

Dongfang Modern acquires Australian health supplements business

- Acquisition of 70% of Bio Health Pharmaceuticals for total cash consideration of \$18 million representing 5.5 X forecast 2019 EBIT of \$4.6 million
- Enters high growth, high margin sector
- Diversifies Dongfang's business into the health supplements market, adding capability to process camellia seeds produced by Dongfang into premium value camellia oil
- Significant opportunities to realise synergies and increase sales through Dongfang's China sales network
- Strong Australian management team will stay with the business

Leading Chinese agricultural producer, Dongfang Modern Agriculture Holding Group (ASX: **DFM**), today announced that the group will acquire 70% of the equity of Australian-based complementary health care, personal care and skin care product manufacturer Bio Health Pharmaceuticals Pty Limited (**Bio Health**) for a total cash consideration of \$18 million.

The acquisition represents a strategic move to broaden the group's revenue base outside China into the high margin, high growth health supplement market that complements its agricultural business.

Executive Chairman Hongwei Cai commented: "This is a transformative acquisition for Dongfang which we expect to create significant value for shareholders. It provides the building blocks for Dongfang to become a premium health supplements provider in China, Australia and internationally. Bio Health is a Therapeutic Goods Administration (**TGA**) and Australian Certified Organic (**OCA**) licensed business, compliant with the Australian Code of Good Manufacturing Practice (**GMP**).

"The acquisition will complement our Chinese agricultural business which harvests camellia, navel orange, pomelo and tangerine fruit. There is great demand in China for Australian-made health products that attract premium prices, and our connections and sales networks in China open up the opportunity to capitalise on this market. We intend to invest a further \$5 million in Bio Health's facility subject to certain conditions, enabling Dongfang to process camellia fruit into camellia oil products such as skin care and cosmetics for export under a new consumer brand."

According to the Australian Trade and Investment Commission¹, the complementary medicines market in China is booming, driven by rising incomes and consumer spending, greater interest in health and wellbeing, and regulatory reforms. The health food market in China is valued at RMB200 billion (AUD 41 billion) and is forecast to grow 10% year-on-year between 2015 and 2025.

Onward Business Consultants is acted as financial adviser to Dongfang in relation to this acquisition.

Bio Health management retained

Bio Health manufactures complementary medicines, health and skin care products at Silverwater, 12 kilometres from Sydney's central business district. The company provides research, development and manufacturing to the highest standards of quality, safety and product efficacy. It has a state of the art computerised operating system and well-equipped facilities and supplies health products for domestic and international use.

The company has an experienced management team which will remain with Dongfang following completion of the acquisition. The company's key management will continue to run the Bio Health business and has committed to remain with the company for over four years.

¹ Australian Trade and Investment Commission (Austrade), Complementary Medicines in China, March 2017

Bio Health has grown significantly since its establishment in 2010 and expects to report net sales for calendar year 2018 of \$9.6million. The company anticipates earnings before interest and tax (EBIT) of \$2.0 million for 2018.

Acquisition cost and funding

The acquisition values the Bio Health business at \$25.3 million, which represents a multiple of 5x expected 2019 earnings before interest and tax (EBIT) of \$4.6 million.

The transaction has been funded through a term loan facility with China Huarong Macau (HK) Investment Holdings, which is a member of the China Huarong group of companies. The term loan of approximately \$50 million was fully drawn on 2 January 2018. China Huarong is one of China's leading financial asset management companies.

Summary

Executive Chairman Hongwei Cai said: "I am excited to announce our first Australian acquisition which represents a significant milestone in our progress as an ASX-listed company.

"We aim to diversify our agricultural business and to become also a premium health supplements provider. Initially we will focus on exporting Australian-made products into the Chinese market, using our existing supply chain. We believe this will contribute to increasing shareholder value through greater profitability and a more diverse and even cash flow.

"In the longer run we will look to expand internationally and further capitalise on Chinese consumers' preference for healthy fruit and health supplement products. This acquisition provides a great opportunity for Dongfang to expand the markets that we serve and exploit increasing demand for healthcare supplements."

Dongfang controls 21 plantations covering 10,763 hectares in China's premier fruit growing region, the Jiangxi Province. Since formation in 2009, the company has grown to become one of the largest agricultural harvesters in China.

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About Dongfang Modern

Dongfang Modern is a leading agricultural producer operating in the world's largest market, China. It offers Australian investors a unique exposure to China's agribusiness sector.

In 2017, the company sold more than 237,000 tonnes of fruit and camellia products, generating revenue of A\$213.6 million, net profit of A\$93.9 million, and operating margins in excess of 45%. The group's plantations today span more than 10,700 hectares.

Formed in 2009, the company has grown each year, benefitting from China's favourable taxation incentives for agribusiness companies.