:

- ✓ Gross profit of processed business segment remains relatively constant at RMB215.8 million (FY2015: RMB222.8 million) while gross profit margin for processed business segment decreased by 1.9ppt to 22.7% (FY2015: 24.6%), primarily due to an increase in raw materials costs.

### ■ Cultivation business (Fresh vegetables produce):

- ✓ Gross profit margin for cultivation business segment remains constant at 33.0%.

### ■ Branded business (Beverages, other branded products):

- ✓ Gross profit from beverage business decreased by 58.3% to RMB59.7 million (FY2015: RMB143.2 million) in tandem with the decrease in revenue.



## ASP and Sales Volume Breakdown

	FY16 ASP/ RMB per kg	FY15 ASP/ RMB per kg	% Change	FY16 Sales volume/ '000 tonnes	FY15 Sales volume/ '000 tonnes	% Change
Processed vegetables <sup>(1)</sup>	44.72	39.78	12.4%	21.3	22.7	(6.3%)
Fresh vegetables produce	3.60	3.27	10.3%	171.4	203.1	(15.6%)

<sup>(1)</sup> 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.
- ✓ ASP increase by 12.4%

### Fresh vegetables produce

- ✓ Decline in sales volume on the back of lesser cultivation activities.
- ✓ ASP increase by 10.3%

## Financial Summary

### Balance Sheet (Key Highlights)

(RMB'million)	As at 30 June 2016	As at 30 June 2015 (restated)	% Change
<b>Total Assets</b>	<b>7,516.8</b>	<b>7,476.4</b>	<b>0.5%</b>
Non-current assets	2,717.1	2,513.1	8.1%
Property, plant and equipment	2,178.6	2,019.8	7.9%
Land use rights	128.4	131.5	(2.4%)
Land improvement costs	122.8	88.1	39.3%
Operating lease prepayments	193.1	241.6	(20.1%)
Current assets	4,799.7	4,963.3	(3.3%)
Inventories	37.9	61.5	(38.4%)
Trade receivables	209.4	421.1	(50.3%)
Other receivables and prepayments	93.4	136.1	(31.3%)
Cash and bank balances	4,373.6	4,261.9	2.6%
<b>Total Liabilities</b>	<b>2,211.2</b>	<b>2,359.5</b>	<b>(6.3%)</b>
Non-current liabilities	745.2	872.0	(14.5%)
Government grants	12.9	15.9	(18.9%)
Bank term loans	687.3	810.8	(15.2%)
Current liabilities	1,466.0	1,487.5	(1.4%)
Trade Payables	87.3	212.6	(58.9%)
Bank term loans	1,131.1	944.4	19.8%
Other payables and accruals	234.0	320.8	(27.1%)
<b>Shareholders' equity</b>	<b>5,302.6</b>	<b>5,116.9</b>	<b>3.6%</b>
<b>Net Assets Value per share (RMB)</b>	<b>8.09</b>	<b>7.80</b>	<b>3.6%</b>

## Notes to Balance Sheet

### Assets

- Total non-current assets of RMB2,717.1 million was 8.1% or RMB204.0 million higher than 30 June 2015. The increase was principally attributable to additions to property, plant and equipment and land improvement costs, partly offset by depreciation and amortisation of assets.
- Current assets decreased by approximately 3.3% or RMB163.6 million to RMB4,799.7 million (30 June 2015: RMB4,963.3 million), mainly due to decrease in trade and other receivables of RMB254.4 million offset by the increase in cash and bank balances of RMB111.7 million.

### Liabilities

- As at 30 June 2016, total liabilities of RMB2,214.2 million were approximately RMB145.3 million or 6.3% lower than RMB2,359.5 million at 30 June 2015. The decrease is mainly due decrease in trade and other payables of RMB212.1 million offset by increase in RMB63.2 million of bank term loans.

## Financial Summary

### Cash Flow Highlights

(RMB'million)	For full year ended 30 Jun			For 3 months ended 30 Jun		
	FY16	FY15 (Restated)	% Change	4QFY16	4QFY15 (Restated)	% Change
Net cash from operating activities	667.1	866.8	(23.0%)	305.4	188.3	62.2%
Net cash (used in) / generated from investing activities	(374.1)	76.3	n.a.	(107.0)	19.3	n.a.
Net cash (used in) / generated from financing activities	(181.3)	52.3	n.a.	(132.9)	12.8	n.a.
<b>Net increase in cash and cash equivalents</b>	<b>111.7</b>	<b>995.4</b>	<b>(88.8%)</b>	<b>65.5</b>	<b>220.4</b>	<b>(70.3%)</b>
<b>Cash and cash equivalents at beginning of financial period</b>	<b>4,261.9</b>	<b>3,267.4</b>	<b>30.4%</b>	<b>4,308.1</b>	<b>4,040.4</b>	<b>6.6%</b>
Effect of exchange rate changes in cash and cash equivalents	-	(0.9)	n.a.	-	1.1	n.a.
<b>Cash and cash equivalents at the end of financial year</b>	<b>4,373.6</b>	<b>4,261.9</b>	<b>2.6%</b>	<b>4,373.6</b>	<b>4,261.9</b>	<b>2.6%</b>

- The Group generated net cash from operating activities of RMB667.1 million in FY2016, compared to RMB866.8 million in FY2015. For FY2016, the decline was mainly due to lower operating profit in FY2016.
- Net cash used in investing activities for FY2016 was RMB374.1 million. This comprise principally capital expenditure relating to additions of property, plant and equipment and land improvements costs.
- Net cash used in financing activities for FY2016 was RMB181.3 million, due to interest payment and net repayment of bank term loans

# Agenda

Financial Performance Review




**Outlook & Growth Strategies**



# Favorable industry conditions and strong government support

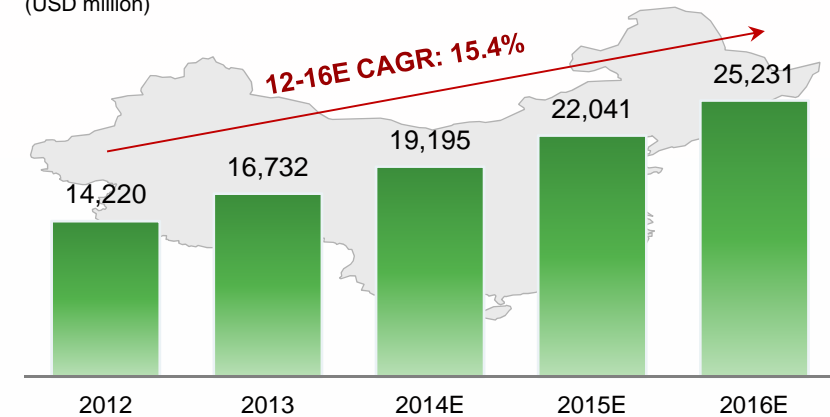
## World's top producer of vegetables

Estimated breakdown of production volume of fresh vegetables produce and processed vegetables by nations (2011)

Country	Production (million MT)	Share of global production
<b>1. China</b> 	<b>677.0</b>	<b>56.3%</b>
2. India 	125.5	10.4%
3. US 	38.4	3.2%

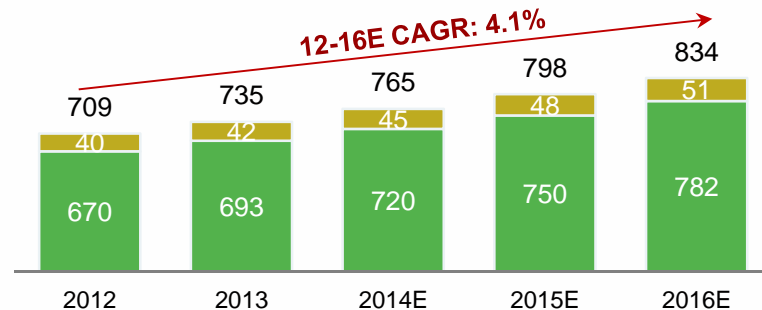
## PRC vegetables export market poised for continued strong growth

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

# PRC government's supportive initiatives

## PRC's 12<sup>th</sup> 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 12<sup>th</sup> Five Year Plan; equity research reports

## PRC's No. 1 Central Document focuses on agriculture for 12<sup>th</sup> consecutive year



The screenshot shows the official website of the Ministry of Agriculture of the People's Republic of China. At the top left is the national emblem of China. To its right, the text reads "MINISTRY OF AGRICULTURE OF THE PEOPLE'S REPUBLIC OF CHINA". Below this is a red navigation bar with white text for "Home", "About MOA", "Overview", "Government Affairs", "Services", and "International Cooperation". A secondary navigation bar below it features a link for "2016-01-28 Wholesal" followed by "More>>". At the bottom of the screenshot, a breadcrumb trail indicates "The Current Position : Home>>Recent Stories".

### 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

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