

ASX RELEASE
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JAT Acquires 70% of Australian Infant Formula Manufacturer

Highlights

- **JAT has agreed to acquire 70% of Australian Natural Milk Association Pty Ltd (ANMA), a Melbourne-based dairy product manufacturer with CNCA/SAMR approval to export infant formula to China**
- **Consideration of \$12 million in cash and \$2 million in JAT shares is staged in six tranches between signing of the agreement and 30 June 2020, and will be funded from existing cash reserves, anticipated operational and financing cash flows and debt funding**
- **Acquisition secures infant formula slots for JAT to export infant formula and other dairy products to China**
- **Acquisition captures the manufacturer's margin for JAT, ensures that all of JAT's products can be produced under its control, strengthens the Company's control of quality and pricing and provides development opportunities for more in-house products**

Australia-Asia trade specialist, Jatenergy Limited (ASX: JAT) is pleased to announce that it has agreed to acquire 70% of the issued shares in Australian Natural Milk Association Pty Ltd ("ANMA"). The acquisition allows JAT to take control of the supply chain of one of its major growing products. As a result, JAT will eliminate reliance on contract manufacturers for its milk powder products, it will increase its profits by capturing the manufacturer's margin and business risk will be reduced.

The consideration is \$14 million, payable by instalments of cash totalling \$12 million and, subject to shareholder approval, the issue of JAT shares in the amount of \$2 million.

The remaining 30% of ANMA will be retained by a current shareholder. None of the vendors are related parties of JAT.

JAT Managing Director, Wilton Yao, said:

"We are delighted to welcome ANMA to JAT. This acquisition accelerates JAT's strategic plan to insource manufacture of its fast-growing product range and decrease reliance on contract manufacturers. We have taken this opportunity to vertically integrate to capture the manufacturer's margin, reduce our business risk and build a strong fixed asset base."

"Through this acquisition, we are excited to secure infant formula slots for exporting infant formula and other dairy products to China, and look forward to delivering enhanced returns to investors by lowering costs and manufacturing more rapidly to meet growing demand."

Background to Acquisition

In line with JAT's strategy to expand its in-house range of dairy, infant formula and other health products, on 13 June 2018 the Company announced its acquisition of 51% of Sunnya Pty Limited ("Sunnya"). Since acquisition, Sunnya has entered into material agreements with several partners in China to distribute its infant and adult dairy products in Asia. One of Sunnya's in-house brands, Neurio, now has one of the most popular product ranges with lactoferrin in the Chinese market.

Following JAT's early success in securing these distribution agreements, the Company has continued to develop additional opportunities to penetrate the Chinese fast-moving consumer goods (FMCG) markets. In May 2019, Sunnya launched Middle-Aged Formulated Nutritional Powder with Lactoferrin, an innovative premium range of Neurio targeting the high-growth middle-aged market segment in Australia and Asia.

The development of the Neurio goat milk infant formula builds on the success of the Neurio lactoferrin series products. It is estimated that a very large proportion of the Chinese population has a certain degree of cow lactose intolerance and cow milk protein allergy. There is a significantly lower goat milk lactose intolerance to goat milk powder formula in China.

The Neurio goat milk infant formula has been developed to provide for three stages of child development by providing three separate products, being Neurio Goat Infant Formula, Neurio Goat Follow-on Formula and Neurio Goat Formulated supplementary food for young children. The Neurio goat milk infant formula products are being manufactured in Australia to ensure the high quality of the products.

The acquisition of ANMA will provide security to ensure that JAT is able to export Neurio goat infant formula to the Chinese market.

Until now, JAT outsourced manufacture of all in-house brands to Australian manufacturers at arm's length. The Company's recent growth in sales and distribution partnerships has brought the side-effect of difficulties in securing sufficient manufacturing capacity to meet demand for its products. This has resulted in JAT either losing or deferring sales opportunities.

About ANMA

ANMA owns and operates a 5,000m² manufacturing facility on 8,000 m² of land in western Melbourne equipped with state-of-the-art processing lines specialising in handling infant formula milk powder and other dairy products.

ANMA is one of only 15 milk powder manufacturers in Australia approved by China's Certification and Accreditation Administration (CNCA) for exporting infant formula into China under regulatory requirements administrated by China's State Administration for Market Regulation (SAMR).



ANMA's manufacturing facility in Derrimut, Victoria

Under the CNCA approval, the factory has three infant formula slots for Chinese product versions.

Strategic Rationale

By acquiring ANMA and therefore gaining access to the manufacturing plant, JAT will ensure that all of its products can be produced under its control.

This will strengthen JAT's control of quality, pricing and provide development opportunities for more in-house products.

Furthermore, the acquisition will provide JAT with a significant opportunity to secure infant formula registration for its-brands with SAMR, providing a more profitable platform to expand its current sales in the Chinese market with the Company's in-house brands.

Investment in Lactoferrin Product Manufacturing Post-Acquisition

A further upside to the acquisition is that JAT can immediately move to have ANMA acquire production lines for the manufacture of lactoferrin-based products. ANMA's production facility at Derrimut has the space to add and integrate the additional production lines to its current manufacturing lines.

Lactoferrin is a key ingredient in setting apart JAT's products from those of competitors. It is also a very expensive ingredient and achieving in-house capability to manufacture lactoferrin-based products will enhance JAT's supply line control while maximising quality and profitability. The cost of the equipment to achieve this is expected to be approximately \$3 million. It is also expected that ANMA will be able to produce and sell lactoferrin manufactured by the new manufacturing plant to other milk producers at a significant margin.

Terms of the Acquisition

The material terms of the acquisition are as follows:

- (i) JAT will acquire 70% of the issued capital of ANMA from the current shareholders;
- (ii) the consideration payable by JAT to the vendors is \$12 million in cash payable in instalments and \$2 million payable by way of issue of JAT shares, subject to shareholder approval;
- (iii) the instalments totalling \$12 million are payable as follows:

Event/ Date	Amount
Signing of SPA	\$500,000
7 September 2019	\$3.5 million
1 October 2019	\$1 million
31 December 2019	\$4 million
30 June 2020	\$3 million
Total	\$12 million

(iv) The shares issued to satisfy the payment of \$2 million will be issued as soon as possible after shareholder approval is obtained. In the event that shareholder approval is not obtained, JAT will be required to pay \$2 million in cash in lieu to the vendors.

(v) There are no conditions precedent, except that completion of the transaction is subject to a determination by ASX regarding whether or not shareholder approval is required pursuant to Chapter 11 of the ASX Listing Rules.

(vi) The vendors are:

- Dongmei Hua
- Nanjing Puxianggu Dairy Co Ltd
- Xiaoxing Sun
- Jun Gao
- Dennis G. Pamplin Pty Limited

(vii) Dongmei Hua will retain 30% of the shares in ANMA at completion.

There will be no change to the Board of Directors of JAT as a result of the acquisition of ANMA.

Funding of Consideration

The cash consideration of \$12 million will be funded from the following sources:

- (i) current cash resources within the JAT group (\$7.8 million cash at bank as at 30 June 2019);

- (ii) proceeds from the potential conversion of 6c options in JAT, all of which have an expiry date of November 2019. If all options are exercised, total proceeds in excess of \$4 million will be generated;
- (iii) debt funding; and
- (iv) cash flow generated from the trading operations of JAT and its subsidiaries.

The issue price of the \$2 million in JAT shares will be calculated as the VWAP of JAT shares over the seven trading days following the date of this announcement, less 15%.

General meeting of shareholders

JAT intends to hold a general meeting of shareholders on 24 September 2019 to approve the issue of JAT shares as part consideration for the acquisition of ANMA. The Company will circulate meeting details shortly via the ASX platform.

For more information, please contact:

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About Jatenergy Limited

Jatenergy Ltd (ASX: JAT) is a China-Australia trade specialist. The Company develops and markets a portfolio of in-house branded FMCGs, focusing on growth opportunities in dairy products.

JAT has positioned itself as a major player in the flourishing Australian consumer goods export industry, offering Chinese retail presence, online sales to Chinese consumers through offshore platforms, and high-volume wholesaling to daigou groups and other distribution channels.

JAT's extensive network of Chinese business affiliations is a substantial source of opportunities, both for the company and for its Australian business partners.