

19 June 2017

ASX CODE: BFC

## BFC COMPANY UPDATE

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Beston Global Food Company Limited ('BFC' or the 'Company') wishes to provide the following update ahead of the release of the Company's 2017 results.

The Company continues to make solid progress on its journey to become a leading manufacturer, exporter and distributor of premium, safe and healthy Australian food products to the world's growing consumer markets.

Realising all of the Company's objectives on this journey has not been without some challenges, and was always bound to take some time.

Nevertheless, the Company has never lost sight of its objectives since the day of listing on the ASX, some 20 months ago, and considers that considerable progress which has been made, across a broad range of areas in building shareholder value.

The earnings of the Company have lifted significantly in the second Half. Based on the current sales run rate, unaudited sales revenues are expected to be up by 20 to 30 % on H1, and NPAT is expected to be up by a similar order of magnitude.

Notwithstanding the increases in sales and NPAT in H2, the enhanced performance in this second half will not be sufficient to offset the loss incurred as a result of our investment in new brands, technology, market development activities and shortfall in China sales. The Company will therefore incur an overall loss for the full year, and consequently not be in a position to pay a dividend.

The Company believes that the progress made across a broad range of areas during the financial year has positioned the Company with momentum for sustainable earnings growth going forward, as explained below.

### Domestic Sales

As announced on 5 April 2017, BFC has secured a contract to supply major national Australian wholesaler with a range of BFC manufactured products. The national wholesaler supplies grocery and fresh food products to over 2,000 independent grocery stores across Australia, including IGA and Foodland.

BFC has now launched its full range of "Edwards Crossing" and "Mable's" cream cheese products into this national independent retail network. The products were launched nationally on 5 June 2017 and as at today are now available in over 100 retail stores. The roll out to other stores will occur over the next few months.

BFC has partnered with Liaise Marketing to build its national store coverage by working closely with the independent grocery stores owners to supply these products to their customers. The number of stockists is expected to grow progressively over FY2018.

In addition to its entry into the retail sector in Australia, BFC launched its first range of branded shred, block and sliced cheeses into the national food service market in June 2017 through distribution agreements signed with a number of large national distributors. This included the contract extension to supply cheese to major food manufacturing companies such as McCains.

On 11 May 2017, BFC was awarded the Christian Hansen Cup for the "Best Cheddar cheese in Australia" at the Dairy Industry Association of Australia (DIAA) Awards of Excellence and took out a total of 19 Gold and Silver Awards in every category in which it entered products.

The Christian Hansen Cup has historically been held by the three largest cheese producers in Australia. The win by BFC, along with the collection of 19 Gold and Silver medals, just 20 months after we acquired and reopened the factories at Murray Bridge and Jervois, has created strong brand value for our "Edwards Crossing" label.

The Awards coincided with the Company's entry into the aforementioned network of independent retail stores across Australia and have increased awareness and demand for both "Edwards Crossing" and "Mable's" cheese products in Australia as well as overseas. The orders placed to date by these stores for these products have exceeded the original demand estimates.

### **Milk Supply**

At the start of this financial year, the Company's dairy factories at Murray Bridge and Jervois were processing milk at a rate of approximately 36 million litres of milk per annum. Approximately 15 million litres of this milk was provided by BFC's own farms and the remainder was being toll treated for other cheese manufacturers or purchased from milk traders.

Over the period from 1 July 2016 to the current date, agreement has been reached with more than 20 external farms to supply milk to BFC during the 2017 – 18 supply year. As a result, the factories will have more than 80 million litres p.a. of milk available for processing during FY2018, which will return the factories to a production rate similar to the rate they were operating at prior to closure in April 2015.

The increase in milk supply will enable the Company to ramp up production of its award-winning "Edwards Crossing" and "Mable's" cheese products at Murray Bridge and begin production of mozzarella cheese at the Jervois factory. The production of our gold medal winning whey powder will also increase in line with cheese production.

Further contracts for the supply of milk from independent dairy farmers are currently being finalised.

This increased supply quantity of milk, coupled with the additional high value output which will be derived from this milk, will place the Company's dairy factories in a strong earnings position for FY2018, based on prevailing milk prices.

### **Mozzarella Project Update**

As previously announced, BFC is in the process of installing a state-of-the-art mozzarella plant at its Jervois factory. A large portion of the plant, including eight cheese vats acquired from the Netherlands and New Zealand has already arrived on site. The cooker/stretcher machine is currently being fabricated in Europe. The machine is recognised in the industry as being one of the most efficient machines in the world, enabling more mozzarella to be produced from the same quantity of milk than older technologies.

The new Mozzarella plant replaces the "Caboolture plant" which was sold off by the Receivers of the former United Dairy Power (UDP) business. Once the plant is fully commissioned, BFC expects to produce a minimum of 5,000 tonnes of Mozzarella per annum.

There is currently a global shortage of high quality mozzarella with the result that the Company expects the initial annual production of 5,000 tonnes to be fully committed. The production capacity of the new plant is 14,500 tonnes per annum.

The commissioning of the Mozzarella plant will produce increased volumes of whey as a by-product of the production process which will enable the Company to increase the production of its gold medal winning whey powder at the Jervois milk powder factory as well as provide the feed stock required for the production of Lactoferrin, immunoglobulin and other pharmaceutical grade nutraceuticals at its adjoining dairy protein fractionation plant.

### **Hard Cheese Update**

Production of Parmesan has commenced with batches currently in the maturation phase at the newly refurbished Hard Cheese Plant located at BFC's Murray Bridge factory. The first production runs of this cheese are expected to be released to the market towards the end of the 2018 financial year.

### **ASEAN Region Sales**

BFC has launched the first range of products into the Beston MindChamps Joint venture for distribution to the 33 MindChamps centres in Singapore. The Beston Pure Foods 'reduced sodium' and 'reduced fat' cheese in slices, together with the B.-d. Farm Paris Creek Bush Honey Yoghurt, started delivery in late May into six of the centres under the first phase, and will expand to all 33 centres by late July 2017. BFC is launching a kids branded water under the joint venture brand of 'ChampionFoods' which is planned for release to the centres in July 2017. In addition, a Beston Pure Foods branded 'low fat' milk is scheduled for release in September 2017.

Our Branch office in Bangkok, Thailand, has continued to make in-roads into the retail supermarkets and food service sector with the continued sales and marketing of our Japanese style range of "Kyubu" flavoured snacking cheese ranges including the "Mable's" cream cheese range.

In Vietnam, as announced by the Company on the 8 May 2017, we launched the BFC "Kyubu" range of cheese products into MM Mega superstores and now have our "Kyubu" cheese products in 15 of the 19 MM Mega stores across Vietnam. The current ranging is of three flavours of "Kyubu".

TMT Trading Company Limited has reaffirmed its commitment to the distribution of BFC products in Vietnam following extensive product trials, market research and work on product registration approvals. Their first mixed order of product is expected in Q1 of FY2018.

Implementation of the MOU which was signed with the Vietnam Beef Business Company (VBBC) has proven problematic, largely because of the strong price differential which has emerged between the price of Australian beef relative to the price of beef from South America, particularly Uruguay and Argentina. The shift towards higher prices for raw cuts of Australian beef sourced from BFC in comparison with these other countries has made it difficult for VBBC to compete effectively with other beef importers to Vietnam and hence they have not placed the orders which were anticipated, notwithstanding a great deal of effort by both BFC and VBBC to find a way through this challenge.

Through our partnership arrangements in Vietnam, the Company continues to explore ways of introducing the Scorpio range of "Yarra Valley" ready to eat meals into Vietnam as a way of setting our meat products apart from other competitors.

### **China Division**

A review of BFC's China operations was initiated early in quarter 3 of FY2017 as a result of the lower than expected sales performance during the first half of FY2017. As a result of this review, BFC announced the appointment of a new CEO for BFC China, Mr Bastian Bai, a former Senior Director from Walmart China, to head BFC's China operations.

Following this appointment of Mr Bai, a new sales leadership team has been recruited and a number of structural changes have been implemented. The changes in China include the scaling back of operations in Dalian, located in the Northern China region, which BFC originally established to service BFC's contract with the Dashang Group.

The contract with the Dashang Group has not delivered any sales, and BFC is not currently anticipating any orders from the Dashang Group in the near future, for reasons which are internal to Dashang.

Sales from BFC China in the second half of FY2017 are not expected to offset the shortfall in sales against budget which occurred in the first half. However, under BFC China's new leadership and the implementation of the new strategic plan for China, sales are expected to show a steady growth in the first half of FY2018 onward.

On 9 June, 2017, a major seafood importer and processor in China, Shenzen Fresh Life Inc, announced in Beijing, at a press conference attended by representatives of the Australian Government, that they would be entering into contracts to purchase seafood products from BFC.

In addition to seafood sourced from investee company, Ferguson Australia Pty Ltd, BFC has, in the past 12 months, sourced and shipped Kingfish to China from Clean Seas Seafoods Limited. BFC notes that Clean Seas Seafoods Limited (ASX:CSS) in an ASX announcement of 8 June 2017 under the heading "Asian Distribution Arrangements", referred to its arrangements with Beston for the supply of Kingfish.

BFC considers that it has met all of its contractual obligations to Clean Seas, including in relation to its initial order by which it took all the stock that Clean Seas was able to provide at that time. Secondly, BFC remains committed to further developing its seafood distribution in China, along with other countries in Asia in which it operates.

The Hondo contract announced on 28 February 2017 started as planned in March and in the first few months has seen low but modest growth in sales starting from a zero base as Hondo, in conjunction with BFC, educate and build the market in these early stages for our premium Australian seafood products. Additional marketing resources from both BFC and Hondo were allocated in June to focus on increasing sales through Hondo's on-line channels. Sales are being closely monitored against the contracted sales target of \$22m by December 31, 2017.

The JMU WOWO agreement remains BFC's primary online food service partnership agreement in China. A selected range of BFC seafood and water is now listed on the JMU online platform. This range is under review, and will be re-launched in July 2017. The relaunch will include BFC's award winning cheese products to capitalise on the increasing demand for dairy products in China. The export of Australian dairy products to China has increased by nearly 30% over the last 5 years. The Company remains committed to growing our food service channel in partnership with JMU, led by the new BFC sales team located in Shanghai.

The Beston Sunwah Joint Venture (SWBJV) presented at the recent Hong Kong Food and Hospitality Expo (HOFEX) in May 2017. Feedback from the expo is being considered as part of a strategic review of the SWBJV which is being undertaken by both BFC and SunWah.

### **Beston Technologies**

Our 100% owned subsidiary, Beston Technologies Pty Ltd has continued the commercialisation of its ingredient traceability and anti-counterfeit technology with advances in the way in which the technology is applied to our products.

Oziris, together with Brandlok authentication technology, is now embedded into all BFC branded 'ei8ht water' bottles shipped to domestic and export markets. The anti-counterfeit technology is embedded into the label which is undetectable to the human eye, and applied to the bottle. The smart reader technology is now enabled on a hand held fraud detector ("Adam") which has been developed in-house by our Beston Technologies team for retailers and distributors to scan throughout the supply chain to ensure the customers that each and every bottle of water (and other products) has not been tampered with.

Beston Marketplace opened its Australian premium online B2B store in April 2017 to small to medium enterprises (SME's) across Australia offering premium Australian produce in larger bulk orders.

Beston Marketplace also opened its Australian premium online store in June 2017 to Australian consumers using its new innovative recipe and online grocery home delivery model. The e-commerce platform contains over 500 SKU's sourced from its own brands including a range of approved Australian suppliers that meet the traceability platform guidelines.

Our China e-commerce, 8ston.com, went live on 14 June, 2017 and received its first orders from on-line customers within a short time after launch.

## **Senior Management Team**

BFC has made a number of new senior executive appointments in the second half of FY2017 to further strengthen its management team and bolster its on-ground capabilities:

- February 2017: Mr Ashley Austin appointed as Head of Australian Retail Sales. (Former sales executive for Kraft, SABrands, with extensive experience dealing with national retailers and wholesalers).
- April 2017: Mr Bastian Bai appointed as CEO of BFC China. (Former Senior Director for Walmart responsible for 437 stores across China specialising in Seafood and Meat category).
- April 2017: Mr Gevin Shen appointed as Sales Director for BFC China. (Former manager for a group of retail chain stores across China).
- May 2017: Mr Rene Schuddebeurs appointed as Group Supply Chain Manager. (Former head of Supply Chain for National Pharmacies with specialised skills in managing complex high value products into national distribution centres).
- June 2017: Mr Hamish Browning appointed as General Manager Operations for BFC. (Former Export Manager for Thomas Foods, Managing Director of Frontier International and National Manager of Elders International into China).
- July 2017: Mr Adam Rigano appointed as Chief Financial Officer. (Formerly BFC's Chief Operating Officer and prior to that was the Finance and Strategy Manager at Santos Limited).