

---

## Dongfang Modern Annual General Meeting

### Chairman's Address

Welcome ladies and gentlemen.

We are delighted to be holding our third AGM in Sydney. This is important for Dongfang, as it is home to the ASX where we listed in 2015 and it is also the location of our first Australian acquisition.

Dongfang Modern is a market leading fruit harvester in China, and we enjoy the advantages of being located in China's best fruit growing region. We control 21 orchards in Ganzhou, Jiangxi, where we harvest premier quality tangerines, navel oranges, pomelos and camellia fruit. These orchards span more than 10,700 hectares and are located in a designated Special Citrus Zone.

Our strategy has been to grow by acquisition, and in 2017 we secured a 380-hectare camellia plantation and a 544-hectare navel orange plantation in the Ganzhou City district. These plantations increased our plantations by 10% and contributed to another record harvest.

By applying modern agricultural processes and technologies at our orchards, we improve productivity and yield by around 20% to 40% over the first three years. We also focus on achieving efficiencies, which have enabled us to reduce costs and report gross margins over 45% in 2017.

Our 2017 revenue was \$214 million, up 4% from \$206 million in 2016. This was despite weather adversely impacting some of our crops. It was pleasing to report net profit of \$94 million, up 9% from \$87 million in 2016. This was another record, and earnings per share increased to 23 cents from 22 cents in 2016.

In April 2018 we achieved a milestone with the acquisition of a 70% interest in Bio Health Pharmaceuticals located in Sydney's suburb of Silverwater. This strategic move broadens the group's revenue base outside China and provides the building blocks for Dongfang to enter the high growth, high margin health supplements market. Bio Health is TGA approved and an Australian Certified Organic licenced business, and its management team have committed to remain with the business for more than four years. Our existing connections and network open up the opportunity to capitalise on the sale of health supplements and skin care products in the Chinese market.

As the population in China becomes more affluent people become more health conscious and the demand for health supplements and vitamin products increases. Australian-made health products are viewed as high quality in China and command premium prices. We aim to take advantage of this booming complementary medicines market and penetrate the \$42 billion Chinese health supplements market with a new brand.

We intend to invest further in Bio Health's facility enabling Dongfang to process camellia fruit into camellia oil products such as skin care and cosmetics for export under a new consumer brand. In the longer run we will look to expand internationally and further capitalise on Chinese consumers' preference for healthy fruit and health supplements products.

We consider that the health supplements business is complementary to our agricultural business. This acquisition provides the opportunity to process camellia seeds produced by Dongfang into healthy products as well as utilise our existing distribution network in China to grow the business.

The transaction has been funded through a term loan facility of approximately \$50 million with China Huarong Macau Investment Holdings entered into early 2018. This was the first time that the company has used its strong balance sheet to fund expansion through debt. We are confident of our ability to drive significant returns on investments.

In light of current diversification and expansion opportunities, the Board has decided to invest capital for future growth rather than declare a dividend for the 2017 financial year. We will continue to assess our dividend policy with a view to maintaining a payout that is optimal for Dongfang's continued growth.

Looking forward, we anticipate continued growth in our seasonal fruit harvesting business. Dongfang's operations now bridge two continents, and we will be working hard to become a premium health supplements provider. The acquisition of Bio Health furthers our growth strategy and brings additional benefit by demonstrating our commitment to Australia. We believe that our share price has suffered from a 'trust gap' which we hope is now being rectified and are grateful to the many shareholders who have supported us.

I would like to welcome the Bio Health team to Dongfang and thank all of Dongfang's employees and customers for their ongoing hard work and dedication. 2017 was a year of significant progress which we expect will continue in 2018 on a broader scale.

Thank you.

**For further information, please contact:**

*In Australia:*

Philip Killen, Company Secretary +61 408 609 916

*International:*

Charles So, CEO +61 449 895 835  
c.so@dfm.net.au

*Media enquiries:*

Ashley Rambukwella, FCR +61 407 231 282  
and [a.rambukwella@fcr.com.au](mailto:a.rambukwella@fcr.com.au)