



# CHANGDA INTERNATIONAL HOLDINGS INC.



**The most competitive growing producer of New-Type fertilizers in China**

*Investor Presentation*  
*August 2009*



**CHARDAN**  
CAPITAL MARKETS

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# Company Overview

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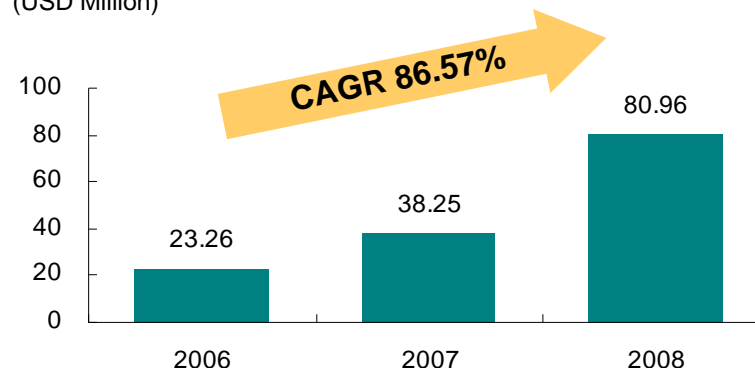


## Leading Compound Fertilizer Supplier

- Leading compound fertilizer producer in Shandong Province
- Dedicate to developing the environment-friendly MOIC fertilizers and slow-release fertilizers
- One of the largest producers of snow melting agent, fire retardant agent and thiophene in China
- Locally available raw material and resources to reduce cost
- Innovative promotion skills to strengthen customer loyalty
- Access to 80,000 selling points via strategic cooperation with China Post Logistics
- Strong development capabilities of customer oriented products
- Benefit from favorable government policies in fertilizer industry and agriculture production
- Experienced management team

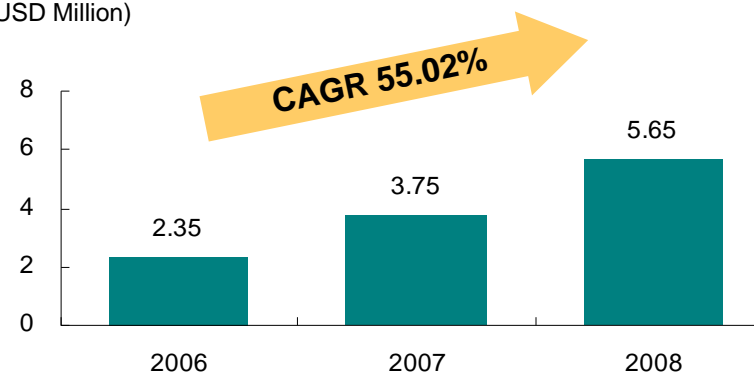
## Revenue

(USD Million)



## Net Income

(USD Million)



# Company Overview



## Company Highlights

### Employees

- 220 full-time employees
- 14 R&D personnel

### Operating locations

- Binhai BDZ Weifang Shandong China

### Production sites

- Eight production lines in three factories

### Superior microbial organic controlled release fertilizer (MOCR)

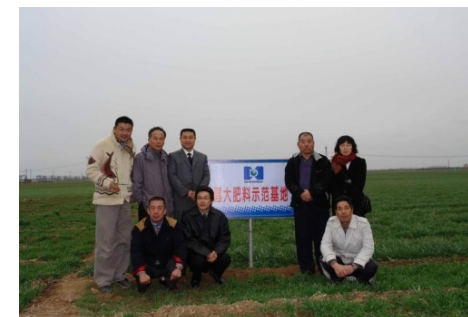
- Chinese government and industry recognition
- Low cost producer of environmentally friendly products

### Established and profitable company

- Experienced and capable management team
- Established sales and distribution channels, among them - China Post Logistics (Shandong)
- Leading developer in MOCR with significant competitive advantages

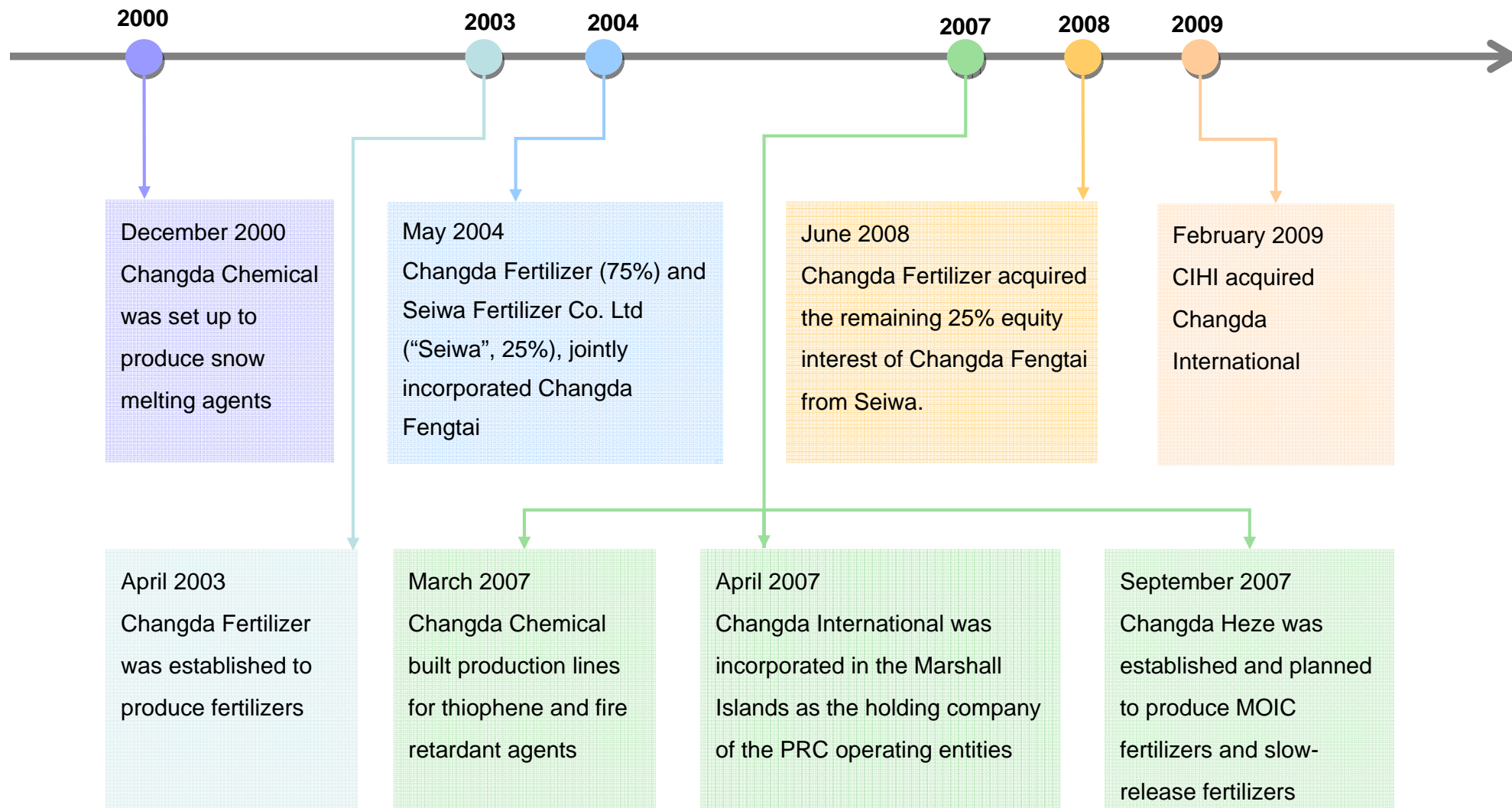
### Significant expansion potential in China

- The world's largest market for fertilizers
- Initiated geographic expansion to develop and conquer new markets in China
- Shift from simple fertilizers to MOCR fertilizers





# Company History





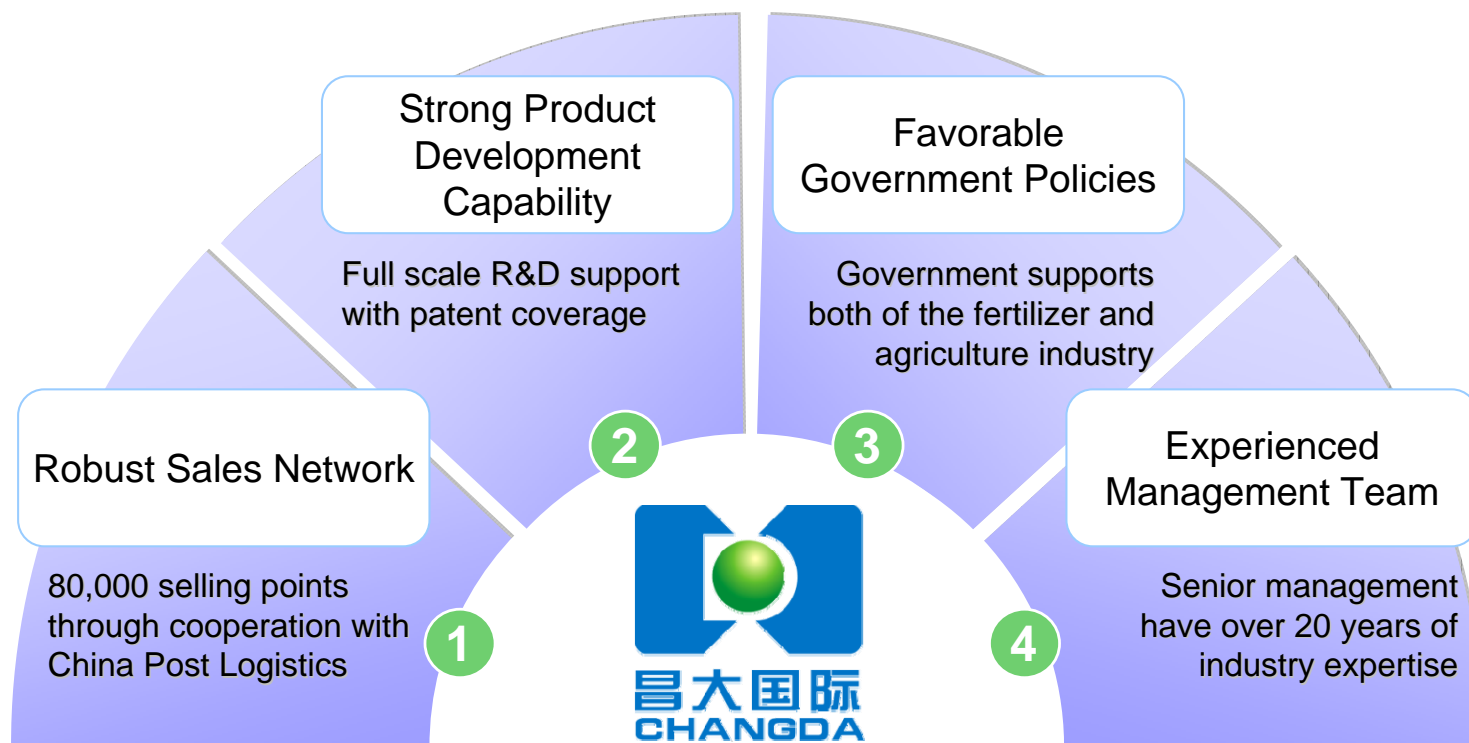
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## Investment Highlights

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# Investment Highlights

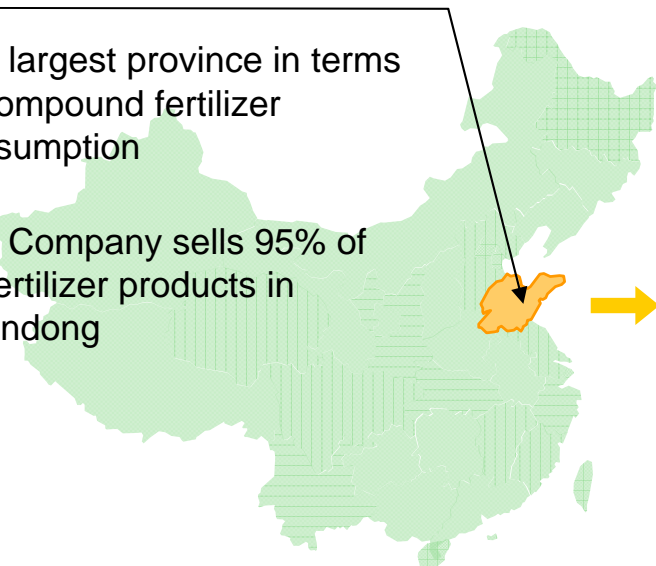


# ① Robust Sales Network



## Shandong Province

- The largest province in terms of compound fertilizer consumption
- The Company sells 95% of its fertilizer products in Shandong



Established an extensive sales network of:

**80,000**

**Selling points** through cooperation with China Post Logistics



**220**

**Exclusive distribution centers** of Ruifuyuan



**5**

**Direct operating stores** of CIHI



| Distribution Channel    | Key Advantages  |
|-------------------------|---|
| China Post Logistics    | <ul style="list-style-type: none"> <li>• Leverage on its extensive network to reach full coverage of Shandong Province</li> <li>• Secured payment of transaction</li> </ul> |
| Ruifuyuan               | <ul style="list-style-type: none"> <li>• Exclusive distributorship results in incentives to promote CIHI's products</li> <li>• Ever increasing sales network</li> </ul>     |
| Direct Operating Stores | <ul style="list-style-type: none"> <li>• Provide approach to end users</li> <li>• Understand customers' very needs</li> </ul>   |



## ② Strong Product Development Capabilities



### R&D Cooperation

- Work closely with prestigious professors in the frontier of agricultural technologies
  - Chinese Academy of Agricultural Sciences
  - China Agricultural University
  - Qingdao Technology University

### R&D Focus

- Cost control and industrialization of new generation compound fertilizers
- Increase the concentration of MOIC fertilizers to reduce transportation cost and appeal to customers' need
- Intelligent capsule for slow-release fertilizers

Keep abreast of the latest product developments

### Patents

- ◆ Two granted patents
  - Compound Fertilizer: Sprout and Article Formation Production Process
  - Snow melting agent: Anti Freeze Combination and its Production Process
- ◆ Eight pending patents regarding slow-release fertilizer, disposal of production waste of thiophene, etc.



### Products

- ◆ Existing products
  - MOIC fertilizer: significantly improve the soil fertilities
  - Slow-release fertilizer: release nutrients gradually when plants need them; time and cost saving
- ◆ Developing products
  - Fertilizer with extra function of degradation and pesticides



### ③ Favorable Government Policies



Chinese government offers favorable policies to the fertilizer industry and agriculture production

#### Favorable Policies for Fertilizer Industry

- Advantageous electricity prices
  - The electricity price (<10KV) for fertilizer producer is 0.3332 RMB/KWh, compared with 0.5754 RMB/KWh for other industrial firms
- Preferential VAT policy
  - Compound fertilizer producers are exempted from paying Value Added Tax



#### Favorable Policies for Agriculture Production

- The total agricultural subsidies increase by 19% in 2009, to RMB 123 billion
  - RMB 13 billion is embarked as subsidies for agricultural machinery purchases
- The minimum wheat prices are raised by 13%-15% in 2009

| Minimum grain price (RMB/50kg) | 2009 | 2008 |
|--------------------------------|------|------|
| White wheat                    | 87   | 77   |
| Red wheat / mixed wheat        | 83   | 72   |
| Mixed wheat                    | 83   | 72   |

- To hold up the price, the government initiated four autumn grain purchases for its state reserves
  - 60.5 million tons of purchase in 2008
  - Accounted for 16% of the autumn harvest

Source: China: Agriculture, March 9, 2009,  
Goldman Sachs Gaohua Securities





## ④ Experienced Management Team



Members of senior management have over 20 years of average professional expertise in the industry

|                   | Qing Ran Zhu    | Hua Ran Zhu          | Leodegario Camacho <sup>①</sup> | Jan Pannemann <sup>①</sup> |
|-------------------|-----------------|----------------------|---------------------------------|----------------------------|
|                   | CEO, Co-founder | Director, Co-founder | CFO, Director                   | Director                   |
| Years in industry | 20+             | 20+                  | 34                              | 6                          |

### Management Bios

|   |  |
|---|--|
| Qing Ran Zhu<br>CEO, Co-founder             | <ul style="list-style-type: none"> <li>Over 20 years of experience working in the sales and marketing of feed products in the PRC agricultural industry</li> <li>Vice General Manager of Weifang Legand food Company from 1995 to 2000</li> <li>Bachelor of Economics Administration from Weifang Vocational College</li> </ul>  |
| Hua Ran Zhu<br>Director, Co-founder         | <ul style="list-style-type: none"> <li>Over 20 years of experience working in the chemical industry</li> <li>In Charge of the production workshop and machinery safety department in Shandong Haihua Group from 1995 to 2001</li> <li>Graduated from the University of Shandong Government Official Distance-Learning</li> </ul>   |
| Leodegario Camacho<br>CFO                   | <ul style="list-style-type: none"> <li>Over 34 years of experience as a financial controller in both public and private companies in the United States and the Philippines</li> <li>Also serve in a CPA firm Camacho &amp; Camacho LLP in New Jersey</li> <li>Member of the American Institute of Certified Public Accountants, New Jersey Society of Certified Public Accountants and Association of Filipino-American Accountants</li> </ul> |
| Mr. Jan Pannemann<br>Non-executive Director | <ul style="list-style-type: none"> <li>6 years of experience as a project manager and independent business advisor based in London</li> <li>Co-founder of Qingdao China Partners Investment Advisory, which was successfully merged in 2007 with now PLUS markets quoted Geo Genesis Group Ltd.</li> </ul>   |

Note: Experience in financial service industry





## Shrinking Arable Land

- China's arable land per capital has decreased to 1.3 mu, while the global average is 4.8 mu
- Stringent arable land calls for intense use of fertilizers

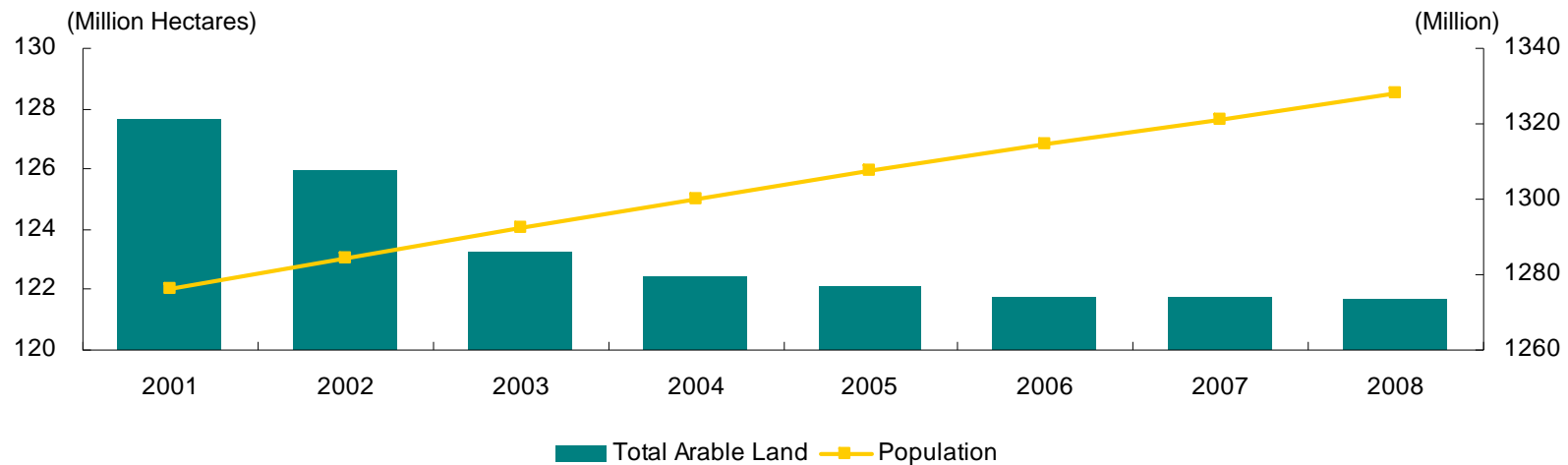
## Increasing Food Requirements

- Growing population amplifies the need of crop yields as well as fertilizers
- More meat consumption leads to higher grain requirements for livestock

## Rising Export Demand

- Export demand will increase as the government significantly reduced the export tariff in July 2009
- Total export tariff of compound fertilizer was reduced from 95%-110% to 10%

China: Feeding More on Less Land



Source: National Bureau of Statistics, Ministry of Land and Resources





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# Industry Overview

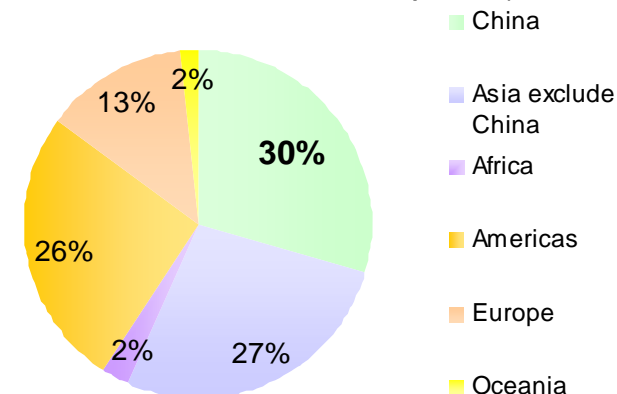
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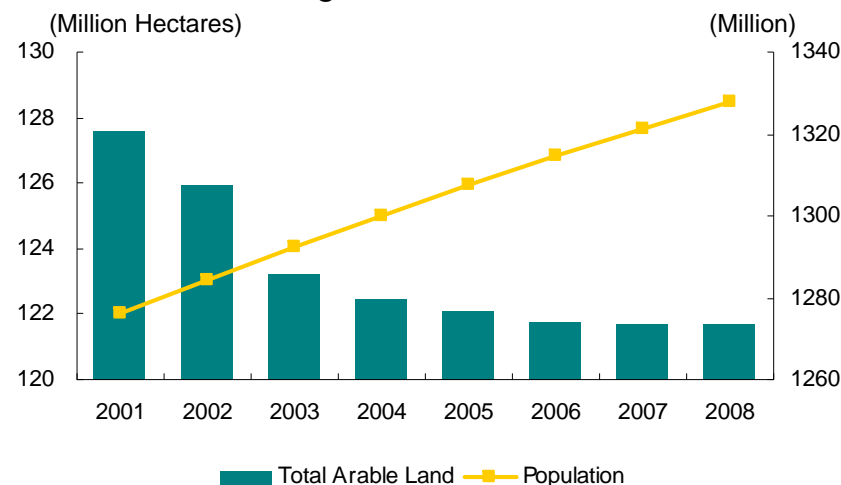
## China Fertilizer Industry

- China is the largest fertilizer market in the world, accounting for 30% of the global consumption
  - 51.08 million tons of fertilizer application in 2007
  - RMB 406.6 billion of fertilizer sales from Jan. to Nov. 2008
- Shrinking arable land yet growing population stimulates the need to boost crop yields
  - China's arable land per capita has decreased to 1.3 mu, while the global average is 4.8 mu
- Changes in dietary patterns amplify the demand of fertilizer
  - More meat consumption leads to higher grain requirements for livestock
  - The fertilizer used for fruit and vegetable is twice as grain
- Rising farmers' income also stimulates the need of fertilizers

## 2006 World Fertilizer Consumption (in Nutrients)



## Feeding More On Less Land



Source: National Bureau of Statistics, KKC, FAO, Ministry of Land and Resources

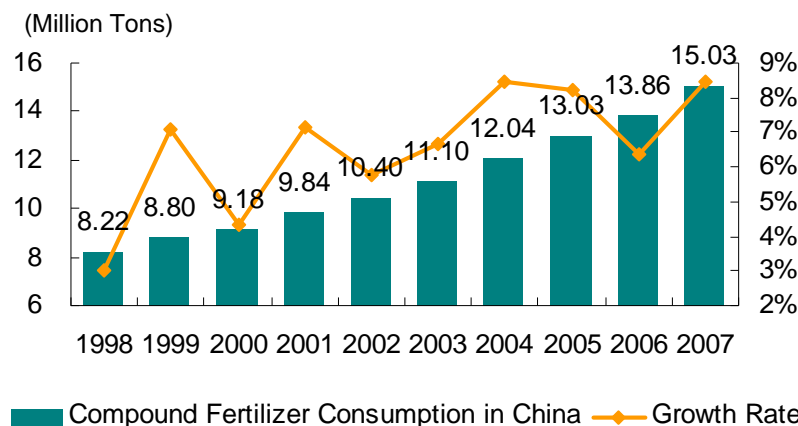




## China Compound Fertilizer Industry

- Compound fertilizer is a type of chemical fertilizer containing at least two of the major nutrients (N, P, K)
- Compound fertilizer consumption in China increased to 15.03 million tons in 2007
  - Representing 7.63% CAGR in 2002-2007
- Compound fertilizer is substituting other types of fertilizers
  - Shares of compound fertilizer consumption increased from 20% to 29% in 1997-2007

## Compound Fertilizer Consumption in China



## Shandong Compound Fertilizer Industry

- Shandong Province as the Largest Compound Fertilizer Market in China
  - Accounting for 13.33% of domestic compound fertilizer consumption in 2007
  - More than 40% of the fertilizer consumed in Shandong is compound fertilizer, compared with 29% in China

## Fertilizer Utilization in China / Shandong

| As of 2007                                     | China  | Shandong     | % of China |
|--|--------|--------------|------------|
| Area Irrigated (Million Hectares)              | 565.18 | <b>48.37</b> | 8.56%      |
| Fertilizer Consumption (Million Tons)          | 51.08  | <b>5.00</b>  | 9.79%      |
| Compound Fertilizer Consumption (Million Tons) | 15.03  | <b>2.00</b>  | 13.33%     |

Source: National Bureau of Statistics, KKC, CEIC





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# Business Operation

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## Fertilizer Products

Fertilizer products accounted for 89.9% of total revenue in 2008

### Compound Fertilizer

- Rich in N-P-K; include chloride-based and sulphur-based compound fertilizers



### MOIC Fertilizer

- Contains N-P-K-Organic Matter; suitable for green / pollution-free food



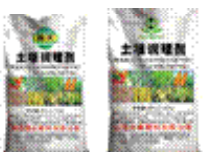
### Slow Release Fertilizer

- Rich in N-P-K; release nutrients to soil slowly when plants need them; reapplied less frequently



### Other Fertilizer

- Water flush fertilizer: applied by water flushing; easy to use and cost / time saving
- Soil Conditioner: corrects the soil's deficiencies



## Chemical Products

Chemical products accounted for 10.1% of total revenue in 2008

### Snow Melting Agent

- Used in urban streets, airports, highways, courtyards and golf courses; high efficiency in snow melting without damage steel structure



### Fire Retardant

- Used in rubber, textile, electronic, plastic industry, etc



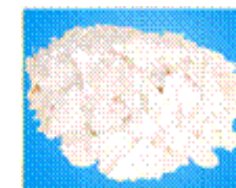
### Thiophene

- Used as medicine intermediate for active pharmaceutical ingredients



### Other Chemical

- $\text{CaCl}_2$ : raw material of calcium salt and concrete
- $\text{MgCl}_2$ : raw material of ceramics and concrete





## Local Sourcing

- Most of the raw materials of the Company are sourced in Shandong Province
  - For both fertilizer and chemical businesses
  - Nearly half of the raw materials are purchased in Weifang
- Some of the important raw materials are purchased from Shandong Haihua, the largest marine chemical enterprise in China, located in Weifang



## Abundant Resources

- Shandong is the largest supplier of crude salt and bromide in China
  - 40% of the crude salt in China
  - Crude salt is the main material for snow melting agent
  - 70% of bromide in China
  - Bromide is the main material for fire retardant agent



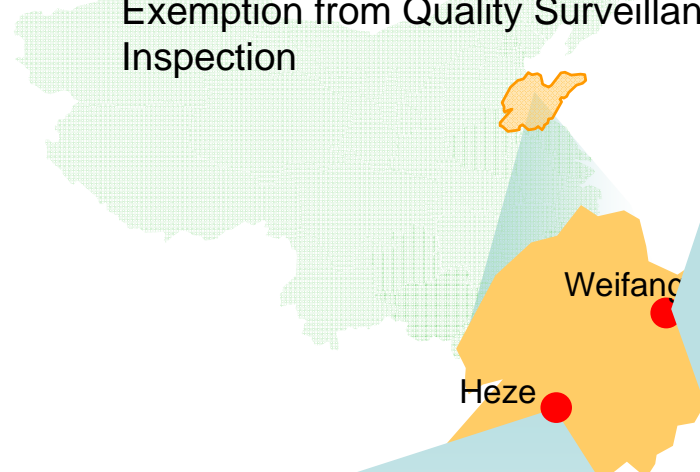
Source: National Bureau of Statistics, Company Data







- The Company applies full automatic production to ensure that product quality meet the official standards
- Awarded the Certificate for Product Exemption from Quality Surveillance Inspection



## Heze Fertilizer (In Construction)

- Location: Mudan Industrial Park, Heze City
- Total site area: 53,333 m<sup>2</sup>

## Existing Facilities

- Location: Weifang Ocean Chemical Industry Developing Zone Industry Area, Weifang City

### Changda Fertilizer



- Compound fertilizer: 4 lines
- Annual capacity: 180,000 tons
- Employee: 108 (7 R&D)
- Total Site Area: 151,164 m<sup>2</sup>

### Changda Chemical



- Snow melting agent: 3 lines
- Thiophene: 1 line
- Fire retardant agent: 1 line
- Annual capacity: 60,000 tons
- Employee: 112 (7 R&D)
- Total Site Area: 69,278 m<sup>2</sup>





The Company has employed various promotion techniques to impress the consumers as a brand with superior product quality and customized to local needs

## Pre-sales Promotion

- TV advertisement
  - Broadcasted during prime time on Shandong TV
- Promotion Materials
  - Low-cost gifts (e.g. balloons and stationery) and agricultural science materials
- Market Campaigns
  - Hold large-scale agriculture lectures to popularize fertilizer knowledge as well as the features of Company products
- Demonstration Plots
  - Offer free fertilizer to demonstrate superior product quality

Reach Brand Recognition

## After-sales Follow-up

- Return Visit
  - Get feedbacks and send gifts such as wall calendars and tea set to build close relationship
- After-sales Training
  - Send training materials and provide onsite instructions regularly
- Agricultural Info Service
  - Give free cell phones to regular and amount-buying customers
  - Send SMS of weather forecast and crop price info
  - The cell phones and SMS are free via cooperation with China Unico

Strengthen Brand Loyalty





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# Financial Performance

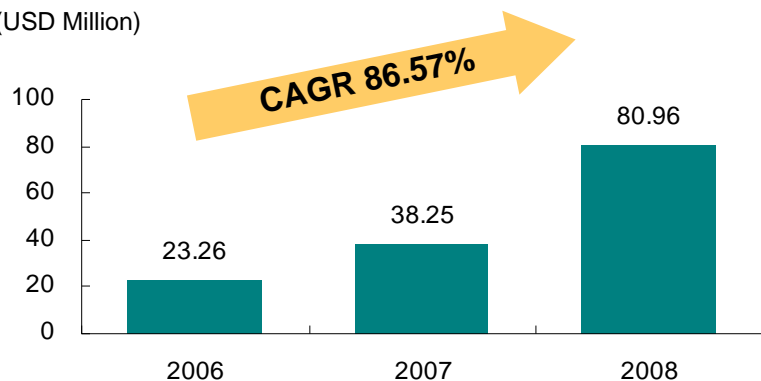
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# Historical Financial Performance



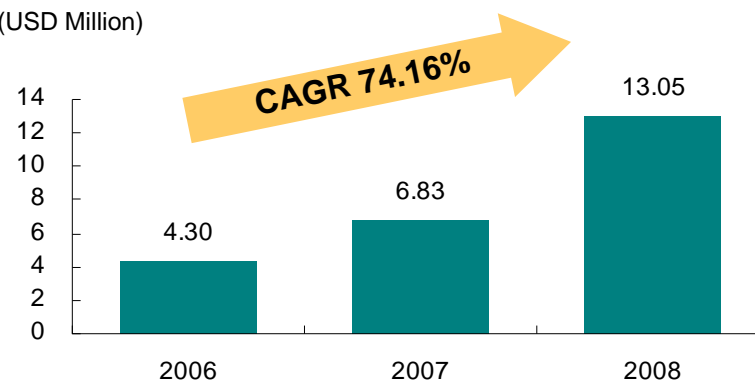
## Revenue

(USD Million)



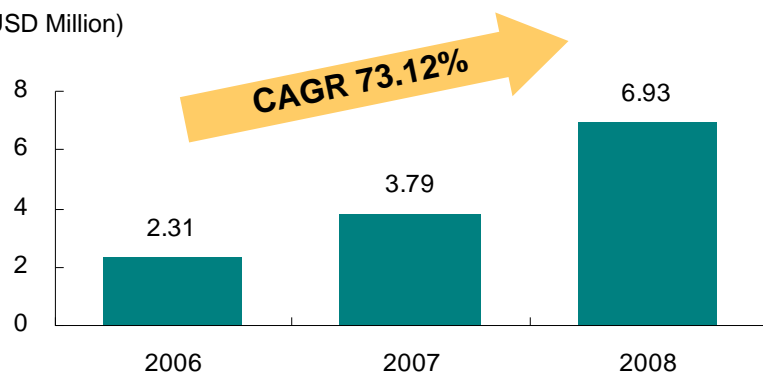
## Gross Profit

(USD Million)



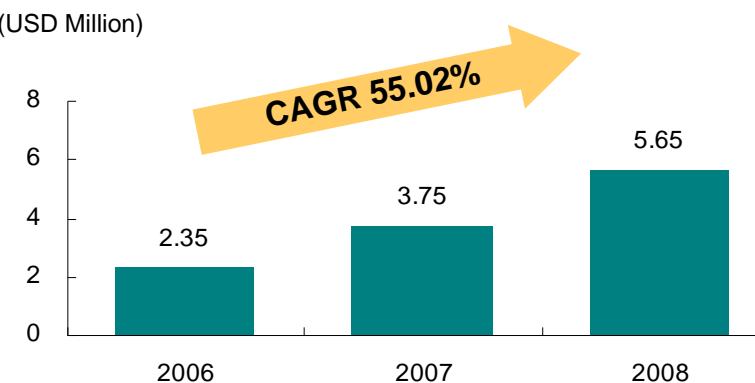
## EBIT

(USD Million)



## Net Profit

(USD Million)



Notes: Unless otherwise denoted, in this section, the financial data in 2006 is from the audit report as of FY 2006 and 2007, the financial data in 2007 and 2008 is from the draft consol as of FY2008



# Income Statement



| (USD Thousand)                 | FY2006       | FY2007       | FY2008        |
|--------------------------------|--------------|--------------|---------------|
| Revenue                        | 23,259       | 38,245       | 80,958        |
| Cost of Goods Sold             | (18,956)     | (31,417)     | (67,907)      |
| <b>Gross Profit</b>            | <b>4,303</b> | <b>6,828</b> | <b>13,051</b> |
| SG&A Expenses                  | (1,652)      | (2,810)      | (5,839)       |
| D&A Expenses                   | (339)        | (224)        | (283)         |
| <b>Operating Profit (EBIT)</b> | <b>2,312</b> | <b>3,794</b> | <b>6,929</b>  |
| Other Income                   | 37           | 132          | 80            |
| Interest Income                |              | 3            | 16            |
| Interest Expenses              |              | (176)        | (449)         |
| Pretax Profit                  | 2,349        | 3,753        | 6,576         |
| Income Tax                     | -            | -            | (931)         |
| <b>Net Profit</b>              | <b>2,349</b> | <b>3,753</b> | <b>5,645</b>  |

Notes : Interest expenses and interest income as of FY2006 are included in SG&A

# Balance Sheet



| (USD Thousand)                                    | FY2006        | FY2007        | FY2008        |
|---|---------------|---------------|---------------|
| Bank Balances and Cash                            | 716           | 979           | 575           |
| Trade and Other Receivables, net                  | 2,132         | 5,387         | 9,098         |
| Inventories                                       | 1,234         | 1,600         | 4,158         |
| Other Current Asset                               | 256           | 2,237         | 2,750         |
| <b>Total Current Assets</b>                       | <b>4,338</b>  | <b>10,218</b> | <b>10,203</b> |
| Property, Plant and Equipment, net                | 7,496         | 14,207        | 16,809        |
| Other Non-current Assets                          | 5,481         | 1,650         | 1,724         |
| <b>Total Assets</b>                               | <b>17,315</b> | <b>26,060</b> | <b>35,114</b> |
| Trade and Other Payables                          | 4,969         | 2,821         | 3,147         |
| Short-term Interest-bearing Borrowings            | 2,266         | 3,438         | 1,940         |
| Other Current Liabilities                         | 263           | 4,494         | 4,604         |
| <b>Total Current Liabilities</b>                  | <b>7,498</b>  | <b>10,753</b> | <b>9,691</b>  |
| Deferred Government Grants                        | 739           | 775           | 809           |
| Long-term interest-bearing borrowings             | 1,152         | -             | 2,408         |
| Other Non-current Liabilities                     | -             | -             | 1,004         |
| <b>Total Liabilities</b>                          | <b>9,389</b>  | <b>11,528</b> | <b>13,912</b> |
| <b>Total Shareholders' Equity</b>                 | <b>7,926</b>  | <b>14,532</b> | <b>21,202</b> |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>17,315</b> | <b>26,060</b> | <b>35,114</b> |





# Long-term Growth Strategy



## Enhance product cost competitiveness

- Attain higher production yields
- Strategically expanding in future locations with direct access to secure natural resource supplies

## Develop differentiated chemical products

- Increase product variety
- Expand scale of operations organically
- Evaluate potential strategic expansion opportunities to further strengthen market presence

## Extension of fertilizer product lines

- Focus production on slow-release fertilizers and microbial organic fertilizers
- Develop new and potentially higher margin fertilizer products
- Construct larger production complexes

## Strengthen sales network

- Expand geographically to neighboring provinces such as Henan by cooperation with China Post Logistics and other logistics firms
- Enhance the capabilities of the sales team by adoption of professional training system

## Improve R&D capabilities

- Emphasize new product development, production and technology improvement
- Invest in in-house R&D
- Seek synergistic partnerships with reputable 3rd-party R&D institutions





- Significant Growth Potential
- Organic growth aided by government plans -11th Five-Year Plan for Fertilizer Industry
- Highly fragmented market ripe for consolidation
- China Post Logistics relationship –Directors intend to extend relationship beyond Shandong
- Directors intend to extend network of exclusive distribution centres
- New production facilities will add significant further production capacity
- PRC fertilizer prices remain significantly below world trade prices
- Significant planned investment in R&D to continuously innovate product offering



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# Appendix

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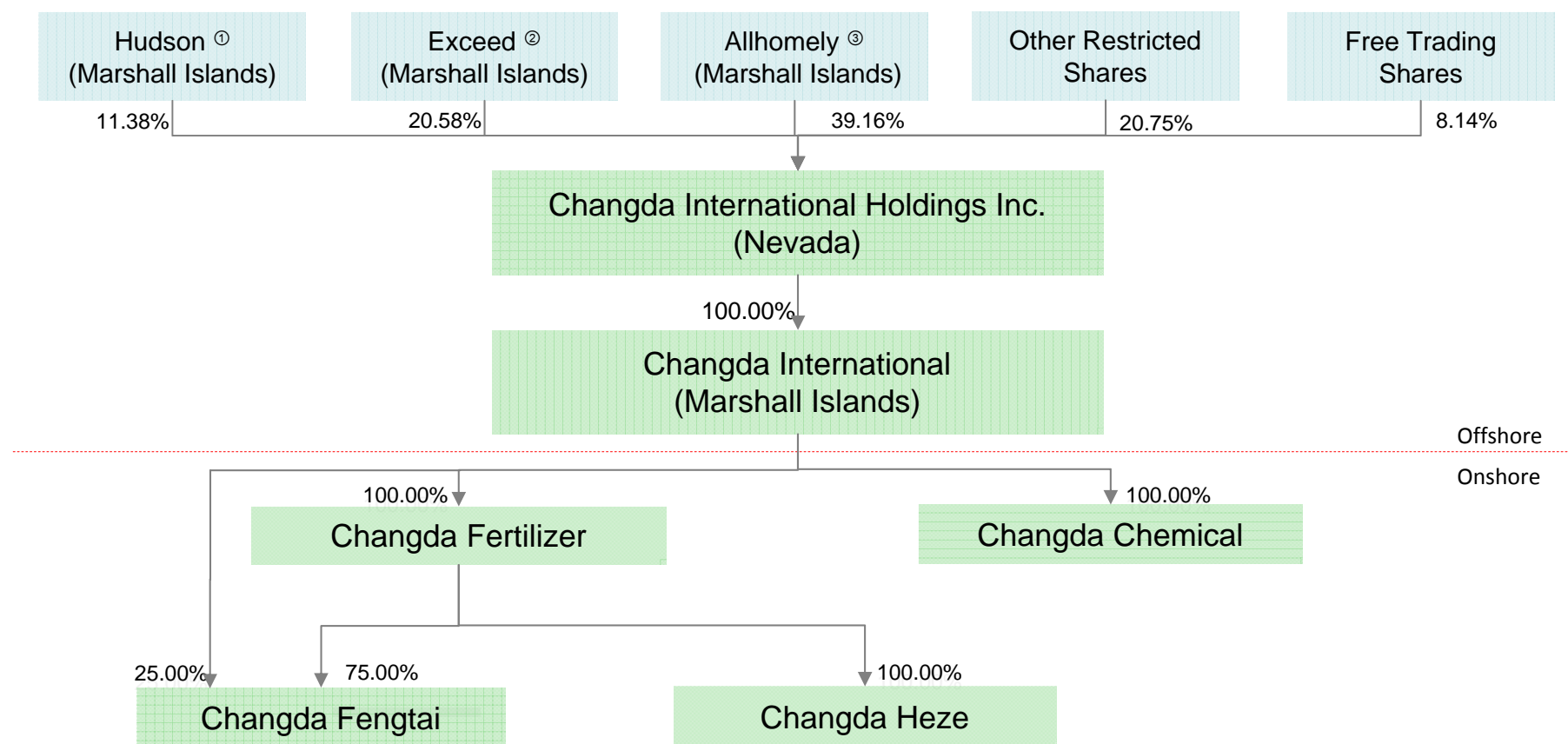
# Comparable Company Analysis



| Company                      | Ticker | Market Cap | Closing Price | LTM Revenue (\$mm)<br>3/31/2009 | LTM Net Income (\$mm)<br>3/31/2009 | Net Income Margin | LTM EPS     | 2009 EPS    | 2010 EPS    | LTM P/E      | 2009 P/E     | 2010 P/E     |
|------------------------------|--------|------------|---------------|---------------------------------|------------------------------------|-------------------|-------------|-------------|-------------|--------------|--------------|--------------|
| China Green Agriculture, Inc | CGA    | 249.98     | 13.26         | 31.94                           | 11.39                              | 36%               | 0.62        | 0.73        | 0.85        | 21.4x        | 18.2x        | 15.6x        |
| China Agritech, Inc          | CAGC   | 88.80      | 3.14          | 45.27                           | 8.50                               | 19%               | 0.34        | 0.33        | 0.37        | 6.7x         | 9.5x         | 8.5x         |
| Yongye International Inc     | YGII   | na         | 6.15          | 51.00                           | 13.17                              | 26%               | 0.65        | 0.60        | 0.73        | 9.4x         | 10.3x        | 8.5x         |
| China Agri-Business          | CHBU   | 7.39       | 0.57          | 3.05                            | 1.34                               | 44%               | 0.10        | na          | na          | 6.5x         | na           | na           |
| Agrium Inc                   | AGU    | 7,610.00   | 48.44         | 10,900.00                       | 3,200.00                           | 7%                | 5.07        | na          | na          | 9.6x         | na           | na           |
| Converted Organics Inc       | COIN   | 25.72      | 1.27          | 2.28                            | (0.43)                             | na                | (1.60)      | na          | na          | na           | na           | na           |
| <b>Mean</b>                  |        |            |               |                                 |                                    |                   | <b>0.86</b> | <b>0.55</b> | <b>0.7x</b> | <b>10.7x</b> | <b>12.7x</b> | <b>10.9x</b> |
| <b>Median</b>                |        |            |               |                                 |                                    |                   | <b>0.48</b> | <b>0.60</b> | <b>0.7x</b> | <b>9.4x</b>  | <b>10.3x</b> | <b>8.5x</b>  |

Source: Bloomberg, August 25<sup>th</sup>, 2009

# Current Shareholder Structure



## Notes:

- ① Hudson is jointly owned by Hua Ran Zhu (79%) and Wenjun Wang (21%)
- ② Exceed is jointly owned by Feng Ran Zhu (42%), Tao Wang (27%) and Gang Wang (31%)
- ③ Allhomely is jointly owned by Qing Ran Zhu (23%) and Jan Pannemann (77%)





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