



Chairman's Address

This last financial year was a significant challenge for our industry and, of course, the second half year's challenges caused by the COVID-19 pandemic have required the Group to continually adapt to an ever-changing environment and market. The underlying net loss (excluding interest and impairment costs) for the year was \$1.5m and, while it is an improvement on FY19 (-\$1.9million), it is disappointing and reflects somewhat the impact of the pandemic and a volatile dairy industry.

Despite the challenges of the last year, the Group maintained its strategy of focusing on the production of premium and specialty dairy products with healthy profit margins, including development of the Group's own brands. Research and development for two new infant formula ranges of premium products were completed which will allow AHF to roll out these exciting new products by end of FY21. The product development strategy has focused on organic and A2 milk production from our own farms which ensures security of supply for a premium Australian sourced product and proves the value of our vertically integrated business model.

During the year the Group began construction on the new plant to house the recently purchased infant formula and nutritionals mixing plant and this is progressing well.

In addition, in April 2020 the Group purchased the right to manufacture, distribute and sell The Collective products allowing the Group to improve and realise efficiencies in the current supply chain and give greater control over margins.

Unfortunately the Collective product sales did not reach the volume levels that we expected to produce through the Camperdown factory last financial year. We expect an improvement in FY2021, as the range in Woolworths was broadened in the October range review and these products have now been introduced into their stores. However as the yoghurt market remains extremely competitive we will continue to monitor and manage the range carefully. Also, our new Ecklin South A2 brand is now distributed nationally, whilst it is early in its distribution we are optimistic about the potential for this new brand especially the infant formula.

The Jonesys brand was purchased to enhance our distribution footprint through the food services sector. Whilst we initially had some difficulties in integrating the business within the AHF group we have been surprised that sales revenues increased during the COVID downturn, especially since the majority of the customers are coffee shops. We have now integrated the brand into our distribution structure and are looking at all avenues of profitable growth for the brand.

While the COVID-19 pandemic has been difficult to manage, it has provided an opportunity to expand our home delivery business. We have invested in additional resources, expanded the regional distribution footprint and improved the product range to meet the growing demand for this service. The main limitation we have had with this business has been the size of its distribution hub. We will be moving the entire Group operations to a new and cost effective distribution hub in January allowing us to continue to profitably expand this business.

As stated previously, we are seeking a partnership with a distributor into the Asian market that will assist the Group in selling its future output of organic infant formula. During FY20, we were in advanced negotiations with a business that is a significant supplier of infant formula into Asia however these have been suspended due to current market conditions including the impact of COVID-19. We will continue to pursue strategic partners to access international markets for our dairy products.

The conversion of the Group's dairy farms to an organic certification continues, with the first farm certification occurring November last year with the expectation of the remaining farms being converted by the end of the 2021 calendar year. Despite the challenges and expense of developing the organic farms, without the certification to sell the milk at organic price levels, the farms contributed a net profit of \$23k compared with a loss of \$1.9m in FY2019. Security of milk supply through the farms is integral to the vertical integration strategy being employed by the Group.

The FY20 results include a non-cash impairment of the goodwill acquired on the purchase, in April 2016 of the Camperdown Dairy Company (**CDC**). The Board adopted a conservative approach to the Australian Accounting Standards in adopting the impairment of \$4.26m, taking into account the current uncertain conditions impacting both the Australian and global economies. The writedown of the goodwill to \$2.35m has no impact on the cash position of CDC's business or its future operations. The Board is of the opinion that there is significant value in the CDC plant operations and the portfolio of brand names not recognized in the balance sheet.

The last year has seen a consolidation of the Group's management structure, processes and systems that will ensure the Group successfully executes its strategy to achieve profitable growth. While adherence to our strategy has been at the forefront of our operations, there has also been a focus on governance and improving the management team capability. The recent addition of a new Chief Financial Officer and General Manager of Sales & Marketing, both very experienced and skilled managers, has ensured that the Group's operations are managed by a highly skilled, experienced and energetic executive team.

I would like to acknowledge the efforts of all our employees during this period, especially their attention to the health and safety rules protecting the business and their health in the pandemic. I am happy to say that we have had no employee who has contracted the COVID-19 virus. Our executive management team have worked incredibly hard during this last year to not only manage the business but to also ensure the safety and wellbeing of all employees, and the Board is proud of their efforts.

To all our shareholders, thank you, for your continued support and I hope during these challenging times you stay safe and healthy.