

# DONGFANG MODERN AGRICULTURE HOLDING GROUP

**Annual General Meeting**

29 May 2017



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All references to dollars, cents or \$ in this presentation are to Australian (AUD) currency, unless otherwise stated.

# Contents

## Outline

1	Introduction
2	Highlights 2016
3	Business model
4	Growth plan
5	Summary
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# 1. INTRODUCTION



# 1. Introduction - snapshot

## Snapshot

ASX code	DFM
Shares on issue	392 million
Market capitalisation	\$355m
Listing date	19 Oct 2015
Net assets*	\$372m
Major shareholder	Hongwei Cai – 58.94%
*As at 31 Dec 2016	



# 1. Introduction – who we are

## The largest Chinese agricultural company listed on ASX

- Market leading citrus harvester within the world's largest agricultural market
- Applying modern agricultural processes and technologies to China's traditional citrus and camellia sectors
- Capitalising on Chinese consumers' preference for healthy citrus products
- Benefitting from long term Government tax free initiatives
- Plantations spanning in excess of 9,800 hectares, located within China's premier fruit-growing region
- Growth strategy through acquisition of upstream plantations, with potential to develop downstream camellia products and sell branded products to Australia



## 2. Forecast 2016



## 2. Highlights 2016

Fifth consecutive year of record sales and earnings

Strong and healthy financial performance

Plantation area expanded to more than 9,800 hectares

Continuing to deliver strong results

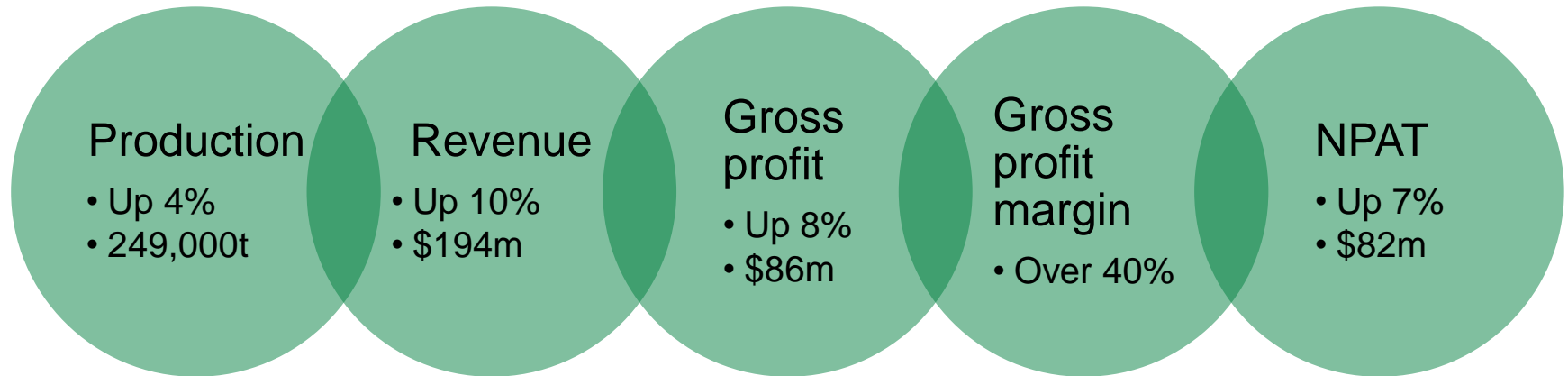
Consistent dividend policy

Leading citrus fruit supplier in China



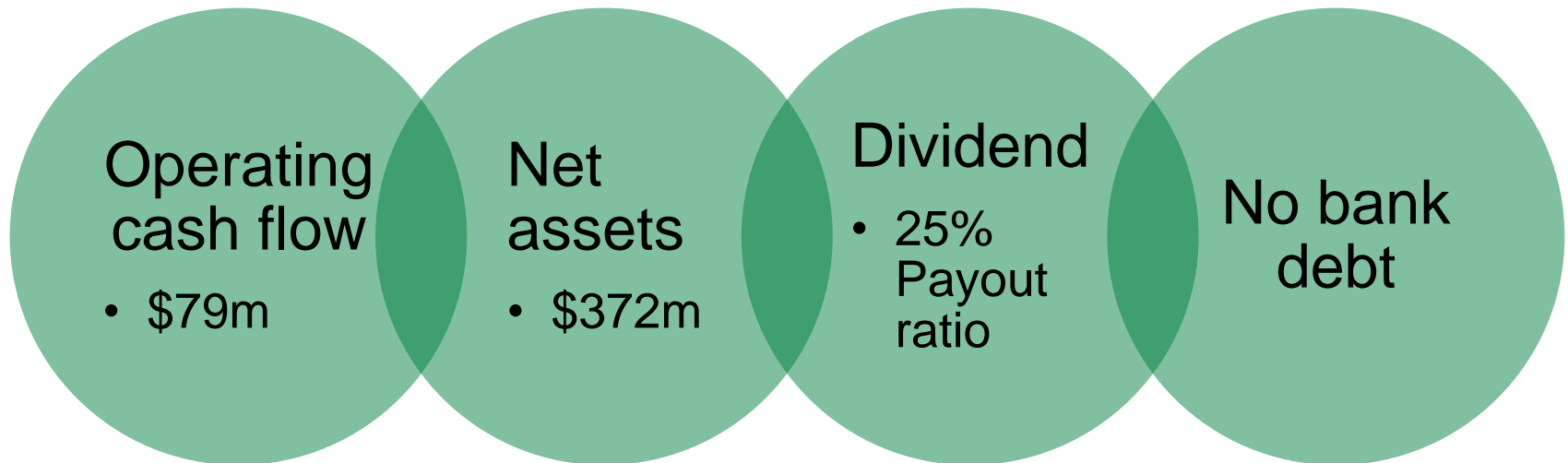
## 2. Highlights 2016

### Financial highlights: Profit and loss (RMB)



## 2. Highlights 2016

Financial highlights: Balance sheet and cash flow (RMB)



### 3. Business Model

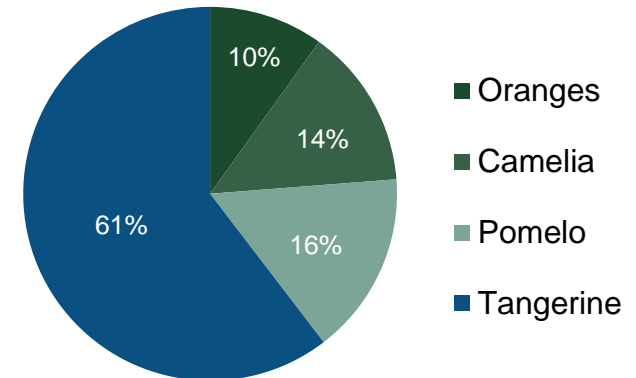


# 3. Business model

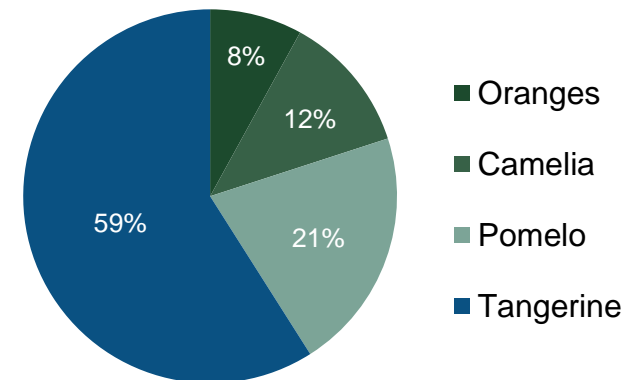
## How we generate profits

- Cultivation and sale of citrus and camellia products
- Four products:
  - Tangerine - Xunwu Tangerine is a famous local brand
  - Pomelo - Bigger and sweeter than grape fruit, a Chinese long-time favorite
  - Orange - Ganan Navel Orange is China's no. 1 food brand
  - Camellia - Unique plant in China with many uses

Revenue by product



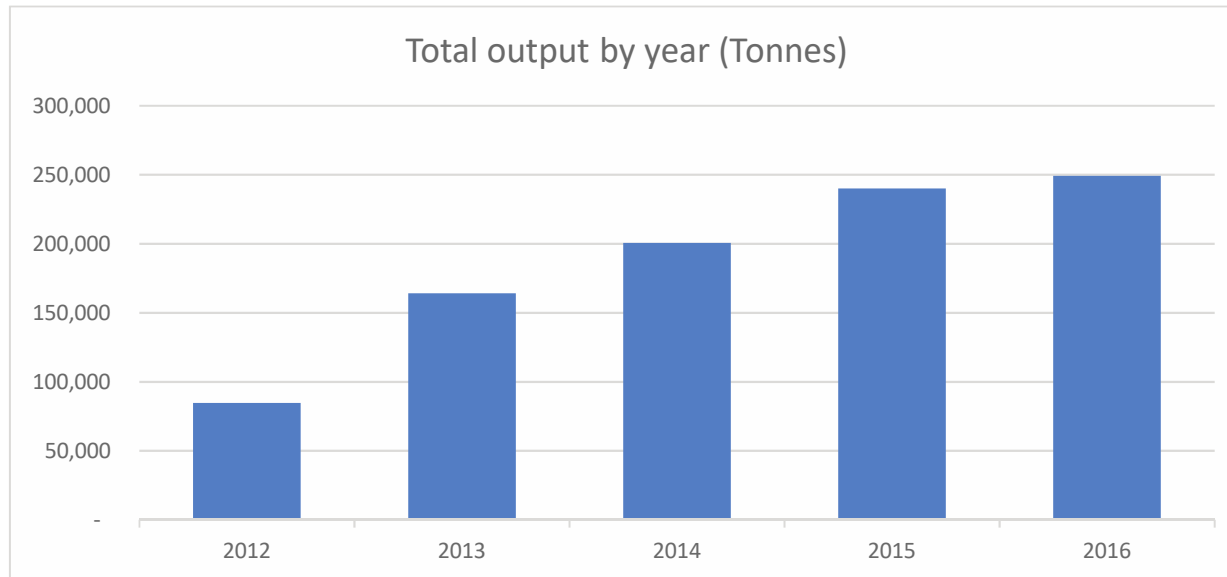
Revenue by volume





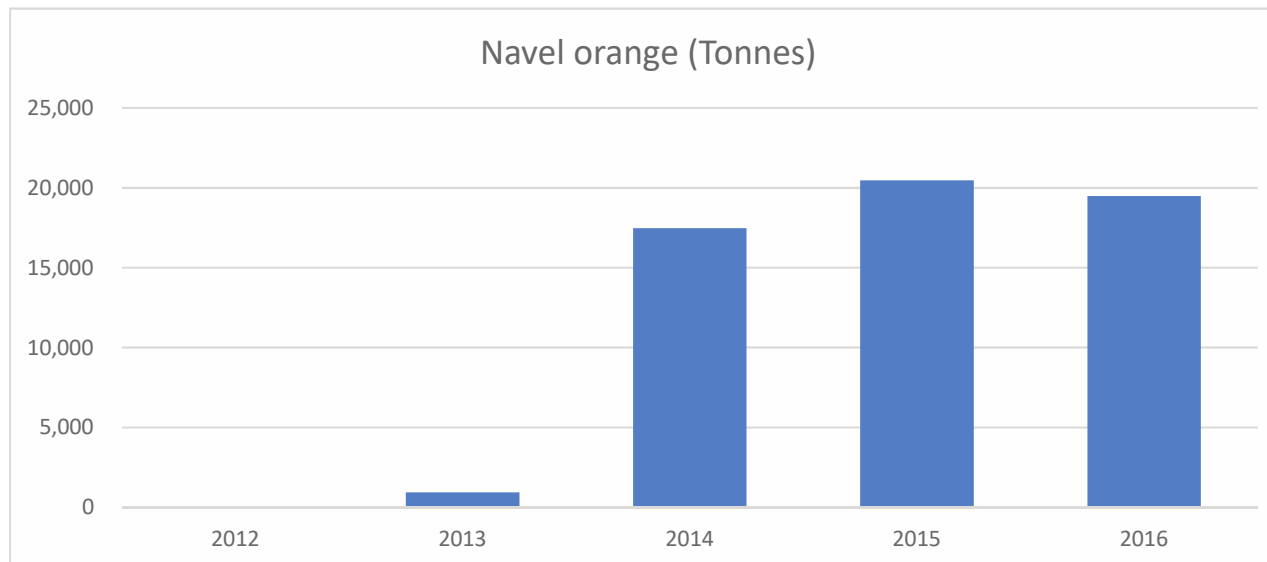
### 3. Business model - tangerines

- Tangerines are Dongfang's primary product and sourced from Xunwu County
- Record 2016 harvest
- 148,000 tonnes of tangerines harvested, up 4% from 2015; reflects acquisition of new plantation
- Prices up 1% from 2015



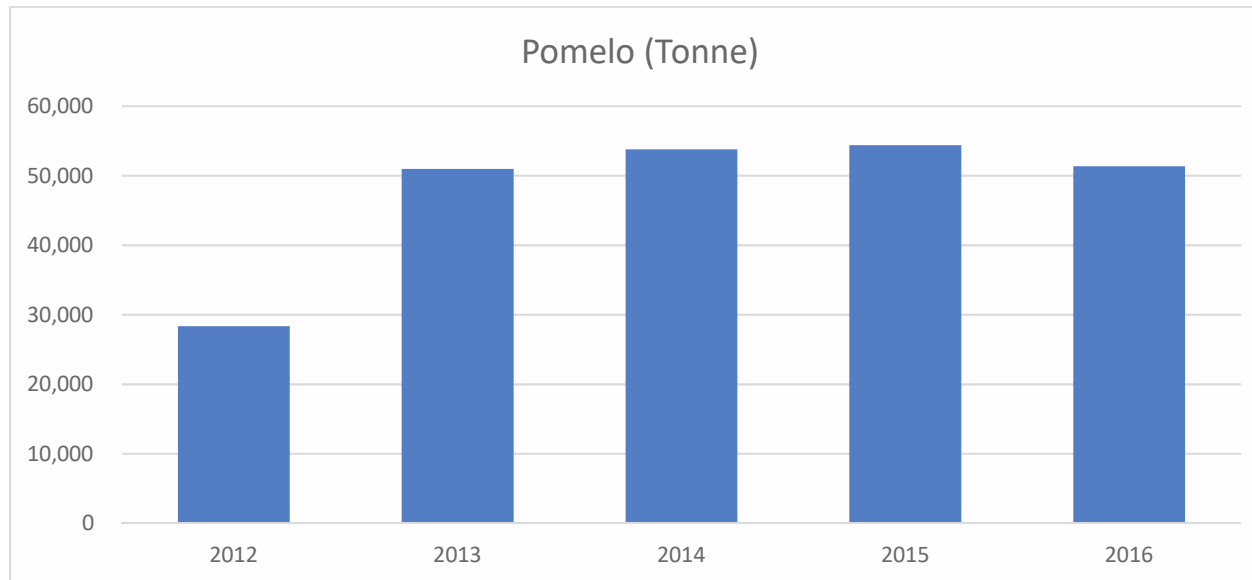
### 3. Business model – navel oranges

- Navel orange orchards are located in the Special Citrus Zone, in Ganzhou City, Jiangxi Province
- Sold to tier-1 cities such as Guangdong, Shanghai and Beijing
- Fourth year of orange harvest
- 19,000 tonnes produced, down 5% from 2015 due to unfavourable weather
- Unit prices increased 31% from 2015



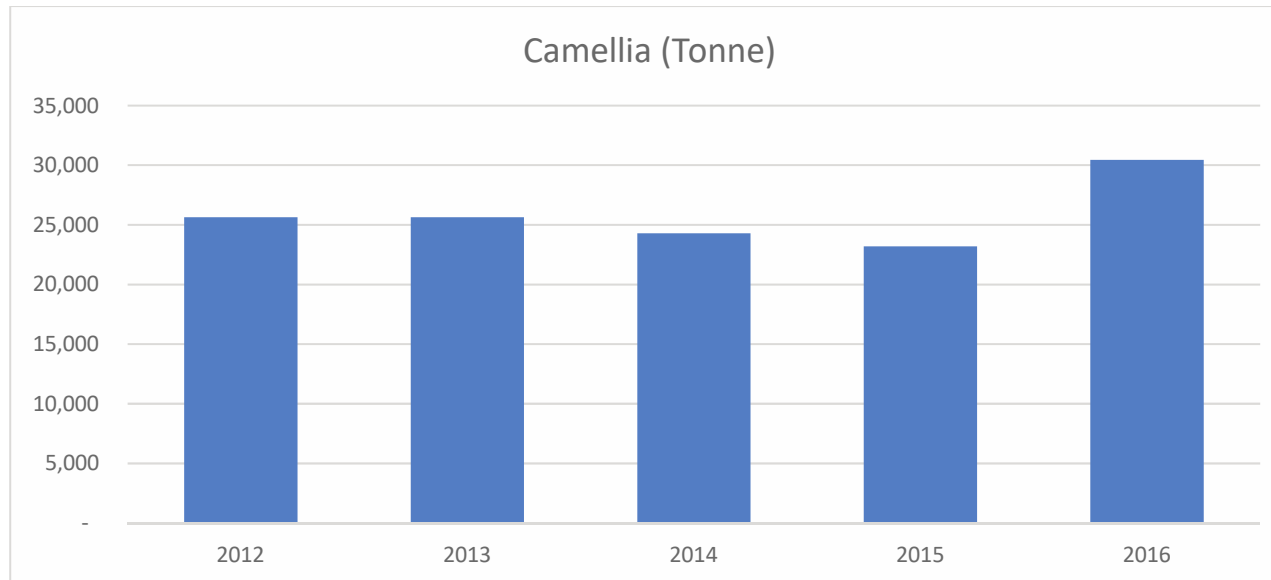
### 3. Business model - pomelos

- Pomelos are sourced from the Nankang district, south west of Ganzhou
- 51,000 tonnes of pomelos harvested in 2016, down 5% from 2015 due to unseasonal weather
- Unit prices up 12% from 2015



### 3. Business model - camellia

- Camellia is harvested from several plantations in the Ganzhou City region, including Xingguo County
- Typically used to make camellia oil which is used in food preparation
- 30,000 tonnes of camellia fruit products produced in 2016, up 31% due to the acquisition of two plantations





## 4. GROWTH PLAN



## 4. Growth plan – Primary drivers

### Primary drivers

- Reinvestment of profit in upstream grower business (budgeting more than \$80m in 2017)
- Improve productivity and efficiency
- Develop middle stream processing business
- Build up own brand, expand to downstream retail business
- Use FTA between China and Australia to start local business

## 4. Upstream grower plan

### Strategic acquisitions

- Grower sector remains highly fragmented in People's Republic of China
- Dongfang expects to make further plantation acquisitions in 2017
- Acquisitions enable Dongfang to exploit economies of scale, and increase yield/ efficiency while cutting costs
- Tree management, selective breeding and soil improvement enhances yield
- Working towards potential middle stream processing business and downstream business, capturing value across the whole industry chain

## 4. Middle stream processing business

### Opportunity to expand through middle and downstream camellia business

- Possible acquisition of local camellia oil factory
- Own planting business to provide raw materials (camellia seeds)
- Further opportunity to develop camellia oil products, working with famous brand to produce natural skin care and cosmetics products
- Advantages include a more stable revenue stream, reducing seasonality of the upstream business
- Complementary with existing upstream planting business



## 4. Camellia product opportunity

### Camellia oil – possible growth opportunity

- Camellia oil is a high-quality, healthy vegetable oil which has high nutritional value and excellent storage qualities
- With similar composition to olive oil, it is often called 'Eastern olive oil' and extensively used in China for cooking, and also cosmetics and medicine
- Supported by Chinese government policies, production of camellia oil production in China is expected to increase from 0.26 million tonnes annually to exceed 2.5 million tonnes by 2020 (15-20% of Chinese edible oil consumption)
- Annual personal consumption is 0.2kg, much lower than olive oil consumption of 20kg in developed countries
- While olive oil consumption in developed countries is 40% of total vegetable oil consumption, for annual camellia oil consumption to increase to 2kg per person in China, camellia production needs to increase ten-fold

## 5. SUMMARY



## 5. Summary

1. Leading citrus harvesting market position in China
2. Capitalising on demographic and dietary trends of China's increasingly health- and nutrition focused people
3. Enjoys long term PRC Government tax free incentives
4. Well positioned to consolidate fragmented upstream, mid-stream and upstream industrial chain
5. Potential to develop middle and downstream camellia oil and retail business
6. Consistent dividend payments
7. Positive track record of growth and profitability

# Contact us



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## 6. Appendices





## 6. Board of directors/ management



### Executive Chairman

**Hongwei Cai**

Founder and major shareholder



### Chief Executive Officer

**Chiu (Charles) So**

Previously ED of HK-listed  
China Packaging Group



### Executive Director

**Barton Tso**

Previously ED/ CFO of  
HK-listed China Fortune



### Non-executive Director

**Dan Lin**

Government relations and  
business development



### Non-executive Director

**Michael Choi**

Former member of Queensland  
Parliament

# 6. 2016 Financial results

## Robust financial performance

- NPAT \$81.6m
- Earnings per share: 23 cents

### Financial Performance

	2016		2015	
	RMB '000	AUD'000	RMB '000 (Restated)	AUD'000 (Restated)
Πεσυνος	1,024,960	194,164	933,945	176,923
Χοσ οφουεσ	(572,099)	(108,376)	(515,756)	(97,703)
Γροσπρφτ	452,861	85,788	418,189	79,220
Οπερνγμ ε	1,231	233	1,038	197
Αδμ ννσρπνε ελκνενεσ	(13,201)	(2,501)	(17,783)	(3,369)
	<b>440,891</b>	<b>83,520</b>	<b>401,444</b>	<b>76,048</b>
Φνννλγε χοσ	(23)	(4)	(9)	(2)
<b>Profit before income tax</b>	<b>440,868</b>	<b>83,516</b>	<b>401,435</b>	<b>76,046</b>
Ινλγμ ε τωλ ελκνενε	(10,200)	(1,932)	□	□
<b>Profit for the year</b>	<b>430,668</b>	<b>81,584</b>	<b>401,435</b>	<b>76,046</b>
<b>Other comprehensive income:</b>				
Γεμ στησ μ ολβε σβσεθενλμρελκννφεδ το πρφτ ορλσ				
Ελκννγε δνλκνενεσ ον κρννσννλν γρετνν σκερπνν	7,389	1,400	8,154	1,545
Ινλγμ ε τωλ ρελννν το γεμ στησ μ ολβε ρελκννφεδ σβσεθενλμ το πρφτ ορλσ	□	□	□	□
<b>Other comprehensive income for the year, net of tax</b>	<b>7,389</b>	<b>1,400</b>	<b>8,154</b>	<b>1,545</b>
<b>Total comprehensive income for the period</b>	<b>438,057</b>	<b>82,984</b>	<b>409,589</b>	<b>77,591</b>
<b>Earnings per share</b>				
<b>Basic</b>	<b>RMB1.10</b>	<b>AUD0.21</b>	<b>RMB1.09</b>	<b>AUD0.21</b>

# 6. 2016 Financial results

## Strong balance sheet

- All receivables noted at 31 December 2016 were collected in early 2017
- The difference in receivables reflected a change in credit collection (after harvest and the sale of products in late 2016), as Dongfang extended customer credit from 30 day to 60 day terms
- While in 2015 receivables were collected before year-end, the 2016 receivables were paid in calendar 2017
- Dongfang enjoys long-standing relationships with its customers

## Consolidated Statement of Financial Position

	Notes	31-Dec-16 RMB '000	31-Dec-15 RMB '000 (Restated)	1-Jan-15 RMB '000 (Restated)
<b>Assets</b>				
<b>Current</b>				
Χορηγ. ανδ. χορηγ. εθ. υπ. ανδ.	13	376,254	632,190	288,767
Τραπεζ. ανδ. ομ. επ. επ. ανδ.	14	462,587	60,688	78,702
Αποφ. ανδ. επ. ανδ.	15	112,335	108,970	95,634
<b>Total current assets</b>		<b>951,176</b>	<b>801,848</b>	<b>463,103</b>
<b>Non-current</b>				
Προμηθ. πλ. ανδ. εθ. υπ. ανδ.	16	1,941	421	738
Βεβαιωτ. πλ.	17	1,212,864	613,037	324,544
Αποσ. φορ. ανδ. ομ. επ. ανδ.	17	□	155,400	240,000
Αποφ. ανδ. επ. ανδ.	15	22,273	29,899	33,999
<b>Total non-current assets</b>		<b>1,237,078</b>	<b>798,757</b>	<b>599,281</b>
<b>Total assets</b>		<b>2,188,254</b>	<b>1,600,605</b>	<b>1,062,384</b>
<b>Liabilities</b>				
<b>Current</b>				
Τραπεζ. ανδ. ομ. επ. επ. ανδ.	18	152,630	15,118	60,175
Αμ. συν. ανδ. ομ. επ. επ. ανδ.	24	57,451	1,685	38
Χρηρ. επ. ομ. επ. επ. ανδ.	20	77	□	□
Επ. επ. επ. ανδ.		10,200	□	□
<b>Total current liabilities</b>		<b>220,358</b>	<b>16,803</b>	<b>60,213</b>
<b>Non-current</b>				
Χρηρ. επ. ομ. επ. επ. ανδ.	20	411	□	□
<b>Total non-current liabilities</b>		<b>411</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>220,769</b>	<b>16,803</b>	<b>60,213</b>
<b>Net assets</b>		<b>1,967,485</b>	<b>1,583,802</b>	<b>1,002,171</b>
<b>Equity</b>				
• Σημ. χορηγ.	21	208,502	172,042	□
• Ρεσ. ανδ.		76,506	69,117	60,963
• Ρεσ. ανδ. επ. ανδ.		1,682,477	1,342,643	941,208
<b>Total equity</b>		<b>1,967,485</b>	<b>1,583,802</b>	<b>1,002,171</b>

## 6. Company structure

- Simple and clean corporate structure
- No joint ventures, associate or cross-shareholdings



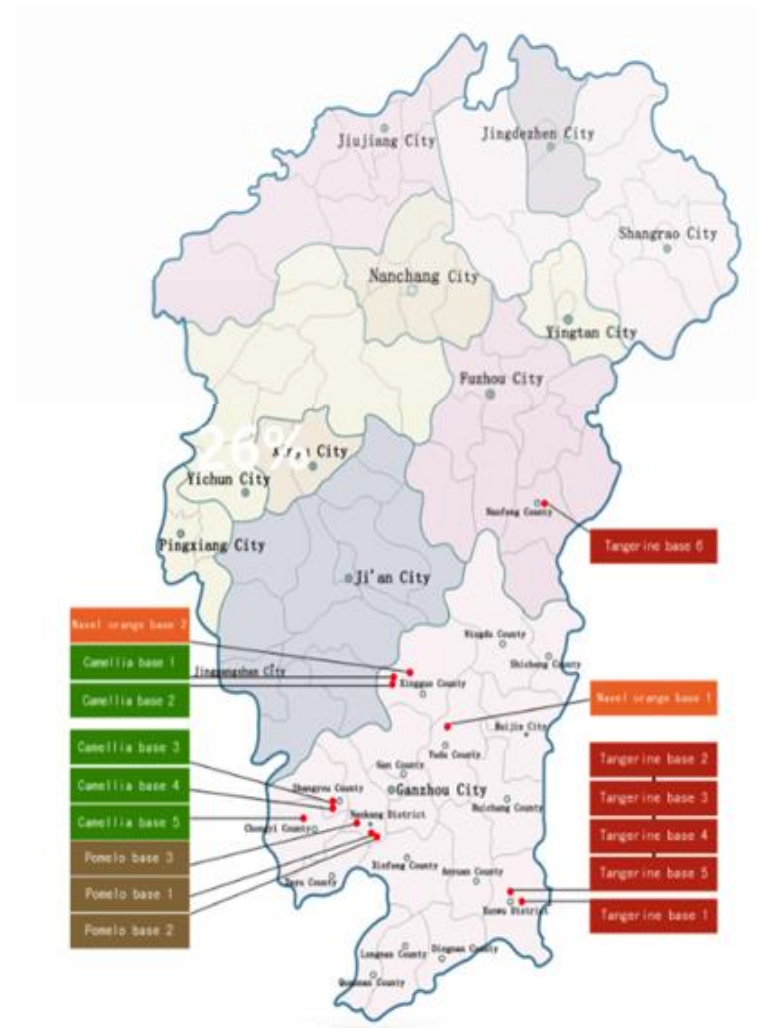
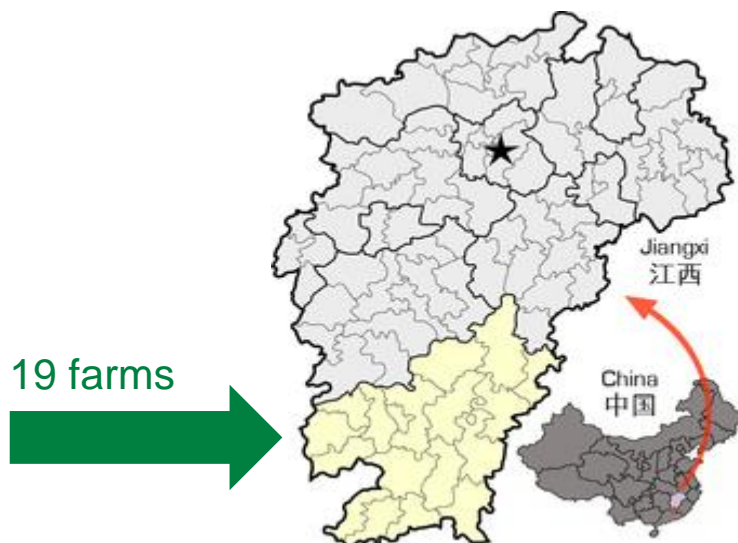
## 6. Land title

- DFM controls 19 plantations spanning over 9,800 hectares, all located in China's premier citrus growing region, the Ganzhou City district, Jiangxi Province
- Private land ownership is not possible in the PRC, but individual farmers historically have been given a right to the usage of the land. However, Government has allowed aggregation of these land usage rights to permit large-scale intensive farming
- DFM has aggregated several plantations, implementing better operating practices which have increased yields and productivity
- Lease-hold operation rights purchased from village committees (Co-operatives)
  - Lease : right to manage the orchards and sell the fruit produced, but does not own the land nor plantations on that land; Acquired: own the land and plantations on that land
  - Lease : 10-15 years ; Acquired: 20-30 years
  - Average life remaining for DFM plantations: ~13 years



# 6. Location

- Plantations located within China's premier fruit growing region
- Ganzhou City is within Special Tangerine Zone
- Ganzhou brand well known for navel oranges
- High average rainfall of ~1500mm p.a
- Low cost of irrigation
- Long frost-free growing season
- Ganzhou population >9m provides ample labour force



Located within China's best fruit growing region

## 6. Government incentive policy

Taxation benefit  
provides >42%  
extra cashflow

Effective from 1 January 2008, Article 27 of the New Tax Law provides enterprises engaging in certain agricultural activities, including growing of fruits and selection and cultivation of new agricultural species, exemptions from China Enterprise Income Tax (EIT - 30%), VAT and business tax.

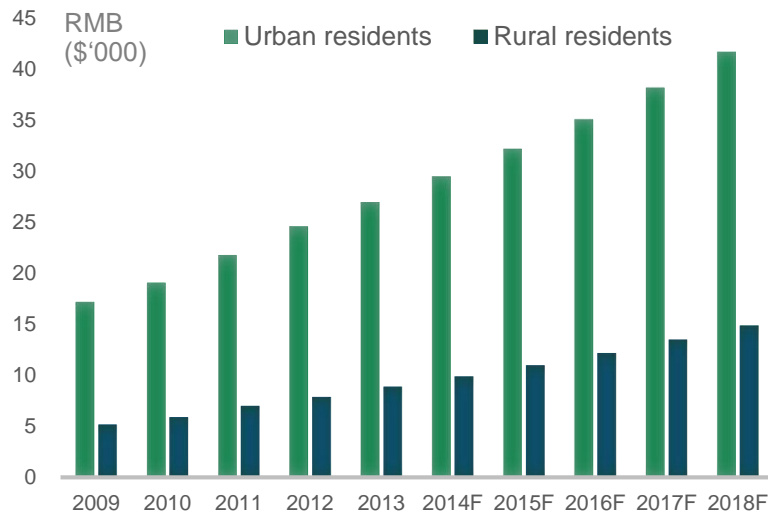
Encourages import  
replacement and also  
export

Tangerine, including pomelos, are well sought in China, with demand spilling over to imports. Whilst import share of markets is currently modest, the value and volume has been growing at a CAGR of about 40% and 34% respectively over the past 5 years.

The Chinese Government encourages import replacement and export and assists domestic plantation operators to expand their business.

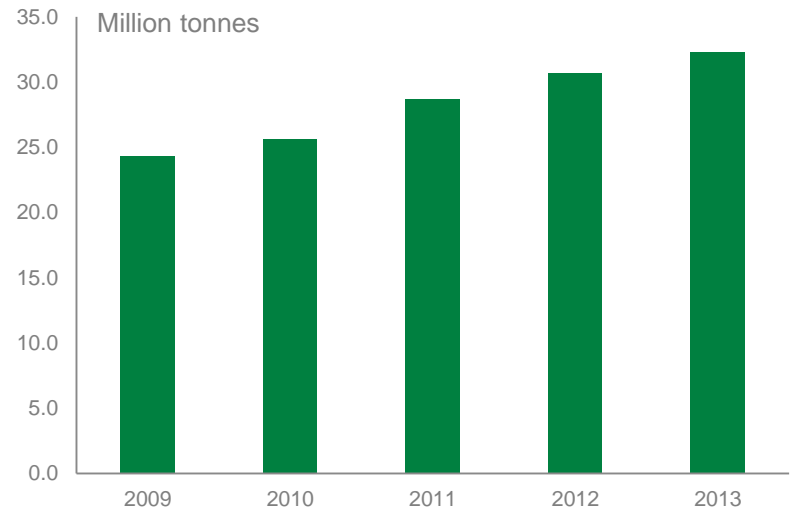
## 6. Solid foundation in large market

**Ave. Annual Household Disposable Income in China 2009 - 2018**



**Rising household disposable income for both urban and rural**

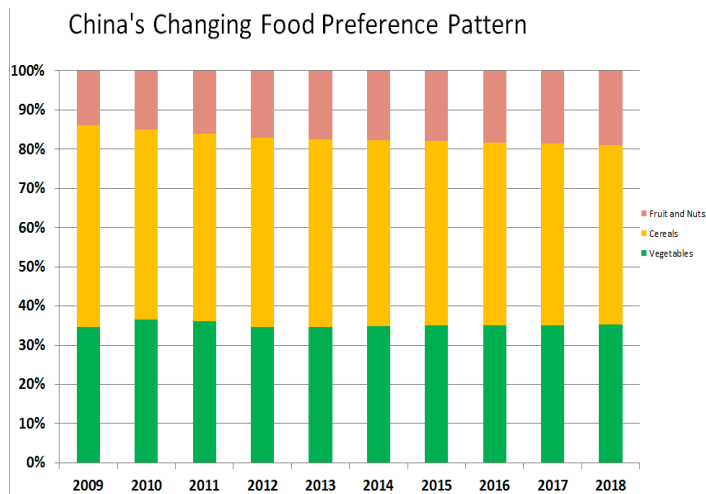
**Ave. Annual Household Disposable Income in China 2009 - 2018**



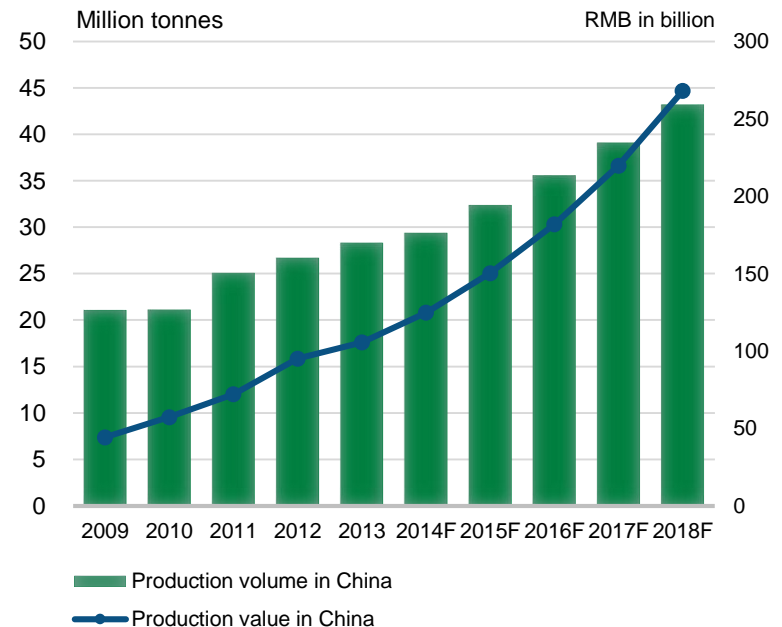
**Rising consumption volume of citrus fruits in China**

## 6. Consumption trends favor citrus

Fruits are playing more important role in Chinese food consumption

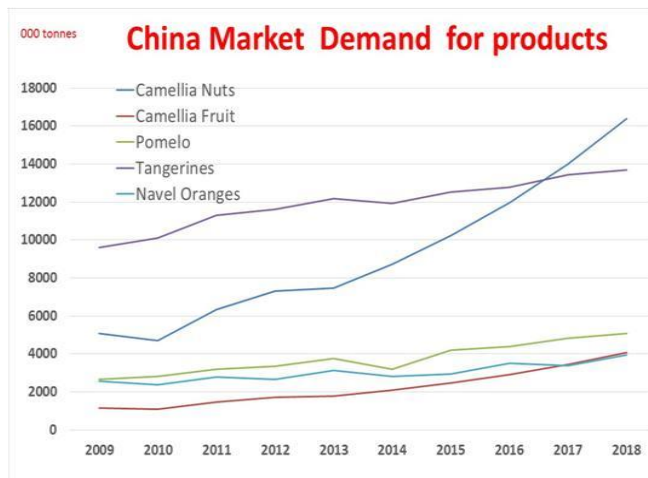


Chinese citrus fruit growth forecast at CAGR of ~24% in value and ~12% in volume 2014 - 2018

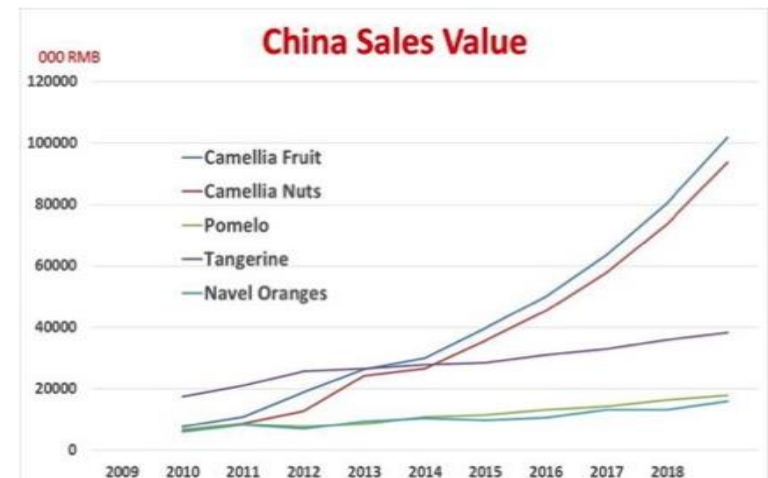


## 6. Strong and growing demand

Market demand (000'tonnes)



Product Sale Value (000'RMB)





## 6. Plantation area growth

### Plantation areas

Area (hectares)		2013	2014	2015	2016
Tangerine	Lease	3,751	3,751	4,017	4,017
	Acquired	0	0	400	800
	Total	3,751	3,751	4,417	4,817
Camellia	Lease	60	60	60	1,713
	Acquired	2,187	2,187	2,187	1,334
	Total	2,247	2,247	2,247	3,047
Pomelo	Lease	1,433	1,433	1,434	1,433
Orange	Acquired	45	542	542	542
Total		7,475	7,972	8,639	9,839