

# ESPERANCE MINERALS LIMITED (ASX: ESM) – ASX RELEASE

15 December 2015

ASX Announcement – For immediate release

## ACQUISITION OF CHINESE AGRI-FOOD BUSINESS

Esperance Minerals Limited (ASX: **ESM** or the Company) is pleased to announce that it has entered into a non-binding heads of agreement (“**HoA**”) for the proposed acquisition of 40% of the issued capital of Goyes Agri-Food Investment Ltd (“**Goyes**”). This proposed acquisition of Goyes is subject to, among others, satisfactory confirmatory due diligence, acquisition of Australian based agri-food businesses, approval by shareholders of ESM in a general meeting and ESM re-complying with chapters 1 and 2 of the ASX Listing Rules.

Goyes is a leading meat exporter in Hunan Province of China with a complete business chain of operations. The Goyes is principally engaged in farming, slaughtering, processing, manufacture and export of frozen meat and processed meat products.

### Highlights:

- **Established leading agri-food company located in central China**
- **A vertically-integrated business model of agri-farms, production facilities, distribution and customer base**
- **China has high and growing demand for livestock and poultry which is protein orientated**
- **New production facilities to triple existing production and capacity to support the forecast strong growth and earnings**
- **Strong and established management team**
- **Plan to acquire wholly owned Australia feed lot and processing businesses where product is to be sold into Goyes; customer base at commercial rates**
- **Acquisition price of AUD40 million payable in Esperance shares is based on strong historical earnings – CY 2014 of EBIT of approximately AUD21 million**

Esperance Chairman Tony Ho commented as follows, “*The proposed acquisition of Goyes will be transformational for Esperance and its shareholders. Goyes’ vertical-integration and market dominance in the Hunan Province serves as a strong leverage for the proposed acquisition of Australian businesses to be wholly owned and will create a vertically integrated Sino-Australian supply chain of quality meat products for Goyes customers in China and its export markets*”. Chairman Ho also noted that “*Goyes was the exclusive Official Supplier of meat for the 2008 Beijing Summer Olympic Games*”.

Goyes’ Executive Chairman and major shareholder, Mr He commented that “*The proposed transaction represents an exciting opportunity for Goyes, especially the opportunity to work with Australian producers and access quality Australian products, which is regarded as one of the best in the world. I believe that the proposed merger between Goyes and Esperance, including the acquisition of a number of Australian*



*agri-businesses, would be a major win for all stakeholders and that it would translate into long terms sustainable value for all”.*

## **Overview**

Goyes is one of the largest exporters in terms of export revenue in the agricultural food sector in Hunan Province in 2013. The product range is segmented into three categories:

- *Frozen Meat:* Goyes manufactures and exports frozen meat, including pork, beef, mutton and poultry. The meat is predominantly exported to Hong Kong and Kyrgyzstan. Frozen meat accounts for over 60% of its revenue;
- *Processed Meat Products:* This product line includes pork, fish and beef meatballs in addition to cooked roasted pork. These products are exported and sold to wholesalers, trading companies and distributors in Hong Kong. Processed meat accounts for over 30% of its revenue; and
- *Other Products:* These include the by-products, from the slaughtering process, and live hogs. Generally these products are exported to Hong Kong, and/or local third party customers. Other products accounts for the balance of the company’s revenue.

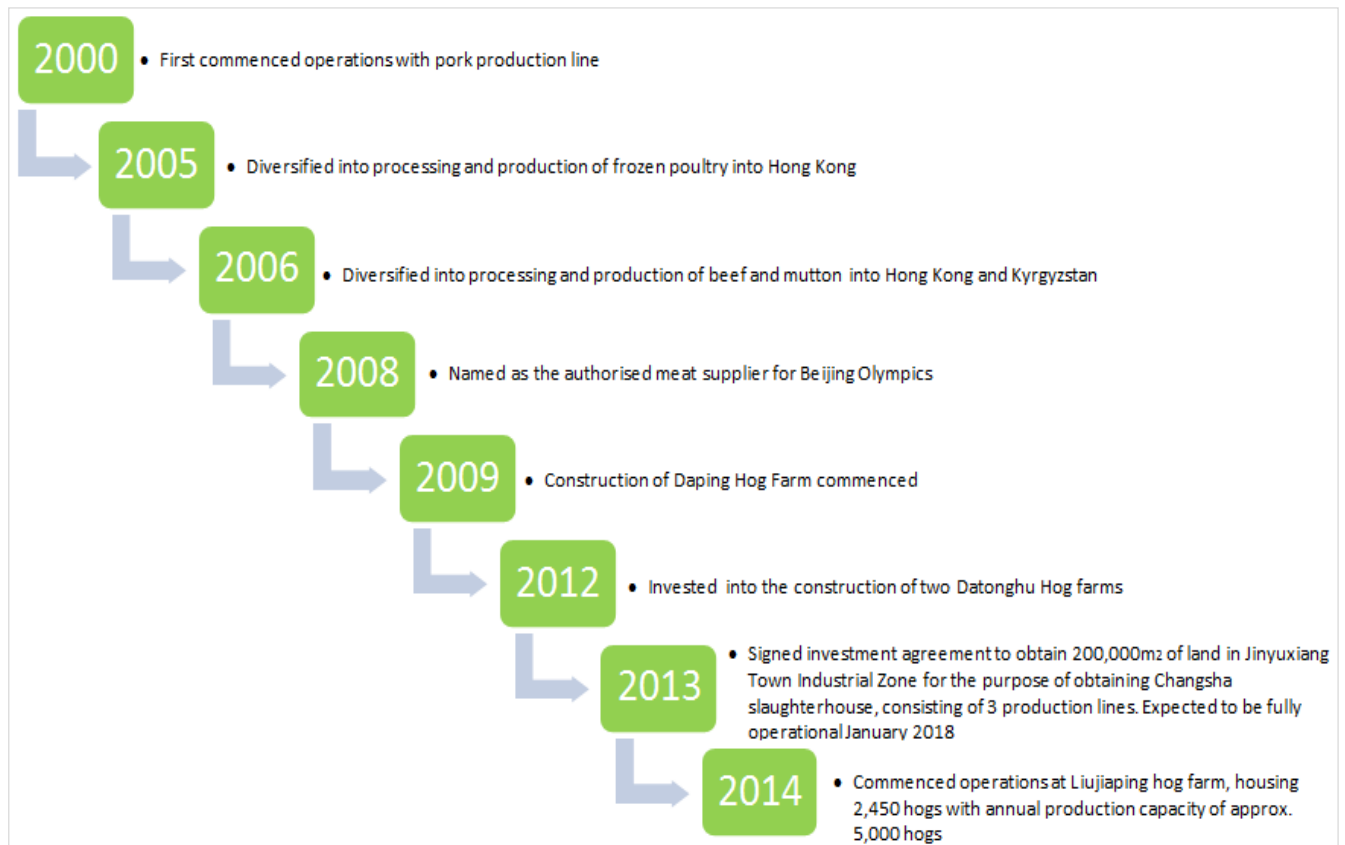
Goyes’ strategy is to maintain its market leading role as a provider of meat products through focus on a vertically-integrated business model, build on the strategic location of production facilities and maintaining a well-recognised brand supported by dedication to quality control, high production standards and a proven management team. Goyes is also committed to operating an environmentally friendly business model.

Goyes currently holds various patents in relation to its core processes and procedures to ensure it remains a market leader in its field.

## **Background**

Goyes today is a result of a series of strategic acquisitions and partnerships over the last 15 years that developed the business into a vertically-integrated business model - from the farming of livestock and poultry, through to the distribution of frozen meat and processed meat products.

A summary of key events throughout the history of Goyes is summarised below:



## Target Markets

With the growth of the middle class, China's diet has changed significantly over the years, in turn exerting a powerful influence on domestic and international agriculture. This change is a direct result of exponential economic growth and the improved quality of life seen in China over the last decade. The average daily food intake in China has increased from 1,863 calories to 3,074 calories by 2011 in line with UK consumption of 3,414 calories. The biggest contribution to this trend was meat consumption having quadrupled since 1971<sup>1</sup>. Pork remains the primary source of meat consumption in China and there are trends towards increased consumption of beef whilst poultry and other meats remain consistent.

Self-sufficiency is no longer a practical policy goal for the Chinese government as agriculture food consumption has begun to outstrip production in major markets, particularly in the meat market. China is now venturing overseas to bolster its food security through investments in foreign farmland and the acquisition of companies across the broader food supply chain.

Pork consumption has increased immensely since late 1970s following the liberalisation of agriculture. The increase in pork demand has mirrored the country's rapid economic expansion and recent growth in middle class as more people can afford to eat meat. Pork continues to be the primary component of annual meat protein consumption, excluding mutton and seafood, at 74%<sup>2</sup>. The average Chinese citizen now consumes 39kg of pork each year, approximately 17kg more per capita than in the US<sup>3</sup>. The pork industry in China is so important that the Government controls a pork reserve, comprised of both frozen meat and state-controlled live hogs used to stabilise prices. As a result of increased demand pork prices have more than doubled since the year 2000 although this isn't as much as beef which has seen prices increase four times over the same period<sup>3</sup>.

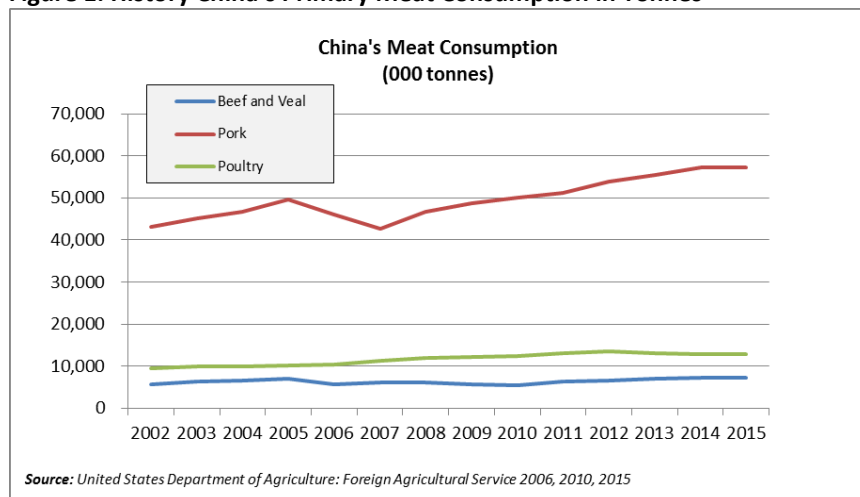
<sup>1</sup> Price Waterhouse Coopers (PwC), *Changing Chinese diet brings China into era of food interdependence*, October 2015, [http://pwc.blogs.com/press\\_room/2015/10/changing-chinese-diet-brings-china-into-era-of-food-interdependence.html](http://pwc.blogs.com/press_room/2015/10/changing-chinese-diet-brings-china-into-era-of-food-interdependence.html)

<sup>2</sup> United States Department of Agriculture, *Livestock and Poultry: World Markets and Trade (Foreign Agricultural Service, October 2015)*

<sup>3</sup> "What will it take to meet China's growing demand for pork?", <http://thefuturescentre.org/articles/3818/what-will-it-take-meet-china-s-growing-demand-pork>

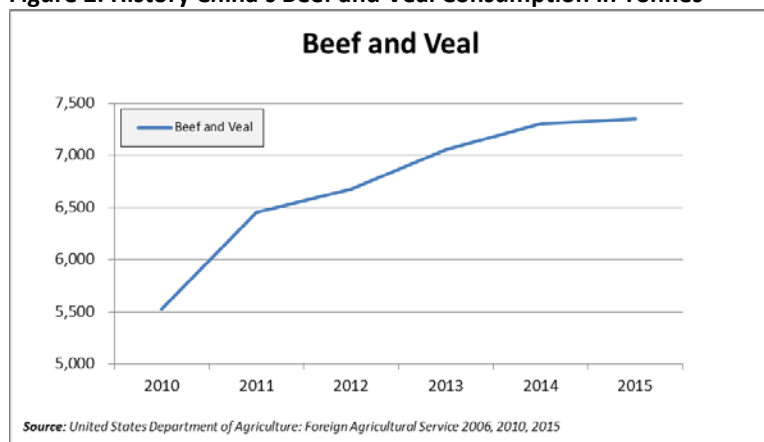
The below figure highlights the dominance of pork in terms of annual tonnes of consumption for China:

**Figure 1: History China’s Primary Meat Consumption in Tonnes**



The beef market in China accounts for 9% of meat consumption, excluding mutton and seafood. Whilst accounting for a small portion of Chinese meat consumption, growth is expected in the coming years<sup>4</sup>. As shown in the figure below beef and veal have experienced high growth over recent years. As alluded to earlier, beef prices have increased substantially as represented in the figure below. The fast growth in beef consumption is reflected in consumer’s tolerance for soaring beef prices in comparison to other meat products. As China has become more affluent, and developed a taste for beef, China’s supply of cattle has not kept up with demand. Cattle herds in China currently number around 100 million, is expected to account for only 80% of domestic demand in the coming years<sup>5</sup>. This shortage of supply is reflected in the disparity of price inflation in comparison to consumption for beef and veal.

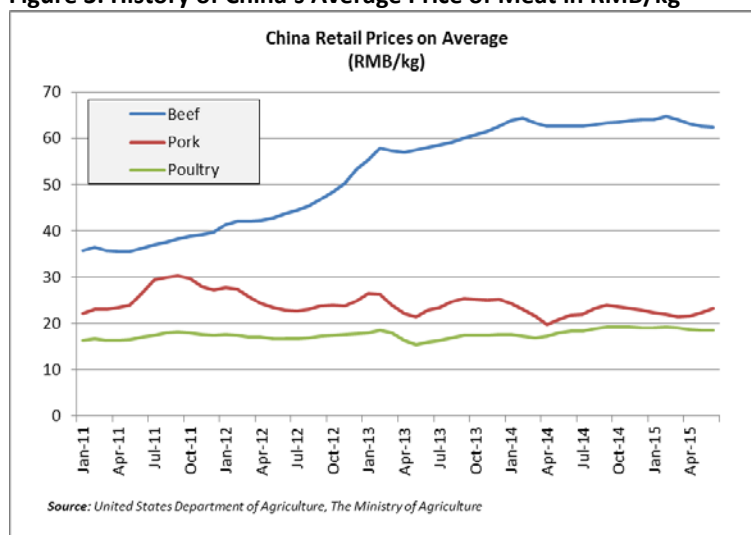
**Figure 2: History China’s Beef and Veal Consumption in Tonnes**



The below figure details the price history for the major components of Chinese meat consumption, pork, beef and poultry highlighting the significant rate of increase in beef consumption:

<sup>4</sup> United States Department of Agriculture, *Livestock and Poultry: World Markets and Trade* (Foreign Agricultural Service, October 2015)

**Figure 3: History of China's Average Price of Meat in RMB/kg**



After pork, poultry meat is the most common, excluding mutton and seafood, at 17% of meat consumed in China during 2015<sup>5</sup>. Poultry meat consumption in China is expected to remain flat going forward having remaining around 13 million tonnes annually in recent years<sup>5</sup>. Slower economic growth and constraints on banquet spending per government policy remain in place attributing to stagnant consumption rate for poultry meat.

In summary, China's meat consumption has increased substantially over the last decade attributed to strong economic growth. Pork as the primary consumed meat of the country is expected to remain significant whilst emerging beef and poultry markets gradually gain additional market share. The meat prices will continue to rise in line with supply constraints and high demand as consumer tastes evolve.

### Goyes' Strategy

Goyes' vision is to increase production capacity and market share both domestically and internationally. Key strategies include a focus on improving and developing individual business sectors whilst diversifying the product line. Various strategies have been identified below in order to achieve these goals.

Key Strategy	Plan of Action
<b>Vertically-Integrated Meat Supplier</b>	Decreased reliance on third party producers via investment made in Datonghu, two hog farms and increase in scale.
<b>Expand Meat Processing and Production Capacity</b>	Increased production through the new facility which will result in a minimum capacity of 1 million hogs, 20 million heads of poultry, 15,000 heads of cattle, 90,000 heads of goat and 30,000 tonnes of processed meat products.
<b>Expand and Diversify Product Offerings</b>	Considering product offering such as bacon, sausages and cured meat. These will be undertaken through the new facilities.
<b>Grow Sales and Distribution Globally and in China</b>	The Hong Kong and Kyrgyzstan markets currently account for 69.5% and 22.3% of revenue generation respectively. Goyes plans to expand sales and distribution globally and domestically through the expansion of production capacity following the completion of the Ningxiang project as above and the strategic location of new Changsha slaughterhouses.
<b>Remain Aware of Potential Opportunities</b>	The Company will continue to look for opportunities through strategic alliances, joint ventures, mergers and acquisitions in order to create synergies with the existing business and diversify the product offering.

<sup>5</sup> United States Department of Agriculture, *Livestock and Poultry: World Markets and Trade (Foreign Agricultural Service, October 2015)*

## Esperance Strategy

Concurrent with the proposed acquisition of Goyes, Esperance has appointed a firm to identify and locate potential acquisitions in Australia in the feed lot and meat processing industries. It is planned that these acquisitions will be managed by an experienced Australian management team. The product from these businesses will be sold at commercial terms to the Goyes' distribution networks. The expected value of the proposed acquisitions, once effected, is expected to be approximately \$40 million. These acquisitions are intended to be funded by a combination of share-based consideration to the vendors, equity and debt. The equity component will be funded by a proposed capital raising.

It is envisaged that the products to be sold will be a combination of Australia processed and branded material most likely to be "Goyes Australia" and sold to major customers both in the Hunan Province, greater China and through exports to overseas. The strategy is complementary with Goyes' overall growth and expansion strategy and is expected to provide increased growth to the proposed Australian businesses.

Further details on any proposed acquisition will be provided to shareholders as and when they become available.

## Key Personnel

The below table summarises the key personnel of Goyes:

**Table 1: Key Personnel of Goyes**

<b>Key Personnel</b>	<b>Detail</b>
<b>Mr He Liangping</b> <i>Executive Chairman and CEO</i>	Mr He Liangping is the Executive Chairman and CEO, is an experienced entrepreneur and founder of Goyes. He has been involved in the meat processing and export industry for over 30 years and will be responsible for the overall business development and general management of the Goyes.
<b>Mr Zing Weidong</b> <i>General Manager of Marketing and Sales</i>	Mr Zing Weidong will be the appointed General Manager of Marketing and Sales of the Enlarged Group. Mr Zeng has worked in the meat processing industry since January 1978 through numerous key managerial and supervisor roles. Mr Zeng also graduated from Xinhua School based in the Company's geographical region, Hunan Province in 1975.

## Statement of Profit and Loss

The below figure details Goyes trading history for the years ended 31 December 2012 ("CY 2012"), 2013 ("CY 2013") and 2014 ("CY 2014") in both RMB and AUD respectively: The unaudited financial information has been prepared in accordance with International Financial Accounting Standards ("IFRS") and has been subject to audit by Foo Kon Tan LLP (previously a member firm of Grant Thornton International, but since August 2015 a member firm of HLB International) Public and Chartered Accountants, located in Singapore. The audit is expected to be completed prior to the completion of the Notice of Meeting relating to the approval of the proposed transaction and no changes are expected to the reported financial information in this announcement.

**Table 2: Goyes Unaudited Statement of Profit and Loss for CY 2012, CY 2013 and CY 2014 (RMB)**

<i>RMB (000)</i>	<i>CY 2012</i>	<i>CY 2013</i>	<i>CY 2014</i>
Sales	606,497	757,569	860,266
<b>EBIT</b>	<b>29,384</b>	<b>58,046</b>	<b>116,145</b>
Other income	5,098	27,470	31,818
Interest	9,150	10,004	14,131
<b>NPBT</b>	<b>25,332</b>	<b>75,512</b>	<b>133,832</b>
Tax	476	6208	10026
<b>NPAT</b>	<b>24,856</b>	<b>69,304</b>	<b>123,806</b>

Source: Unaudited Financial Statements of Goyes

The above table shows the consistent growth in revenue and profitability. This reflects Goyes' dominance and increase in market position in the Hunan Province as well as growth in export sales.

**Table 3: Goyes Unaudited Statement of Profit and Loss for CY 2012, CY 2013 and CY 2014 (AUD)**

<i>AUD (000)</i>	<i>CY 2012</i>	<i>CY 2013</i>	<i>CY 2014</i>
Sales	92,673	126,722	155,264
<b>EBIT</b>	<b>4,490</b>	<b>9,710</b>	<b>20,962</b>
Other income	779	4,595	5,743
Interest	1,398	1,673	2,550
<b>NPBT</b>	<b>3,871</b>	<b>12,631</b>	<b>24,154</b>
Tax	73	1,038	1,810
<b>NPAT</b>	<b>3,798</b>	<b>11,593</b>	<b>22,345</b>

Source: Unaudited Financial Statements of Goyes

Below is the currency rates used to translate the RMB into AUD in Table 2 and Table 3:

**Table 4: Exchange Rates Chinese Yuan Renminbi and Australia Dollar**

<i>Average</i>	<i>CY 2012</i>	<i>CY 2013</i>	<i>CY 2014</i>	<i>As at 31 Dec 2014</i>
RMB/AUD	0.153	0.167	0.180	0.198
AUD/RMB	6.545	5.978	5.541	5.040

Source: Oanda.com, PKFCF Analysis

## Statement of Financial Position

The below figure details the statement of unaudited financial position of Goyes as at 31 December 2014 in both RMB and AUD respectively:

**Table 5: Goyes Unaudited Statement of Financial Position as at 31 December 2014**

<i>(Unaudited)</i> <i>('000)</i>	<i>RMB (Unaudited)</i>	<i>AUD (Unaudited)</i>
<b>Current Assets</b>		
Cash at bank	41,882	8,309
Land use rights prepayments	298	59
Biological assets	462	92
Available for sale debt instrument	300,000	59,520
Inventories	17,800	3,532
Trade and receivables	322,213	<b>63,927</b>
<b>Total Current Assets</b>	<b>682,655</b>	<b>135,439</b>
<b>Non-Current Assets</b>		
Land use rights prepayments	11,880	2,357
Property plant and equipment	87,337	17,328
Biological assets	357	71
Prepayment	20,000	3,968
<b>Total Non-Current Assets</b>	<b>119,574</b>	<b>23,723</b>
<b>Total Assets</b>	<b>802,229</b>	<b>159,162</b>
<b>Current Liabilities</b>		
Trade and other payables	67,358	13,364
Borrowings	348,313	69,105
Deferred income	17,128	3,398
Tax payable	15,466	3,068
<b>Total Liabilities</b>	<b>448,265</b>	<b>88,936</b>
<b>Net Assets</b>	<b>353,964</b>	<b>70,226</b>

Source: Unaudited Financial Statements of Goyes

A conversion rate of 5.040 AUD/RMB as at 31 December 2014 has been applied.

Goyes has a reasonable working capital position. However with the planned expansion, additional funding will be required.



## The Transaction

The key terms of the proposed transaction are as follows:

- purchase price for 40% of Goyes is \$40 million, payable in Esperance shares. The number of shares to be issued is expected to be based on a share price of 1.3 cents per share resulting in approximately 3 billion shares prior to the agreed share consolidation ratio;
- Esperance have a call option (subject to the amount being paid not exceeding 90% of the number of shares on issue) to acquire the remaining 60% over a two (2) year period on terms to be negotiated;
- three (3) Goyes representatives to be appointed to the board of Esperance. Esperance to have one (1) board member appointed to Goyes;
- on completion of the proposed acquisition, Esperance will provide a \$15 million secured loan facility based on commercial terms to Goyes, to assist Goyes in expansion of its facilities, which is currently in progress;
- Goyes to approve a dividend policy of a minimum 35% of its net profit after tax to be paid to shareholders;
- Shareholders' agreement to be in place; and
- subject to due diligence, shareholder and all regulatory approvals.

The proposed acquisition together with the acquisition of Australia potential businesses, when completed, will result in Esperance changing its name, relisting under ASX Listing Rule Chapters 1 and 2 and a share consolidation. A fundraising pursuant to the issue of a prospectus will also be undertaken at the time of the back door listing. The maximum amount to be raised pursuant to the fundraising will be \$55 million. However, the amount to be raised as equity could be reduced by way of debt, which will be negotiated concurrently with the acquisition process. This amount raised will facilitate for the following:

- purchase of the proposed Australian based agri-food businesses totalling \$40 million; and
- the \$15 million loan to Goyes.

The final quantum and timing will be determined as Esperance works through the acquisition process.

In addition, the proposed transaction is subject to Esperance completing a number of agri-business acquisitions in Australia as set out in the Esperance Strategy section above.

## Initial Fundraising

To assist with the completion of the transaction costs Esperance also plans to undertake an equity raising which, subject to any necessary regulatory approvals, is likely to be \$500,000. In addition, Esperance may consider further fundraising so as to repay the Series C Convertible Notes. The total amount expected to be funded is approximately \$1.2 million.

## Impact on Capital Structure

The below table shows the impact on the capital structure assuming the proposed acquisition of Goyes together with funding for the transaction costs and the Series C Convertible Notes, but excludes the expected capital raising amount of \$40 million (as detailed in the "Transaction" section above):

**Table 6: Acquisition Impact on Capital Structure**

	No of Shares
Current shares on issue	115,039,679
Investment in associate	3,076,923,077
Capital raised (Transaction/acquisition cost)	38,461,538
Capital raised (repayment of convertible note)	41,538,462
	<b>3,271,962,756</b>

Assuming that the full amount required to fund the Australian acquisitions and the loan to Goyes is raised by way of a fresh issue of shares of \$55 million pursuant to the issue of a prospectus at a price of 1.3 cents per share (pre consolidation), the capital structure of the Company would be as follows:

**Table 7: Fundraising impact on Capital Structure (Post Acquisition)**

	<b>No of Shares</b>
Total shares prior fundraising	3,271,962,756
Fundraising (\$55 million)	4,230,769,231
	<b>7,502,731,987</b>

N.B. The Board will be considering the use of a prudent amount of debt in which to finance the above, which would in turn, reduce the level of equity and dilution.

### Pro-forma Statement of Financial Position

Set out below is the pro forma statement of financial position of Esperance assuming the following:

- completion of the Goyes acquisition;
- fundraising for the transaction costs and expenditure of those funds; and
- fundraising for the repayment of the Series C Convertible Notes.

**Table 6: Pro Forma Statement of Financial Position as at 30 June 2015**

	ESM as at 30 June 2015	Pro Forma Adjustments					Pro Forma
		Investment in Associate	Capital Raised @ 1.3c for Transaction / Acquisition Cost	Transaction / Acquisition Costs	Capital Raised @ 1.3c for Repayment of Convertible Note	Repayment of Convertible Note	
<i>AUD (000)</i>							
<b>Current Assets</b>							
Cash at bank	771	-	500	(500)	540	(540)	771
<b>Total Current Assets</b>	<b>771</b>	<b>-</b>	<b>500</b>	<b>(500)</b>	<b>540</b>	<b>(540)</b>	<b>771</b>
<b>Non-Current Assets</b>							
Investment	-	40,000	-	-	-	-	40,000
<b>Total Non-Current Assets</b>	<b>-</b>	<b>40,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,000</b>
<b>Total Assets</b>	<b>771</b>	<b>40,000</b>	<b>500</b>	<b>(500)</b>	<b>540</b>	<b>(540)</b>	<b>40,771</b>
<b>Current Liabilities</b>							
Trade and other payables	267	-	-	-	-	-	267
Borrowings	1,148	-	-	-	-	(540)	608
<b>Total Current Liabilities</b>	<b>1,415</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(540)</b>	<b>875</b>
<b>Net Assets/(Liabilities)</b>	<b>(644)</b>	<b>40,000</b>	<b>500</b>	<b>(500)</b>	<b>540</b>	<b>-</b>	<b>39,896</b>
<b>Equity</b>							
Issued capital	10,763	40,000	500	(250)	540	-	51,553
Reserves	251	-	-	-	-	-	251
Accumulated losses	(11,658)	-	-	(250)	-	-	(11,908)
<b>Total Equity</b>	<b>(644)</b>	<b>40,000</b>	<b>500</b>	<b>(500)</b>	<b>540</b>	<b>-</b>	<b>39,896</b>

In view of the preliminary nature of the proposed transaction, the following matters have not been reflected in the pro forma statement of financial position above:

- the acquisition of Australian businesses – expected to be \$40 million in total, payable in either equity or debt;
- fundraising for the loan to Goyes of \$15 million; and

- any additional requirement for working capital/capital expenditure generally.

As a result of the above the pro forma statement of financial position will need to be updated as further details are made available.

### Proposed Timetable

Date	Event
23 December 2015	Completion of initial transaction costs fundraising
17 February 2016	Completion of conditional acquisition of Australian businesses
12 March 2016	Prospectus finalised and commencement of marketing period
11 April 2016	Shareholders meeting
30 April 2016	Close of prospectus offering
2 May 2016	Allotment of shares and fundraising
5 May 2016	Relisting

The above is a provisional timetable and may change. Updates will be provided as and when available.



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