Dongfang Modern

ASX:DFM | 30 August 2018 | ASX RELEASE

Dongfang expects record 2018 harvest

Leading Chinese agricultural producer, Dongfang Modern Agriculture Holding Group (ASX: DFM), today reported financial results for the six months to 30 June 2018. As the company's harvests of camellia, navel oranges, pomelo and tangerines in China take place between September and December each year, the majority of the company's revenue and profit is earned in the second half of the year.

On 20 April 2018 Dongfang acquired a 70% interest in Australian health supplements business Bio Health Pharmaceuticals Pty Ltd (Bio Health), in a strategic move which has broadened the group's revenue base outside China. Bio Health is a Therapeutics Goods Administration (TGA) licensed business and its purchase has enabled Dongfang to enter the high-margin, high-growth, health supplements market.

Dongfang has already invested in machinery for Bio Health which, having outgrown its existing premises, is finalising plans to relocate to a new Western Sydney location in the first half of 2019. A manufacturing plant has been commissioned that will enable the company to more than double production, benefit from economies of scale and increase its product range.

The new facility will support development of Dongfang's own brands to drive sales in Australia and overseas markets. The health food market in China is valued at approximately $41 billion and is expected to increase 10% year-on-year between 2015 and 2025. Licensed Australian brands are well respected in China; Dongfang expects to exploit its existing connections and sales networks to facilitate sales. The company is also considering possible acquisitions of existing brands to expedite growth.

Dongfang also expects to benefit from the China-Australia Free Trade Agreement (ChAFTA) which has eliminated tariffs on the majority of trade in goods between Australia and China. Since late 2015, ChAFTA has ensured that 85% of Australian exports enter China tariff-free or at preferential rates and the proportion is expected to increase to 93% by 1 January 2019. This includes health products, vitamins and pharmaceuticals.

Chairman of Dongfang, Hongwei Cai, said: "We are pleased with Bio Health's progress to date, and look forward to establishing the new facility and launching a new brand. Our agricultural business has also grown with the acquisition of a 526-hectare camellia plantation and a 354-hectare navel orange plantation in Xingguo County after balance date. This increased our orchards under cultivation by more than 10% to 11,580 hectares and we anticipate another record harvest in 2018.

"We continue to apply modern husbandry techniques at our plantations in order to improve yields and expect operating margins for our agricultural business to remain in excess of 40%."

The company reported an after-tax loss of A$7.0 million for the half year, compared with an after-tax loss of A$1.3 million for the previous corresponding period. This reflected financing costs of $2.3 million associated with Dongfang's term loan facility which is denominated in Hong Kong dollars, and an unrealised foreign exchange loss of A$2.7 million due to depreciation of the Australian dollar compared to the Hong Kong dollar. The company also incurred administrative costs of $1.1 million related to the acquisition of Bio Health and its continuing operations.

Dongfang reported net profit after tax of RMB 467.1 million (A$93.9 million) for the full year ended 31 December 2017, an increase of 8.5% from RMB 430.7 million (A$86.6 million) for the previous corresponding year.

Outlook

The company expects to report a profit for the full year to 31 December 2018.

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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 11,580 hectares.

Formed in 2009, the company has grown each year, benefitting from China's favourable taxation incentives for agribusiness companies. In April 2018, Dongfang Modern entered the health supplements market through the acquisition of Australia-based Bio Health Pharmaceuticals.

Dongfang Modern Agriculture Holding Group Limited

For the Half Year ended 30 June 2018

Dongfang Modern Agriculture Holding Group Limited
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Current period:	1 January 2018 to 30 June 2018
Prior corresponding period (PCP)	1 January 2017 to 30 June 2017

CONTROL GAINED OVER ENTITIES IN THE HALF-YEAR

On 20 April 2018, the Group acquired a 70% interest in Bio Health Pharmaceuticals Pty Ltd, a manufacturer of food supplements.

Bio Health contributed net profit of approximately A$33k to the group for the period from 20 April 2018 to 30 June 2018. Bio Health reported an operating profit after tax for the half-year ended 30 June 2017 of A$117k.

Results for announcement to the market

AUD1=RMB4.99331 (rate at 15-Aug-18)			
For the half-year ended 30 June 2018	**30-Jun-18 AUD '000**	**30-Jun-17 AUD '000**	**Change**
Revenue from ordinary activities	916	-	0%
Loss from ordinary activities after tax attributable to equity holders	(7,021)	(1,288)	445%
Net loss for the period attributable to equity holders	**(7,021)**	**(1,288)**	445%

Increased revenue for the period compared to the prior period represents the contribution from the Company's recent acquisition of Bio-Health. Sales of health supplements is non seasonal whereas the Company's agricultural business is seasonal. The Company harvests citrus and camellia oil plantation from September to December each year and as such there is no revenue from the agriculture business in this first half of the year.

The loss for the first half year increased by 445% primarily due to financing costs associated with the Company's HK$300 million loan (~A$52 million) entered into in January 2018. During the period the Company incurred increased finance costs of A$2,307k, recorded an unrealized exchange loss of A$2,728k due to the depreciation of the A$ against the HK$.

Administrative expenses were $1,056k higher as compared to prior corresponding period due primarily to the costs associated with the acquisition of Bio health and administrative expenses related to its ongoing operation.

The directors do not propose an interim dividend (2017: AUD0.05 per ordinary share).

Net tangible assets per security

AUD1=RMB4.99331 (rate at 15-Aug-18)		
	30-Jun-18 AUD	**31-Dec-17 AUD**
Net tangible asset backing per ordinary security	**1.14**	1.15

Basis of preparation

This interim financial report under ASX Listing Rule 4.2A.3 covers Dongfang Modern Agriculture Holding Group Limited and its controlled entities, and is based on the attached interim financial report which has been prepared in accordance with Australian accounting standards.

The interim financial report is not subject to audit dispute or qualification.

Periodic Disclosure Requirements Compliance Statement

1 An interim report for the half year ended 30 June 2018 is provided with the Appendix 4D information.

2 The interim report has been prepared in accordance with AASB 134 Interim Financial Reporting.

3 The interim report and information provided in Appendix 4D uses the same accounting policies as those applied at 31 December 2017, except mandatory changes under the Australian equivalents to International Financial Reporting Standards (A-IFRS).

4 The Appendix 4D information gives a true and fair view of the matters disclosed in the interim financial report.

5 The Appendix 4D information is based on the interim financial report, which has been subject to review.

6 The review report by the auditor is provided with the interim financial report

Signed

Hongwei Cai
Chairman
[30 August 2018]

Contents

The Directors of Dongfang Modern Agriculture Holding Group Ltd ('Dongfang Modern Agriculture Holding Group' or 'DFM') present their Report together with the financial statements of the Consolidated Entity, being Dongfang Modern Agriculture Holding Group ('the Company') and its Controlled Entities ('the Group') for the half-year ended 30 June 2018.

Director details

The following persons were Directors of Dongfang Modern Agriculture Holding Group during or since the end of the financial half-year:

Mr. Hongwei Cai - Chairman
Mr. Chiu So
Mr. Ming Sing Barton Tso
Ms. Dan Lin
Mr. Michael Wai-Man Choi

Review of operations and financial results

The Company acquired a 70% equity interest in Bio-Health, a company that manufactures and sells food supplement, for A$18m. Bio Health contributed revenue A$926,000 from the sale of health supplements for the period from acquisition to 30 June 2018. Bio Health's contribution to the DFM group is forecast to increase with the planned upgrade of Bio Health's manufacturing capacity and future expansion plans.

The Company's agricultural business is on track for another record production in the second half of the year with the acquisition of 526-hectare camellia plantation and a 354-hectare navel orange plantation at total considerations of A$89.3m during the period and continuing improvement to the Company's existing plantations which span more than 11,580 hectares.

The operating result of the Group was a loss of RMB 35m (2017: RMB 6.4m) as a result RMB11.5m finance cost incurred for the loan of RMB247.2m obtained during the period and the unrealized exchange loss of RMB13.6m associated with the loan which is denominated in HK$.

The loss per share has increased from RMB0.02 in 2017 to RMB0.08 accordingly.

Summary Financial results in Australian Dollars (AUD)

The interim financial statements for the six (6) months ended 30 June 2018 are presented in Chinese Yuan (RMB), which is the functional currency of the Group. To assist the shareholders, a summary of these results is also presented in this Directors Report below in Australian dollars (AUD). Note that the period represented is the non-harvest season. Revenue from agricultural activities is generated in the second half year. Revenue in current year represents sale of food supplements attributed to the Bio-Health business acquired during the period.

Statement of Profit or Loss and Other comprehensive income

For the half-year ended 30 June 2018 AUD1=RMB4.99331 (rate at 15-Aug-18)	**30-Jun-18 AUD '000**	**30-Jun-17 AUD '000**
Revenue	916	-
Cost of sale	(634)	-
Gross profit	282	-
Other income	23	-
Exchange difference	(2,728)	-
Interest income	202	149
Administrative expenses	(2,491)	(1,435)
Operating losses	**(4,712)**	**(1,286)**
Finance cost	**(2,307)**	**(2)**
Loss before tax	**(7,019)**	**(1,288)**
Income tax expense	-	-
Loss for the period	**(7,019)**	**(1,288)**
Other comprehensive income for the period, net of tax		
Items that may be subsequently reclassified to profit or loss		
- Exchange differences on translating foreign operations	**2,137**	**(368)**
Total comprehensive loss for the period	**(4,882)**	**(1,656)**
Net profit attributable to		
The owners of the Company	**(7,020)**	(1,288)
Non-controlling interest	1	-
	(7,019)	**(1,288)**
Total comprehensive income attributable to		
The owners of the Company	**(4,883)**	(1,656)
Non-controlling interest	1	-
	(4,882)	**(1,656)**
Earnings per share:		
- Basic and diluted	-	-

Statement of Financial Position

As at 30 June 2018 AUD1=RMB4.99331 (rate at 15-Aug-18)	30-Jun-18 AUD '000	31-Dec-17 AUD '000
Assets		
Current		
Cash and cash equivalents	43,530	76,496
Trade and other receivables	10,320	108,329
Inventory	363	-
Deferred expenses	69,819	20,733
Current assets	**124,032**	**205,558**
Non-current		
Goodwill	5,760	-
Intangible assets	22,784	-
Property, plant and equipment	925	242
Bearer plants	321,111	326,691
Deposits paid for acquisition of bearer plants	69,937	-
Deferred expenses	14,677	20,719
Non-current assets	**435,194**	**347,652**
Total assets	**559,226**	**553,210**
Liabilities		
Current		
Trade and other payables	15,548	52,511
Amount due to a shareholder	-	13,725
Obligation under finance lease	16	16
Income tax payable	2,043	2,043
Current liabilities	**17,607**	**68,295**
Non-current		
Deferred tax liabilities	6,745	-
Borrowings	49,503	-
Obligation under finance lease	97	67
Non-current liabilities	**56,345**	**67**
Total liabilities	**73,952**	**68,362**
Net assets	**485,274**	**484,848**
Equity		
Share capital	62,025	62,025
Reserves	15,263	13,127
Retained earnings	402,675	409,696
Equity attributable to owners of the Company	479,963	**484,848**
Non-controlling interest	5,311	-
Total equity	**485,274**	**484,847**

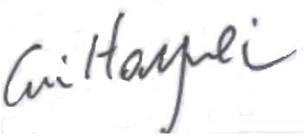
Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is included on page 9 of this financial report and forms part of this Directors Report.

Rounding of amounts

Dongfang Modern Agriculture Holding Group is a type of Company referred to in ASIC Class Order 98/100 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest RMB1,000 (where rounding is applicable), or in certain cases, to the nearest dollar under the option permitted in the class order.

Signed in accordance with a resolution of the Directors.



Hongwei Cai
Chairman
[30 August 2018]

To the Directors of Dongfang Modern Agriculture Holding Group Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 30 June 2018, there have been:

i. No contraventions of the audit ro independence requirements as set ou in the *Corporations Act* 2001 in relation to the review, and

ii. No contraventions of ay applicable code of professional conduct in relation to the review

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SCOTT TOBUTT
PARTNER

30 August 2018
Sydney, NSW

PKF(NS) Audit & Assurance Limited Partnership
ABN 91 850 861 839

Liability limited by a scheme approved under Professional Standards Legislation

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For The Half Year Ended 30 June 2018

For the half-year ended 30 June 2018	Notes	30-Jun-18 RMB '000	30-Jun-17 RMB '000
Revenue		4,572	-
Cost of sales		(3,166)	-
Gross profit		1,406	-
Other income		116	-
Exchange difference		(13,622)	-
Interest income		1,007	742
Administrative expenses		(12,440)	(7,167)
Operating losses		**(23,533)**	**(6,425)**
Finance cost		**(11,519)**	**(12)**
Loss before tax		**(35,052)**	**(6,437)**
Income tax expense	3	-	-
Loss for the period		**(35,052)**	**(6,437)**
Other comprehensive income for the period, net of tax		**-**	**-**
Items that may be subsequently reclassified to profit or loss			
- Exchange differences on translating foreign operations	4	**10,669**	**(1,837)**
Total comprehensive loss for the period		**(24,383)**	**(8,274)**
Net profit attributable to			
The owners of the Company		**(35,056)**	(6,437)
Non-controlling interest		4	-
		(35,052)	**(6,437)**
Total comprehensive income attributable to			
The owners of the Company		(24,387)	(8,274)
Non-controlling interest		4	-
		(24,383)	**(8,274)**
Earnings per share:			
- **Basic and diluted**	5	(0.08)	(0.02)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2018

As at 30 June 2018	Notes	30-Jun-18 RMB '000	31-Dec-17 RMB '000
Assets			
Current			
Cash and cash equivalents		217,358	381,968
Trade and other receivables		51,531	540,920
Inventory		1,812	-
Deferred expenses		348,627	103,528
Current assets		**619,328**	**1,026,416**
Non-current			
Goodwill		28,760	-
Intangible assets		113,770	-
Property, plant and equipment		4,617	1,208
Bearer plants		1,603,409	1,631,268
Deposits paid for acquisition of bearer plants	11	349,218	-
Deferred expenses		73,287	103,458
Non-current assets		**2,173,061**	**1,735,934**
Total assets		**2,792,389**	**2,762,350**
Liabilities			
Current			
Trade and other payables		77,636	262,206
Amount due to a shareholder	7	-	68,535
Obligation under finance lease		80	82
Income tax payable		10,200	10,200
Current liabilities		**87,916**	**341,023**
Non-current			
Deferred tax liabilities		33,678	-
Borrowings	12	247,184	-
Obligation under finance lease		482	335
Non-current liabilities		**281,344**	**335**
Total liabilities		**369,260**	**341,358**
Net assets		**2,423,129**	**2,420,992**
Equity			
Share capital	8	309,708	309,708
Reserves		76,214	65,545
Retained earnings		2,010,683	2,045,739
Equity attributable to owners of the Company		2,396,605	**2,420,992**
Non-controlling interest		26,524	-
Total equity		**2,423,129**	**2,420,992**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For The Half Year Ended 30 June 2018

For the half-year ended 30 June 2018	Share capital RMB 000's	Statutory reserve RMB 000's	Capital reserve RMB 000's	Exchange reserve RMB 000's	Retained earnings RMB 000's	Total equity attributable to owner of the Company RMB 000's	Non-controlling interest RMB 000's	Total equity RMB 000's
Balance at 1 January 2018	309,708	20,321	40,642	4,582	2,045,739	2,420,992	-	2,420,992
Non-controlling interest on acquisition of subsidiary	-	-	-	-	-	-	26,520	26,520
Transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**26,520**	**26,520**
Loss for the period	-	-	-	-	(35,056)	(35,056)	4	(35,052)
Other comprehensive income	-	-	-	10,669	-	10,669	-	10,669
Total comprehensive loss for the period	**-**	**-**	**-**	**10,669**	**(35,056)**	**(24,387)**	**4**	**(24,383)**
Balance at 30 June 2018	309,708	20,321	40,642	**15,251**	**2,010,683**	**2,396,605**	**26,524**	**2,423,129**

	RMB 000's	RMB 000's	RMB 000's	RMB 000's	RMB 000's	RMB 000's	RMB 000's	RMB 000's
Balance at 1 January 2017	**208,502**	**20,321**	**40,642**	**15,543**	**1,682,477**	**1,967,485**	**-**	**1,967,485**
Dividends	-	-	-	-	(103,877)	(103,877)	-	(103,877)
Transactions with owners	**-**	**-**	**-**	**-**	**(103,877)**	**(103,877)**	**-**	**(103,877)**
Loss for the period	-	-	-	-	(6,437)	(6,437)	-	(6,437)
Other comprehensive income	-	-	-	(1,837)	-	(1,837)	-	(1,837)
Total comprehensive loss for the period	**-**	**-**	**-**	**(1,837)**	**(6,437)**	**(8,274)**	**-**	**(8,274)**
Balance at 30 June 2017	**208,502**	**20,321**	**40,642**	**13,706**	**1,572,163**	**1,855,334**	**-**	**1,855,334**

The accompanying notes form part of these financial statements.

For the half-year ended 30 June 2018		30-Jun-18 RMB '000	30-Jun-17 RMB '000
Operating activities			
Net cash from operating activities		110,397	164,264
Investing activities			
Purchase of property, plant and equipment		(2,099)	-
Payment for bearer plants		(349,218)	(388,616)
Acquisition of subsidiaries, net of cash acquired		(86,905)	-
Interest received		-	742
Net cash used in investing activities		(438,222)	(387,874)
Financing activities			
(Repayment to)/advance from a shareholder		(68,535)	7,909
Finance lease repayment		(91)	(32)
Proceeds from loan		233,562	-
Interest paid		(11,519)	-
Net cash from financing activities		153,417	7,877
Net change in cash and cash equivalents		**(174,408)**	**(215,733)**
Cash and cash equivalents, beginning of period		381,968	376,254
Exchange differences on cash and cash equivalents		9,798	(3,112)
Cash and cash equivalents, end of period		**217,358**	**157,409**

The accompanying notes form part of these financial statements

1. BASIS OF PREPARATION

This condensed consolidated interim financial report has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 "Interim Financial Reporting" issued by the Australian Accounting Standards Board. This condensed consolidated interim financial report does not include all of the information required in annual financial statements in accordance with Australian Accounting Standards andshould be read in conjunction with the annual report for the year ended 31 December 2017, which has been prepared in accordance with Australian Accounting Standards ("AASBs") issued by the Australian Accounting Standards Board. These condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual report for the year ended 31 December 2017.

The interim financial statements have been approved and authorised for issue by the Board of Directors on [30 August 2018].

The following accounting policies are newly applicable to the Group:

Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with AASB 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Where the Group has not received final valuations of identifiable assets and liabilities by the end of the reporting period, the Group retrospectively adjusts valuations during the measurement period.

Intangible assets

(i) Goodwill

Goodwill is measured as described in Business Combination set out in above. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(ii) Trademarks, licences and customer contracts

Separately acquired trademarks and licences are shown at historical cost. Trademarks, licenses and customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

(iii) Research and development

Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use
- management intends to complete the product and use or sell it
- there is an ability to use or sell the product
- it can be demonstrated how the product will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the product are available, and
- the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the product include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Research expenditure and development expenditure that do not meet the criteria in (iii) above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iv) Amortisation methods and periods

The group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

- Patents, trademark and licences 8 years
- Development costs 8 years

Impairment of goodwill and intangible assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.
Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Revenue recognition for sale of goods – food supplements

The Group manufactures and sells a range of food supplements in the wholesale market. Sales are recognised when products are delivered to the wholesaler. The wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

2. ADOPTION OF NEW AND REVISED AASBs

The Group has not applied any new AASBs that have been issued but are not yet effective in the current period.
In the current period, the Group has adopted all the new and revised AASBs issued by the Australian Accounting Standards Board that are relevant to its operations and effective for its annual period beginning on 1 January 2018. The adoption of these new and revised AASBs did not result in significant changes to the Group's accounting policies, presentation of the Group's condensed consolidated financial statements and amounts reported for the current period and prior periods.

3. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which has been effective since 1 January 2008. The Group's main operating entity, Ganzhou Chinese, which is engaged in agricultural business, is exempted from profits tax as the Chinese government provides a nation-wide tax exemption for agricultural business in its tax legislation.

The Group's other entities are either engaged in investment holdings or Group administrative activities or are incurring tax losses.

Australian Income Tax was not provided as the newly acquired Australian company's taxable profit was fully off set by tax losses brought forward.

No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong during the financial periods presented.

4. EXCHANGE DIFFERENCES ON TRANSLATING FOREIGN OPERATIONS

There was no material translation difference in the prior period as the Group's operations were all in China and there was no presence in Australia before the group restructuring for listing on the ASX.

Exchange difference arose from the translation of the Company and an Australian subsidiary financial statements from Australian Dollars to Renminbi.

5. EARNINGS PER SHARE

Both the basic and diluted earnings per share ("EPS") have been calculated using the profit attributable to shareholders of the Parent Company as the numerator, i.e. no adjustments to profits were necessary during the six months period to 30 June 2018 and 30 June 2017.

Basic and diluted earnings per share are the same as there were no dilutive instruments.

6. DIVIDEND

There were no dividends paid or proposed in this period. On 28 February 2017, the Directors declared a final dividend of AUD0.05 per ordinary share.

7. AMOUNT DUE TO A SHAREHOLDER

RMBnil (2017: RMB68,535k) is due to the controlling shareholder, Hongwei Cai, which is interest free, unsecured and repayable on demand.

8. SHARE CAPITAL

	Number of shares	RMB '000
At 1 January 2018 and at 30 June 2018	420,356,644	309,708

9. SEASONAL FLUCTUATION

By its very nature, the business undertaken by Ganzhou Chinese is highly seasonal with all harvests and sales occurring during the months of September to December each year as follows:

Camellia	October and November
Pomelo	November and December
Navel Orange	November and December
Tangerine	September and October

As a result there was no revenue in this first half of the year.

10. BUSINESS COMBINATION

(a) Summary of acquisition

On 20 April 2018, the Group entity acquired 70% interest in Bio Health Pharmaceuticals Pty Ltd, a manufacturer of food supplements.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	RMB'000
Cash paid	86,905

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value
Cash	163
Trade and other receivables	2,616
Inventories	2,109
Property, plant and equipment	3,651
Intangible assets	
- Licence	106,635
- Trademark	5,584
- Development costs	1,551
Trade and other payables	(3,966)
Deferred tax liability	(33,678)
Net identifiable assets acquired	84,665
Less: non-controlling interests	(26,520)
Add: goodwill	28,760
Total consideration paid	86,905

Goodwill is attributable to the Bio-Health's management, established network and channel. Goodwill will not be deductible for tax purposes.

The fair value of the acquired license and trademark are provisional pending receipt of the final valuations for those assets. The Group recognised the non-controlling interest in the acquisition above as a share of net identifiable assets.

(b) The acquired business contributed revenues of approximately RMB4,572,000 and net profit of approximately RMB166,000 to the group for the period from 20 April 2018 to 30 June 2018.

If the acquisition had occurred on 1 January 2018, consolidated pro-forma revenue and loss for the period ended 30 June 2018 would have been approximately RMB18,793,000 and RMB34,886,000 respectively.

11. Deposits paid for acquisition of bearer plants

By the end of the period, the Company entered into contract to acquire 526-hectare camellia plantation and a 354-hectare navel orange plantation at total considerations of approximately RMB436.5m of which a deposit of RMB349.2m was paid as of 30 June 2018. The plantations have been handed to the Company as at the date of this report.

12. Borrowing

On 2 January 2018, the Company drew down a borrowing facility of HK$300,000,000. The key terms of the borrowing are as follows:

a) The term for the facility is approximately 3 years repayable at minimum of HK$30 million on 20 December 2019 with the remainder due on the 20 December 2020, unless extended. The Company may apply in writing for a one year extension subject to compliance with its obligations under the facility and repayment of 20% of the outstanding principal of the Facility before 20 December 2020. Notwithstanding the relevant term of repayment, the Lender has the right to request for the Facility (principal and interest) to be payable in full on demand.

b) The Company may repay the Facility in full after 20 December 2019.

c) Interest is payable six monthly in arrears at the following rates:

First Year	9.2% pa
Second Year	10.5% pa

13. Critical estimates and judgements

(a) Estimation of the useful life of intangible asset

The Group has recently acquired patents, trademark and licences and development cost through business combination and determined their useful life of 8 years based on the expected technical obsolescence of such assets. However, the actual useful life may be shorter or longer than 8 years, depending on technical innovations and competitor actions.

(b) Estimation of goodwill impairment

The Group will test whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations will use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

14. Segment information

The Group has five reportable segments, which are:–

- Plantation of tangerine
- Plantation of camellia
- Plantation of pomelo
- Plantation of orange
- Manufacture and sale of food supplements

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology strategies. Segment profits or losses do not include unallocated other income and unallocated corporate expenses. Segment assets do not include cash and bank balances and unallocated corporate assets. Segment liabilities do not include unallocated corporate liabilities.

There were no revenue nor results reported for the plantation operation. The food supplement operation report a revenue of RMB4,572,000 and net profit of RMB166,000.

	Tangerine		Camellia		Pomelo		Orange		Food supplements		Total	
	30-Jun-18	31-Dec-17	**30-Jun-18**	31-Dec-17	**30-Jun-18**	31-Dec-17	**30-Jun-18**	31-Dec-17	**30-Jun-18**	31-Dec-17	**30-Jun-18**	31-Dec-17
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Assets												
Segment assets	**697,467**	712,378	**568,411**	581,847	**60,110**	123,009	**862,257**	674,981	**149,798**	-	**2,338,043**	2,092,215
Liabilities												
Segment liabilities	**1,853**	43,966	**464**	79,208	**281**	615	**399**	87,609	**2,410**	-	**5,407**	211,398

DIRECTOR'S DECLARATION

In the directors' opinion:

1. the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

    a. the attached financial statements and notes thereto give a true and fair view of the company's financial position as at 30 June 2018 and of its performance for the financial half-year ended on that date; and
    b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Hongwei Cai
Director
[30 August 2018]
Hong Kong

PKF

TO THE SHAREHOLDERS OF DONGFANG MODERN AGRICULTURAL HOLDING GROUP LIMITED

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying Interim Financial Report of Dongfang Modern Agricultural Holding Group Limited.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Interim Financial Report of Dongfang Modern Agricultural Holding Group Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the half-year ended on that date; and

b) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

The Interim Financial Report comprises the condensed consolidated interim statement of financial position as at 30 June 2018, and the condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

The Group comprises Dongfang Modern Agricultural Holding Group Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for the preparation of the Interim Financial Report in accordance with Australian Auditing Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

PKF(NS) Audit & Assurance Limited Partnership
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Auditor's independent review report

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Dongfang Modern Agricultural Holding Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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SCOTT TOBUTT
PARTNER

30 August 2018
Sydney, NSW