



中国中纺集团公司



Chinatex & Olam

Strategic Partnership in Cotton and Oilseeds Business in China

Investor Presentation

7 February 2007

Singapore



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Team Introduction

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Presentation Outline

❖ Partnership Overview

❖ About Chinatex

❖ Investment Rationale

❖ Olam's M&A Framework

❖ Q&A



❖ Partnership Overview



Partnership Overview: 2 JVs in Oilseeds & Domestic cotton

<p>Framework</p>	<p>Oilseeds JV</p> <ul style="list-style-type: none"> Acquisition by Olam of a 35% initial stake in Chinatex G&O (CTGO), a fully owned subsidiary of Chinatex Corporation Setting up of a sourcing subsidiary in Brazil Olam shall have the option of acquiring an additional 10% stake, within 2 years of setting up the Brazilian subsidiary, at a pre-agreed valuation <p>Domestic Cotton JV</p> <ul style="list-style-type: none"> Chinatex & Olam to set up a 50/50 JV in China for sourcing, ginning, inland logistics, distribution and risk management for domestic cotton in China Preferential purchase agreement under which Olam shall endeavor to supply at least 30% of Chinatex's annual imports, on competitive basis
<p>Consideration</p>	<ul style="list-style-type: none"> US\$13.5m, in cash, for the initial 35% stake in Chinatex G&O US\$ 7-8 million (est.), in cash, for the incremental 10% stake
<p>Financing</p>	<ul style="list-style-type: none"> Acquisition to be funded through borrowings and internal accruals
<p>Timing</p>	<ul style="list-style-type: none"> Transaction closure expected to take around 6 months



Key terms of the Oilseeds joint venture

- ❖ **Board of Directors** : 8 member board (5 from Chinatex & 3 from Olam)
Olam to get an additional Board seat upon raising its stake to 45%
- ❖ **Management (China)**: Chinatex to nominate CFO, VP-Manufacturing and VP-Marketing
Olam to nominate CEO, Deputy CFO, VP-Projects, VP-Risk & VP-HR
- ❖ **Management (Brazil)**: Chinatex to nominate two representatives including the Deputy CFO
Olam to nominate the rest of the management team
- ❖ **Financing** : Capital investments to be funded/supported in proportion to shareholding

Chinatex to provide Working capital support for China operations upto a limit of RMB 2.6 billion (around US\$ 330 million) for 5 years, in the form of a shareholder guarantee of RMB 2.3 billion and shareholder loan of RMB 0.3 billion

Working capital in excess of RMB 2.6 billion for China operations & for Brazil operations to be funded/supported in proportion to shareholding
- ❖ **Others** : Chinatex & Olam to make their best efforts to list the JV within 5 years
Olam has the option to sell its stake to Chinatex at a fair value, 7 years after formation of the JV



➤ About Chinatex



About Chinatex: Business Profile

- ❖ A large and successful state-owned enterprise in China, amongst the Top 75 SoEs
- ❖ Chinatex has 2 core businesses operated through two SBUs:
 - ❖ **Chinatex Commodities SBU (CTC SBU)**
 - ❖ **Chinatex Apparel & Fabrics SBU (CTAF SBU)**
- ❖ **CTC SBU** has four main business divisions:
 - ❖ **Cotton Sourcing / Distribution / Ginning**
 - ❖ Largest player in China with total volumes handled of over 300,000 tons
 - ❖ **Grains & Edible Oil Import / Distribution / Crushing (CTGO)**
 - ❖ Top 5 importer of soybeans into China, with volumes of around 3.0 million tons
 - ❖ **Wool & Chemical Fibre**
 - ❖ Largest wool and acrylic player in China
 - ❖ **Textile manufacturing (Spinning & Weaving)**
 - ❖ Producer of the well known yarn brand “Chunjiang”, etc.
- ❖ **CTAF SBU** is a leading manufacturer of finished fabrics, knitwear, sweaters, woven jackets, shirts, suits & home furnishings, with seven factories spread across China
- ❖ Other non-core businesses include elevators & property (including part ownership of China World Trade Center & Grand Hyatt, Shanghai)

About Chinatex: Key Statistics

Particulars	Chinatex Group	CTGO	Cotton BU
Turnover (US\$ mil)			
2006:	1,866	1,000	500
2005:	1,956	945	390
Net Profit (US\$ mil)			
2006:	27.8	4.0	13.0
2005:	20.3	6.0	9.4
Employees (#s)			
2006:	10,415	365	59
2005:	9,845	205	52
Aggregate Volumes (tons)		(Soybean)	
2006:	-N.A-	2.86 million	318,000
2005:	-N.A-	3.09 million	270,000

✿ Investment Rationale
- Strategic Fit



Oilseeds (Soybean): Market Opportunity

	World	China
Production (mil tons)		
2005/06:	218.04	16.35
2004/05:	215.95	17.40
Y-o-y Growth (%):	1.0%	-6.0%
3 year CAGR (%) (2003/04 – 2005/06)	5.5%	2.0%
Consumption (mil tons)		
2005/06:	213.69	44.54
2004/05:	205.39	40.21
Y-o-y Growth (%):	4.0%	10.8%
3 year CAGR (%) (2003/04 – 2005/06)	3.7%	7.8%
Trade-Imports (mil tons)		
2005/06:	64.43	28.32
2004/05:	64.54	25.80
Y-o-y Growth (%):	-0.2%	9.8%
3 year CAGR (%) (2003/04 – 2005/06)	4.8%	16.5%

- ✦ Chinese production under pressure due to decrease in arable land
- ✦ China is the world's largest consumer with a steadily increasing global share – accounts for over 20% of world consumption currently
- ✦ Imports cater to a high 63-64% of the consumption, making China the world's largest importer (43% share of global trade in '05/06)
- ✦ Brazil, with a 40% share of world exports in '05/06, is a key supplier to China
- ✦ ***China's increasing deficit and Brazil's expanding surplus positions the JV well for linking & leveraging its presence in both the key origin (Brazil) & key market (China)***

Source: USDA



Strategic Fit: Oilseeds JV

- ❖ China is the largest consumer and importer of soybean in the world
- ❖ As a part of its strategic plan, Olam had, in 2005, identified G&O as an attractive new product adjacency
- ❖ Olam believes the two key building blocks that are required for success in this business are:
 - ❖ Strong presence and sourcing infrastructure in the large origins - USA, Brazil & Argentina
 - ❖ Processing and distribution infrastructure in the largest market - China
- ❖ Partnership with Chinatex accelerates execution of this strategy by combining
 - ❖ Chinatex's leading market position, strong relation with oil crushers in China and its own crushing assets in China
 - ❖ Olam's global farm gate sourcing, presence in Brazil, Argentina & US, supply chain & risk management expertise with



Cotton: Market Opportunity

	World	China
Production (mil tons)		
2005/06:	24.85	5.70
2004/05:	26.21	6.31
Y-o-y Growth (%):	-5.2%	-9.7%
CAGR (%) (2003/04 – 2005/06)	6.2%	5.5%
Consumption (mil tons)		
2005/06:	25.23	9.80
2004/05:	23.69	8.38
Y-o-y Growth (%):	6.5%	16.9%
CAGR (%) (2003/04 – 2005/06)	5.7%	12.0%
Trade-Imports (mil tons)		
2005/06:	9.67	4.20
2004/05:	7.26	1.39
Y-o-y Growth (%):	33.2%	202.2%
CAGR (%) (2003/04 – 2005/06)	9.4%	29.8%

- ❖ China is the world's largest consumer of cotton (38% of global consumption)
- ❖ Local production and imports contribute to around 60% & 40% of consumption respectively
- ❖ Chinese consumption growth continues to be strong (twice the world growth rate)
- ❖ Chinese imports registered an even faster growth (tripled last year), resulting in a 44% share for China in world imports
- ❖ Local production and imports expected to continue their large role in meeting consumption

Source: USDA



Strategic Fit: Domestic Cotton JV

- ❖ China is the largest producer, consumer and importer of cotton in the world
- ❖ China's Cotton industry is currently being deregulated as part of the government's liberalisation program
- ❖ Chinatex and Olam aim to leverage on this trend and achieve a prime mover advantage by combining their strengths
- ❖ This partnership brings together two leading players with solid credentials in this large, fragmented industry
 - ❖ Chinatex is the largest player in the cotton industry in China with a presence across the entire value chain
 - ❖ Olam entered the Chinese market 2 years ago and is now a leading supplier of imported cotton to the textile industry
 - ❖ Olam is among the Top 5 global players in the cotton industry, sourcing from over 30 origins & selling to over 500 customers in more than 20 end markets



 **Investment Rationale**
- Post Investment Plans

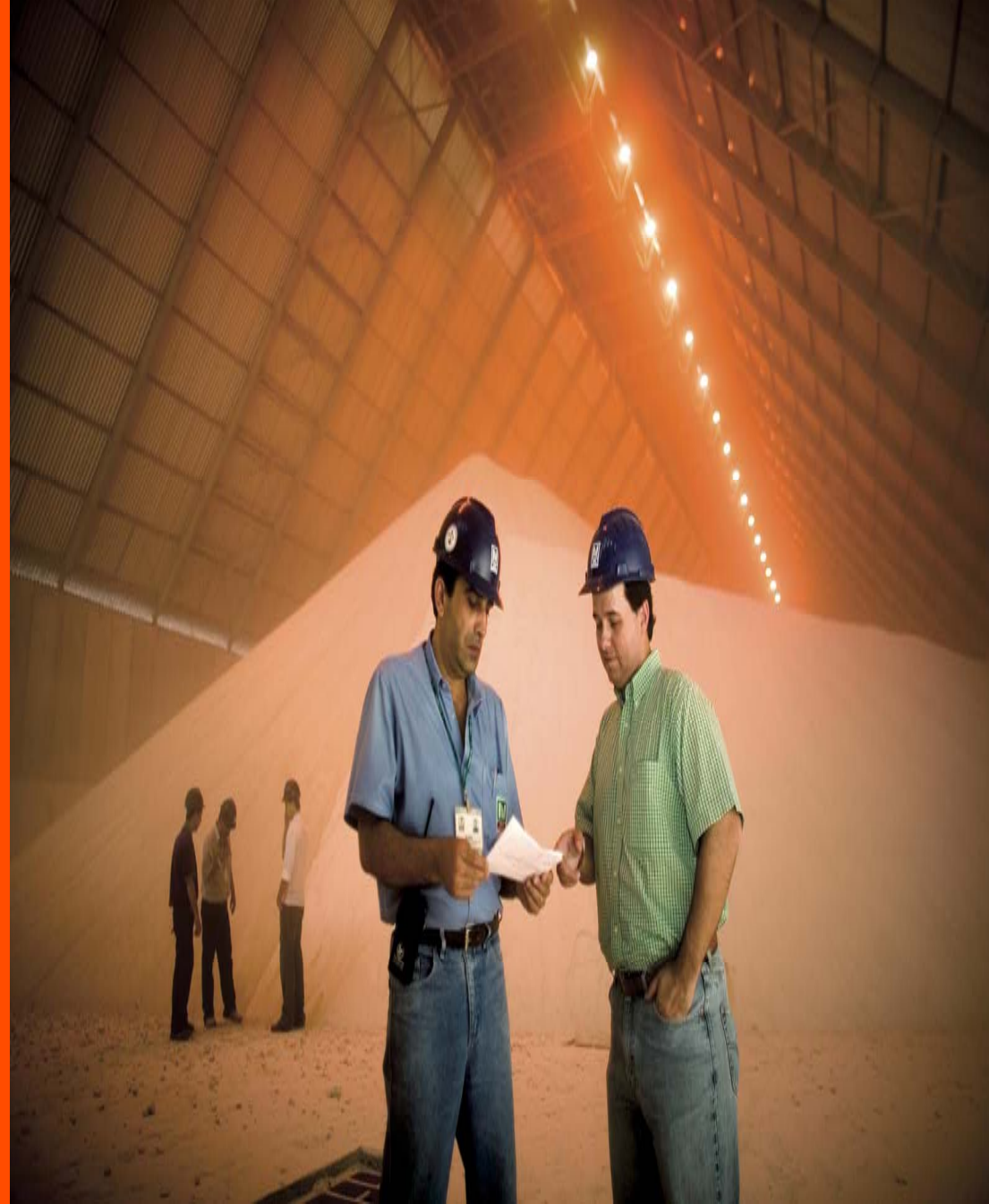


Clear plans to achieve efficiency & value chain integration

- ❖ Enhance the contribution of downstream products by setting up & acquiring soybean processing assets in China
 - ❖ JV targets to expand crush capacity to 2 million tons in 3-4 years
 - ❖ Plans being developed to build an oilseeds processing complex at Rizhao
 - ❖ Open to acquiring crushing assets to augment capacity
- ❖ Strengthen competitive position by setting up a soybean sourcing infrastructure in Brazil, the world's fastest growing soybean exporter
- ❖ Augment existing managerial capability by bringing in senior level global industry talent
- ❖ Implement best-in-class Risk and IT systems with a view to enhancing the level of decision-support & protect value



❖ **Investment Rationale**
- Financial Impact



JVs to be earnings and value accretive from first year

❖ Oilseeds business

- ❖ Margin enhancing initiatives in Brazil and China likely to be completed over the next 3-4 years
- ❖ Earnings expected to grow at a CAGR of around 20% during this period, from the current, sustainable levels of US\$ 5-6 million
- ❖ Positive earnings accretion to Olam from Year 1 – estimated at between US\$1.1 – 1.5 million at current sustainable PAT levels
- ❖ This would result in a significant positive spread over Olam's cost of equity

❖ Cotton business

- ❖ Potential increase in volumes for Olam from preferential purchase of imported cotton estimated at 20-30 thousand tons
- ❖ Domestic cotton JV expected to achieve volumes of 100,000 tons in 2-3 years



🌿 Olam's M&A Framework



Recap of Olam's Inorganic growth strategy / M&A framework

M&A Objectives	<ul style="list-style-type: none">▪ Accelerated entry into identified new product adjacency▪ Accelerated access into a new geography▪ Reduce timing to impact for a new value chain expansion initiative▪ Overcome industry barriers▪ Maintain Industry attractiveness▪ Taking advantage of reasonably priced targets with high overlap with Olam
M&A Policy Framework	<ul style="list-style-type: none">▪ String-of-Pearls approach▪ Size of deals:<ul style="list-style-type: none">- Sweet spot: 5-10% of market cap- Maximum size: 10% of market cap- Aggregate deal value p.a: not more than 15% of market cap▪ Do deals that have strategic and business fit with Olam's core business▪ M&A seen as a tool to execute strategy and not a strategy in itself▪ Make acquisitions throughout the economic cycle - do not time▪ Do deals to either acquire a controlling stake or management control▪ Do not enter into opportunities purely based on P/E arbitrage

JV with Chinatex is in line with this M&A Strategy

M&A Objectives	<ul style="list-style-type: none">▪ Accelerated entry into identified new product adjacency (Oilseeds in China & Brazil)▪ Accelerated access into a new geography (domestic cotton in China)▪ Reduce timing to impact for a new value chain expansion initiative (Oilseed crushing / Cotton ginning in China)▪ Overcome industry barriers▪ Maintain Industry attractiveness▪ Taking advantage of reasonably priced targets with high overlap with Olam
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Q & A



Thank You

