



Lynch Group Holdings Limited (LGL)

Annual General Meeting 26 November 2021

Transcript of Chair and CEO addresses

Chair address

Lynch Group holds a unique position amongst listed companies on the ASX. We are a 100-year-old company, the largest distributor of floral products in Australia, primarily through the supermarket channel and the largest grower of premium flowers in the Chinese market. This combination of strong but predictable growth in Australia with the high growth offered by selling to Chinese domestic consumers in a low-risk environment provides shareholders the opportunity to participate in an exciting long term growth story.

Australian Operations

The core of the Australian business is the national supply of floral and potted product to our supermarket customers. Whilst Lynch Group has been supplying the grocery channel for over 30 years, it remains relatively undeveloped when compared to other markets. In the UK for instance, 55% of all floral products are sold through supermarkets. In Australia, that share is 19% but growing quickly. Lynch Group is changing the way Australian's buy flowers and potted plants. Our scale, innovation, worldwide sourcing capability and merchandising field force have greatly changed the perception of supermarket flowers which is why the grocery channel is rapidly growing its share of the overall floral industry. Over time we expect the grocery channel to approach the share of the total floral market that is currently achieved in the UK.

The value Lynch Group brings to its supermarket customers is our ability to plan and manage a complex category. We trade in a highly perishable seasonal product that is sourced from Tier 1 growers in Australia and from around the world. Growing conditions can often vary season to season and supply chains are prone to disruption – particularly evident during the COVID-19 pandemic. The flexibility of our supplier base and agility in reacting to inevitable changes, ensures a consistent year-round supply of high-quality product to our customers. This is exemplified by the Group's support of key events such as Mother's

Day where 15 million stems are sourced from Australian and international growers, processed and displayed in store for what is largely a three-day sales window.

Our scale and longevity in the market is critical to securing supply from the very best growers. In many cases we are the growers' largest customer and therefore mutual trust and support is critical. Locking in the highest quality supply not only improves the offering (and vase life) to the customer but also minimises the risk of rejection of imported product by Australian Biosecurity. Our in-house quality team works closely with Australian Biosecurity to ensure that imported product is effectively treated and screened to protect Australia from damaging pests and disease.

Our product team continues to explore opportunities to deliver new and attractive products to customers. This not only allows us to take advantage of seasonal product, but to create beautiful offerings for household consumption, and increasingly for use as gifts. Lynch Group's supply of bouquets and arrangements and certain potted product is increasing our average selling price and allowing us to give customers broader choice and value. The lower retail price of supermarket products with improving perceptions of quality has underwritten the growth of the channel.

Lynch Group employs one of the largest merchandising field forces in the country. This team of dedicated professionals assist local store management with ranging whilst ensuring the presentation of product remains fresh to drive sell through. In addition to the normal supply of product to customer distribution centres, Lynch Group also manages an increasing number of Sale or Return stores (SOR). The buying plan (and wastage) for these stores is more closely managed by Lynch Group, allowing us to invest more heavily in stock depth, and ranging can reflect current buying opportunities sourced by our procurement team. SOR stores outperform core stores by a factor of 2 to 1 on average, although any waste is born by the Group.

Our three Australian farms support the Group with potted plants and Australian native flowers that are difficult to otherwise source at required specification, quality and volumes. This vertical integration of supply (including our farms in China) is a competitive advantage in maintaining consistency of service to our customers.

Lynch Group is the largest importer of floral product into Australia. Our fast-growing Markets sites distribute locally sourced products alongside imported lines to other wholesalers and florists which remain the largest customer channels. With our initial hub operation in Flemington and two satellite sites in Newcastle and Canberra and now a new hub in Rocklea, Brisbane, this volume adds to our procurement scale and provides additional flexibility in how we manage product flow. The Market operation allows us to more fully contest the general wholesale and florist segments that comprise the largest share of the overall Australian floral market.

China Operations

Lynch Group has been active in China since 2004, building its first processing facility in 2008, and developing its first farm in 2012. The intention then was to provide a consistent source of high-quality floral product at competitive pricing to meet supermarket price points. Located in the Kunming region of Yunnan province in South West China, the area benefits from an ideal growing environment, with consistent rainfall, elevation (important for product quality) and good access to airport facilities. The Chinese government has been very supportive of the Group's expansion of farming operations as part of a national strategy to improve agricultural productivity, rural incomes and retain a skilled workforce in the inland provinces.

A second and larger farm commenced development in 2018 with the product of both initial farms largely being exported to support the Australian operations. Own production was supplemented with locally sourced product to provide well priced counter seasonal product into Australia.

Following a 10-year association with Van den Berg Roses (VdB) in China, Lynch Group acquired a 20% shareholding in 2019. VdB operated two large farms servicing the Chinese domestic market via a dedicated sales team. The IPO of Lynch Group in April this year funded the buyout of the 80% of VdB not already owned.

Today, Lynch Group in China is the largest grower of premium flowers in the country. Due to product quality issues associated with a fragmented and developing grower base, coupled with multi-layer ambient product distribution networks, the consumer market for floral products has been slow to develop. Today, the floral market in China is many times the size of most western markets, is growing strongly, and consumer buying trends centred around self-consumption and gifting, particularly during key event periods, is emerging rapidly. Per capita spend rates on floral products still remains comparatively low.

Lynch Group's access to premium floral genetics, investment in advanced growing infrastructure and systems, and direct distribution via its own contracted cool chain logistics, provides year-round supply of a high quality and unique product range to Chinese consumers at affordable prices. Today over 50% of farm production is sold to various retail platforms including supermarkets at fixed prices, suppressing the volatility of market prices. We continue to invest in value added products. The opening of the Shanghai processing facility in early 2021 was an important first step in bringing fresh, value-added product closer to the customer.

Importantly, Lynch's China operation is unique in that it is producing in China for the Chinese domestic market alongside its export operations to Australia. Notwithstanding recent trade tensions between China and Australia, China has continued to support local consumption and export pathways. There has been no discernible impact on Lynch's operations from a government or regulatory perspective and we are therefore confident in our continued investment



in this exciting, high growth market. Lynch is able to deliver unique high-quality product at a low delivered cost via its technological advantage underwriting superior returns on our invested capital with demand likely to outstrip supply for many years to come.

Closing remarks

To complete an IPO, the VdB acquisition and set a record in sales and profit in both Australia and China in a single year would be an outstanding achievement. To have accomplished this in the context of the pandemic reflects the skills and dedication of your management and operations teams. We would like to extend our thanks to all stakeholders and look forward to another successful year across FY22.

CEO address

Good morning, ladies and gentlemen. Today I will talk to you about our performance over financial year 2021, update you on progress on our current growth strategies, and provide an outlook for the remainder of the Group's prospectus forecast period across CY21.

FY21 was a busy and successful year for the business by any measure. It has been a year of strong growth, where we have substantially exceeded the forecasts that we set for ourselves as a team, and for our investors. We have successfully raised capital and listed the company on the ASX, at the same time finalising the acquisition of our partner business Van den Berg in China, with its two high production farms and leading domestic sales platform. And we have delivered on our key operational objectives in both Australia and China.

In Australia, the combination of ongoing range innovation, incremental improvements in our merchandising efforts, and operational improvements aimed at product speed across our supply chain, have enabled us to deliver a substantial sales lift across the year and in our important event windows. Our China business has benefited from a significant increase to our farm production footprint, and a big step forward in diversifying our sales channels, moving closer to the consumer through our direct partnerships with major retailers.

We have achieved this across an extended period of managing through the full range of impacts from COVID in both our Australian and Chinese operations. Our priority has been, and remains, the safety and well-being of our staff and their families. From the commencement of the pandemic in China in January 2020, we have put in place mandatory temperature testing and attendance records, heightened hygiene standards, strictly adhered with government health regulations, and conduct daily rapid antigen testing in our Australian operations in NSW and Victoria. I would like to thank all of our staff across our operations, for their energy and dedication, enabling us to keep operating across this uncertain and challenging period.

All in all, we are pleased to report on our progress across FY21 in both of our operating geographies.

Australian Operations

For FY21, our Australian operations achieved a record sales and earnings result, notwithstanding the impacts of the pandemic. Pro-Form Revenue of \$288m was 27% up on 2020 with pro-forma EBITDA of \$36m, 92% up on 2020. The pandemic has highlighted the strength of our business model, fully testing the flexibility and agility of our operational approach. We are fortunate that our supermarket customers have been able to operate through lockdowns, despite

minor disruptions. Lockdowns have been announced with little or no notice, requiring us to manage the initial sharp drop in sales, and corresponding increase in waste, until a full recovery to pre lockdown metrics several weeks later.

Imported floral product has traditionally been air freighted to Australia. With the closure of Australia's international borders in March 2020, air freight capacity dropped dramatically, and rates increased accordingly, in some cases to several times pre pandemic levels. Over a number of years, we have developed a reliable pathway for the import of particular products via sea freight from some geographies. As air freight rates continued to escalate, we were able to increase our sea freight volumes and adjust our sourcing to those locations best able to facilitate supply in these new conditions. To manage this disruption whilst maintaining high levels of customer service, record sales growth and expanding margins is a real credit to the team.

Australian revenue growth was driven by a combination of volume and average selling price growth, particularly supported by work our team has been carrying out to innovate within our gifting and potted lines. Our key events across the year proved very successful, generating strong consumer demand, underpinned by improved product quality and range innovation. These high volumes events weren't without supply disruptions, particularly Mother's Day this year, however we remained able to deliver in full for our customers across all events. The supermarket channel continues to grow its industry share, and the regular feedback we receive demonstrates to us that our range presentation is resonating very well with consumers for its visual appeal, convenience, quality and value.

Our merchandising platform remains central to the delivery of growth in our business. This year we have made good progress in extending the reach and performance of this important team function in stores, and we are now well into the national rollout of our new merchandising technology platform, which will better support our team in the field, drive efficiencies, and deliver better real time sales and waste information for the business.

China Operations

FY21 was also a record year for the China operation. Pro-forma revenue of \$64m was 49% up on 2020 with pro-forma EBITDA of \$22m, 95% up on 2020. This year's ASX listing enabled the finalisation of the full acquisition of Van den Berg in China, allowing us to rapidly accelerate the development of our China operations. We are now the largest premium rose producer in China, with a leading reputation for the supply of year-round, high-quality volumes into customers across the country.

China revenue growth was supported by a strong lift in both farm production volumes, and better than expected year on year pricing, accentuated by an unusually high spike in the winter months. This year's farm volume growth was a function of three factors: ongoing greenhouse expansion works, the developing maturity profile of our crops, and an extended heating program into the early spring shoulder season which enabled us to supply incremental volumes into a favourable market dynamic.

Greenhouse space increased by 10ha to end the year at 61ha of total greenhouse production area, and we are now building a further 18ha of greenhouse facilities in FY22, 4ha of which are already complete. This is up 3ha from our earlier guidance. With our long history of building and growing, there is high confidence in the returns that will be generated from this incremental investment. ROIC is expected to exceed 25% once crops reach maturity over 2 to 3 years. Operating leverage should support increasing operating margins over time.

Consumer interest and demand for quality floral products in China continues to increase, with fast developing trends in recurring self-consumption and gifting. The key event window between Chinese New Year and Mother's Day saw record demand for our flowers this year, driving sustained increases in pricing across this period.

Our sales channels also continued to develop via the hard work of our sales teams, with supply into additional retail customers validating the quality of our product, and the value of our supply platform. We have earned the trust of our retail customers for reliable and stable, year-round supply of high volumes of premium product, evidenced by strong sell through rates to their customers. More than half of our increasing farm production volumes are now directly supplied into consumer facing customers, up from a very low percentage in January 2020 where we were heavily reliant on the wholesale and market trade.

The opening of our Shanghai processing facility in January has also enabled us to better serve our customers in that market with a broadening range of products, both from our own farms and from third party growers, and to also commence the supply of value-added bouquets.

Our China operations continue to play a valuable role supporting the growth of our Australian operations, particularly important during a heightened period of global supply disruption. I am pleased to add that the integration of our China team and operations is progressing smoothly to plan across all key functional areas.

Current Trading and COVID Impacts

In August we updated the market on performance, noting that the COVID-19 related lockdowns in NSW, Victoria, the ACT and to a lesser extent Queensland would have a short-term impact on business operations. The bounce back to normal was slightly prolonged relative to our experience in 2020 but in line with expectations and we are currently operating at or above pre lockdown sales volumes. International freight availability and cost remains an issue for the group, however the re-opening of passenger flights to and from Australia has allowed us to flex back to airfreight where possible. We continue to actively manage margin through our procurement and product strategies and via working closely with our customers.

The expansion of our Chinese growing operation is proceeding on time and budget and we will have the additional 18Ha of greenhouses fully planted and operational by the end of June 2022. The establishment of a new processing facility on our Changkou farm to manage the additional volumes will be completed and operational by the end of January 2022. A further 10+ Ha of greenhouse space is planned for construction in the FY23 year with production volumes across the farms expected to improve as plant yields on newly developed crops over the last three years move towards maturity.

FY22 Strategic Priorities

I will now focus on the key operational objectives we are working on across FY22.

In Australia, supporting our customers to give consumers a great experience with floral products in the convenience of a supermarket setting will see the retail channel share of supermarkets continue to expand over time. The implementation of our new merchandising technology platform will be completed before the end of this financial year. This will improve our merchandising efficiency, effectiveness and scale over time, underpinning sales growth with low waste as we continue to grow our SOR store network and merchandise more of our core stores. We continue to focus on implementing incremental operational improvements, particularly in labour efficiency and product quality. A big part of this will be achieved through the development of a new purpose-built production facility at Ingleburn in Sydney, which is due for completion by Q1 of FY23, with construction now underway. We are also working to open up new channels to market via a potted program we have recently commenced with Big W, and by expanding our markets operation into Queensland through the recently announced Rocklea markets acquisition.

In China, in parallel with executing on our ongoing greenhouse expansion plans, we are focussed on pushing more of our Australian know-how in product development and customer service, to open up more opportunities in the consumer market. Additional packing capacity via our new Changkou farm warehouse, and also through replication of the Shanghai warehouse model into other major consumer markets, will enable us to serve more customers with a broader range of fresh value-added products, and commence in-store merchandising support.

Confirmed CY21 NPATA Guidance

We reconfirm our NPATA guidance for the twelve months to December 2021 of between \$31.6 million – \$32.6 million, being the remainder of the prospectus forecast period.

Closing remarks

In closing, I would again like to extend my thanks to our teams in our head office, in our farms and production facilities in both Australia and China, and in the field visiting stores, for their hard work and dedication, ultimately delivering wonderful floral products through to our customers every day. These have been uncertain times for our communities and families, and it is our belief that our products make a small difference in people's lives, and this serves to underscore our passion for the product we work with each day.

LYNCH GROUP HOLDINGS LIMITED

(ASX: LGL)

2021 ANNUAL GENERAL MEETING

26 NOVEMBER 2021



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In certain places within the presentation, the rounding of figures may result in some immaterial differences between the sum of components and the totals outlined within graphs and percentage calculations. Segment revenue is stated excluding intersegment revenue eliminations. FY21F indicates prospectus forecasts. Revenue per sqm reflects farm revenue in a period divided by the average number of square meters of productive farmland used to grow sellable product.



LYNCH GROUP BOARD OF DIRECTORS



Patrick Elliott
Non-Executive Chair



Elizabeth Hallett
Non-Executive Director



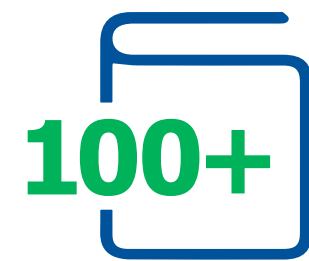
Peter Clare
Non-Executive Director



Peter Arkell
Non-Executive Director
(based in Shanghai)



Hugh Toll
CEO and
Executive Director

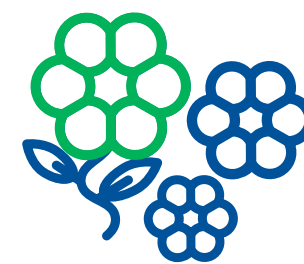


100+ years old

Largest distributor of floral products in Australia and largest grower of premium flowers in China



30 year dominant position in fast growing Australian supermarket channel

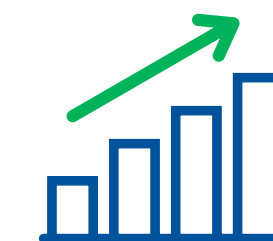


International diversified supply chain

including owned farms and other tier 1 growers



17 year on the ground presence in China with established platform well place to accelerate growth



Track record of predictable and attractive ROIC on growth capex

AUSTRALIA OVERVIEW

- **Supply:** National supply of floral and potted products to supermarket customers
- **Growth:** Scope for significant further growth when compared to other international markets
- **Complete category management:** Sourcing, growing, biosecurity, range, merchandising
- **Sourcing:** Worldwide capability including owned and supplied. Consistent year round supply of high quality products
- **Growing:** Own farms and supply from highest quality growers
- **Biosecurity:** Close collaboration and deep experience with Australian biosecurity
- **Range:** New and attractive products for self and gifting especially in bouquets and arrangement
- **Merchandising:** Dedicated professional team of in store merchandisers with a focus on presentation and quality



CHINA OVERVIEW

- **17 year history**, located in Kunming region of Yunnan province in south west China
- **Ideal growing environment** with favourable climate and infrastructure
- **4 large farms**, covering 65ha (as at November 2021) of high technology greenhouses growing roses, tulips, gerberas and amaryllis
- **Largest grower of premium product flowers in China** in a market several times bigger than most western markets
- **Year round supply of high quality product range** to Chinese consumers at affordable prices
- **>50% of production sold to retail platforms** including supermarkets at fixed prices with demand likely to outstrip supply for years to come
- **Reliable high quality source of supply** into Australia market
- **Superior return on capital** for capital development



FY21 KEY ACHIEVEMENTS

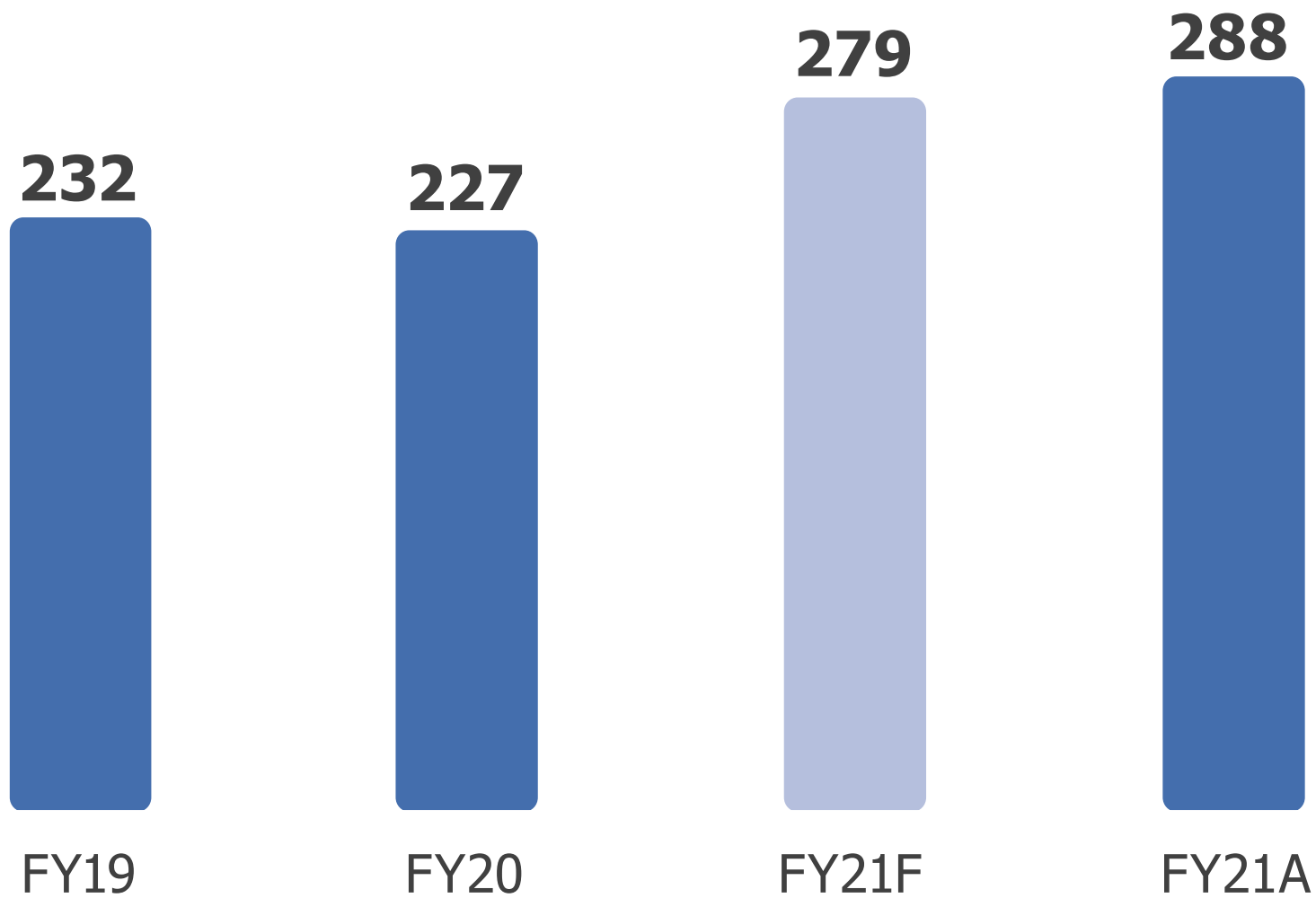
- ✓ **Year of significant growth** exceeding prospectus forecasts with both top and bottom line growth above expectations
- ✓ **Revenue +4.7% EBITDA + 12.0%, NPATA +12.7%** to prospectus forecast
- ✓ **Successful listing on ASX** 6th April 2021
- ✓ **Settlement of Van den Berg transaction** with integration continuing to plan
- ✓ Performance underpinned by **targeted merchandising**
- ✓ **Successful delivery of high volume major customer events** in Australia despite COVID
- ✓ **Sale or return store conversions exceed forecast** now c.20% of Australian store network
- ✓ **Additional 9.9ha of greenhouses in China** bringing total area under greenhouse cultivation to 61.1ha as at June 2021
- ✓ **Further strengthened our leading market position in China** including new supermarket customers

FY21 AUSTRALIA: CONSISTENT EARNINGS GROWTH AND MARGIN IMPROVEMENT

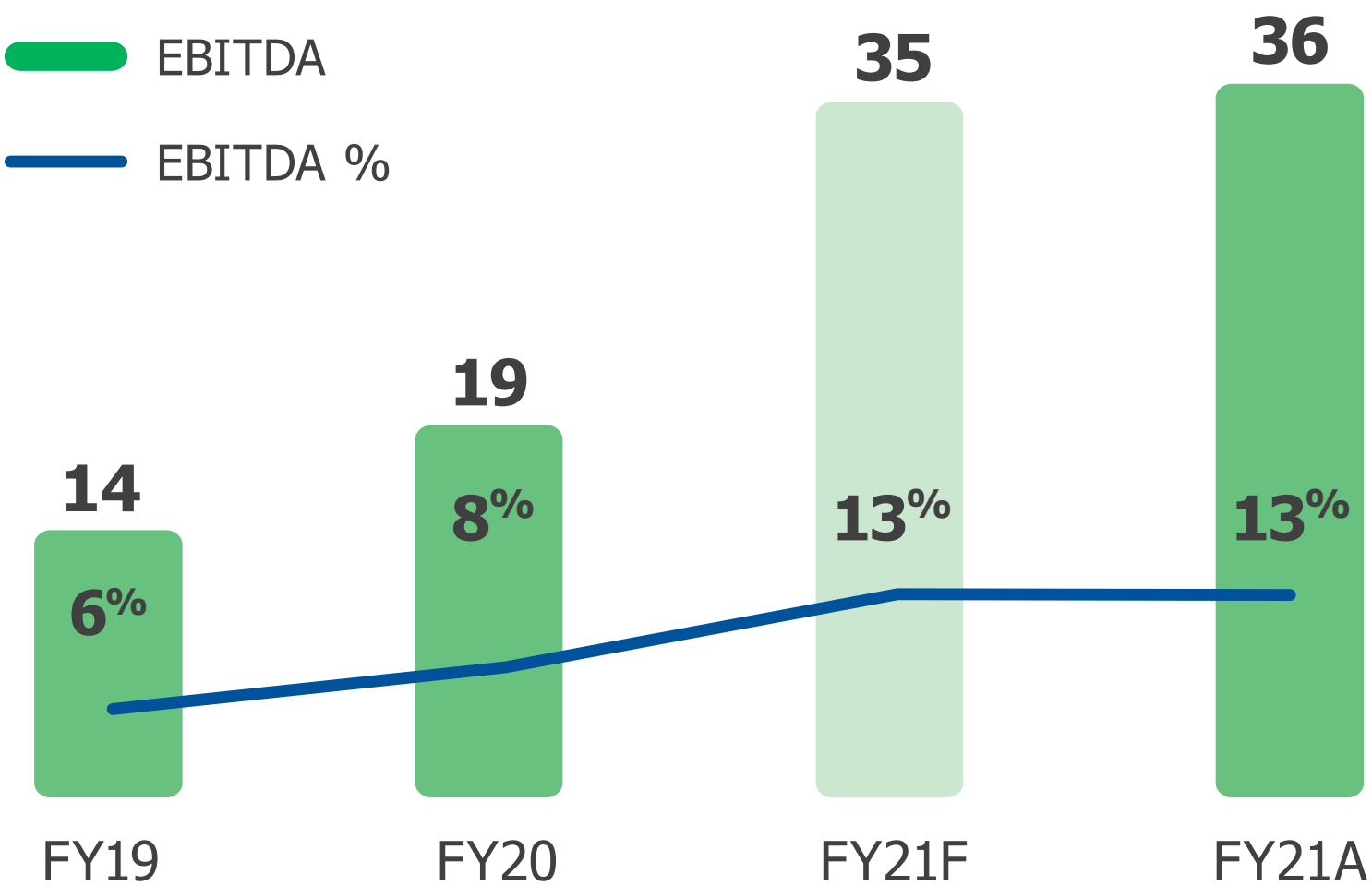


Strong revenue growth and operating leverage: continued margin expansion

Australia Pro-Forma Revenue (\$m)



Australia Pro-Forma EBITDA (\$m) and EBITDA margin (%)



Ongoing structural shift to supermarket channel

SOR store conversion driving meaningful uplift in same store sales

Flowers YOY growth of c.24%
Plant YOY growth of c.38%

Enhanced merchandising and product innovation to improve customer experience

Range optimisation and cost discipline driving EBITDA margin expansion

FY20 was COVID affected especially for Q4 including Mother’s Day

AUSTRALIA KEY OPERATIONAL OBJECTIVES



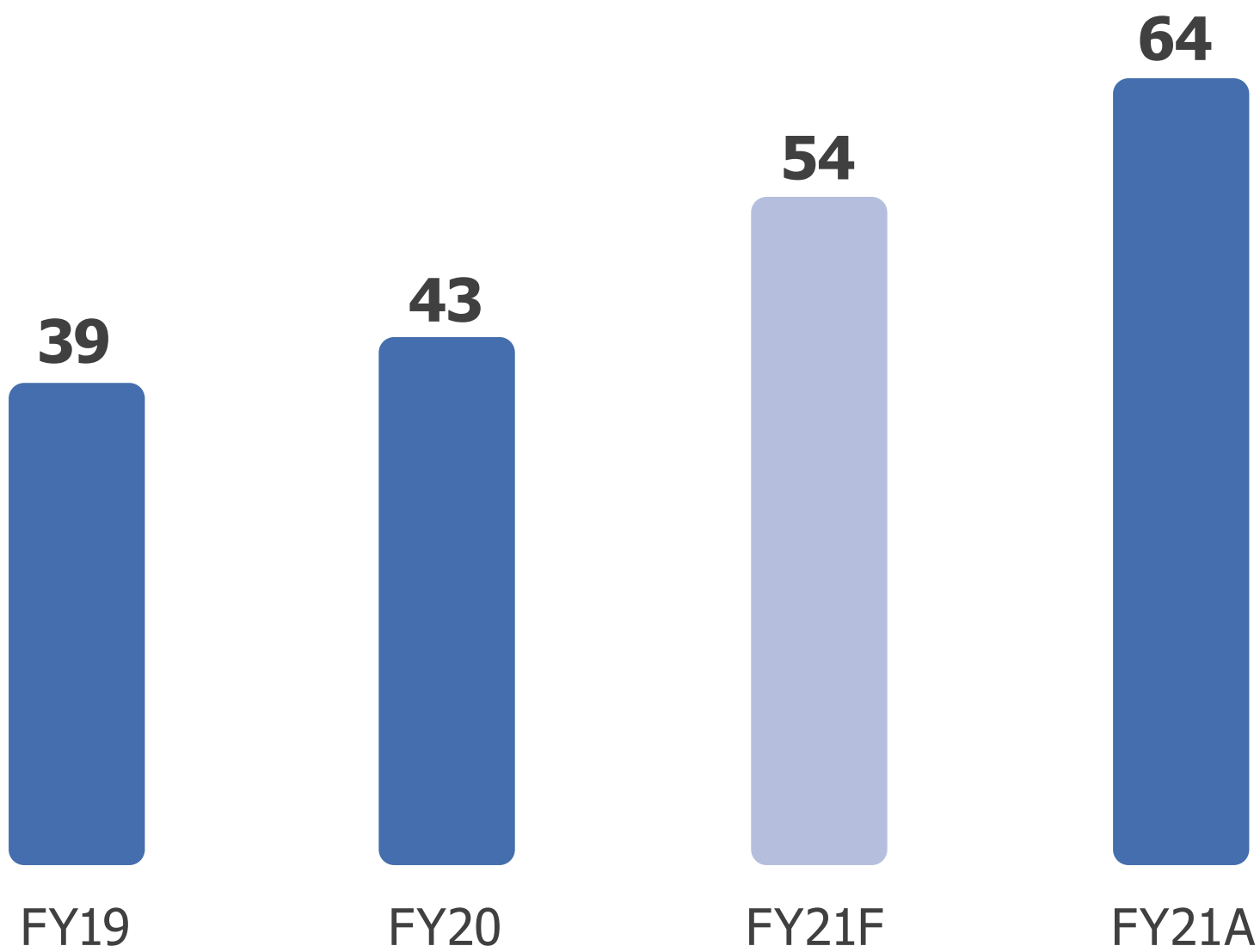
Operational Objective	Outcome
Enhanced visual merchandising, quality, breadth of range, value and convenience	Pro-Forma Revenue up c.27%
Improved product velocity to consumer, supply chain integrity and reduced waste	EBITDA Margin 13% (pcp 8%)
Investment in merchandising to improve presentation, sell-through and efficiency	New system developed and tested, implementation commenced
SOR store conversions	Exceed forecasts, now at c.20% of Australian store network



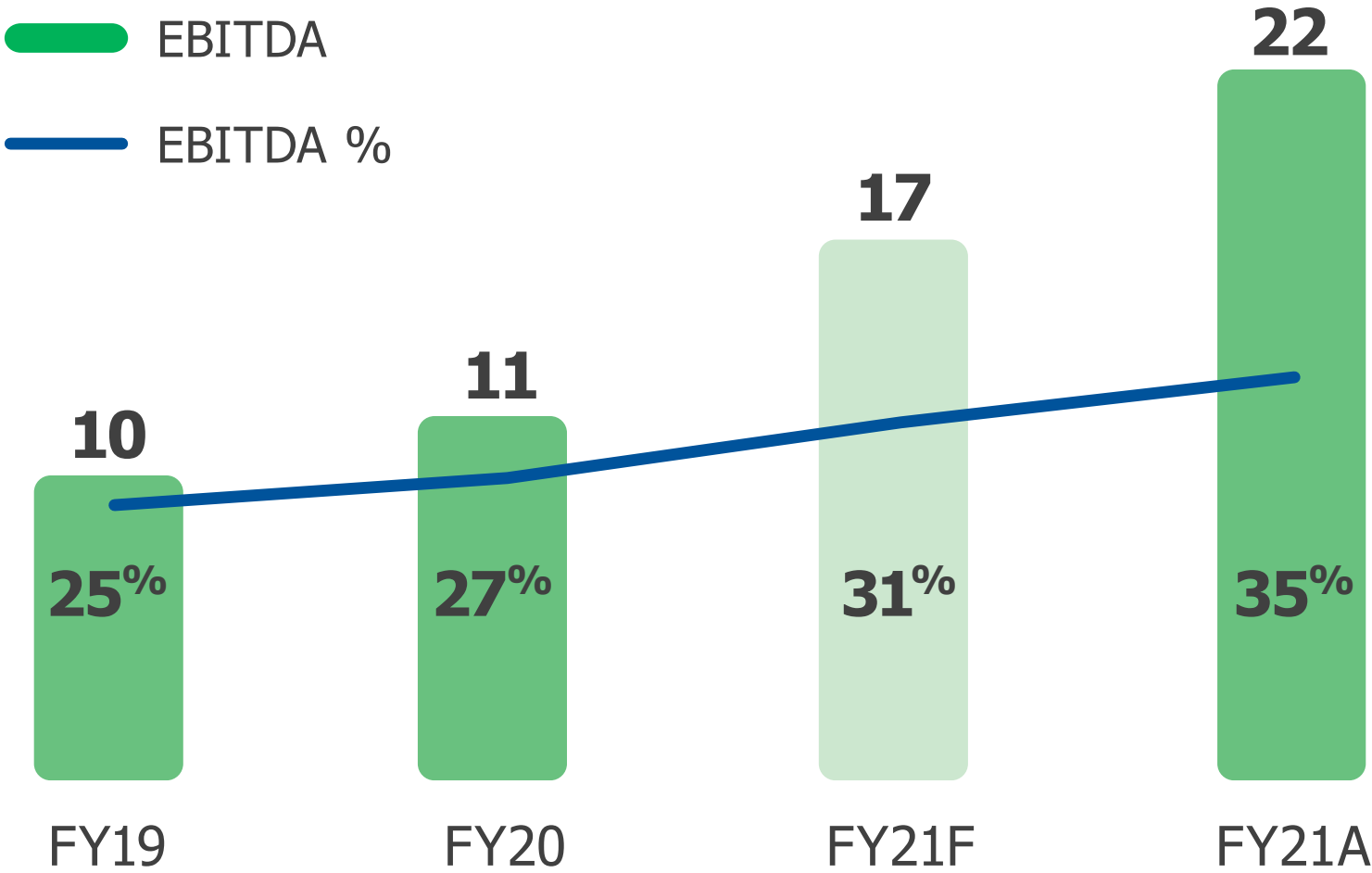
FY21 CHINA: MARGIN AND SALES GROWTH LED BY PRODUCTION EXPANSION

Revenue growth and margin expansion from increases in production land and yield

China Pro-Forma Revenue (\$m)



China Pro-Forma EBITDA (\$m) and
EBITDA margin (%)



Increased production land and yield
improvement drives sales growth

Rapidly growing demand in China
for premium floral products

Strong price and volume presented the opportunity
to take advantage of favourable market

Ongoing penetration of China
domestic retailers

Robust EBITDA margin growth as
operating leverage expands

Revenue per sqm was \$79
(prospectus forecast \$66)

CHINA KEY OPERATIONAL OBJECTIVES

Operational Objective	Outcome
Expanded production and supply base in Kunming to strengthen customer engagement and generate strong ROIC	Rev per sqm \$79
Development of additional greenhouse space to increase stem production	9.9ha of greenhouses constructed during FY21, and a further 4ha constructed during FY22 to date to bring the total area under greenhouse cultivation to 65ha as at November 2021
Leveraged strategic position to serve more retail platform customers – scaled and reliable year-round supply, consistent premium quality, low unit cost of production	Fixed price customers >50% of production
Further disintermediate the value chain by leveraging product development, production and merchandising know-how to market an expanded range of consumer ready floral products China’s major population centres	Shanghai warehouse has broadened the customer reach



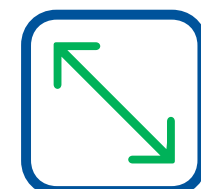
CURRENT TRADING AND COVID IMPACTS

- July / August 2021 affected by COVID-19 lockdowns in key NSW and VIC markets. Conditions since then, are in line with expectations
- International freight pressures on both availability and cost continues to create operational inefficiencies. Active margin management through procurement, product strategies and collaboration with customers remains ongoing to mitigate the impacts of freight pressures wherever possible
- Air freight expected to ease in to 2022 as international travel reopens in Australia. Sea freight likely to be challenged over the short to mid-term due to port bottle-necks, scheduling uncertainty, container availability, and shipping capacity
- China expansion of greenhouses are proceeding on time and to budget – targeting an additional 18ha of greenhouses fully planted (including 4ha already developed) to bring the total under greenhouse cultivation to 79ha by the end of FY22
- Changkou processing facility, to manage additional volumes, expected to be operational by end of December 2021
- China trading conditions continue in line with expectations

KEY OPERATIONAL OBJECTIVES FY22: **AUSTRALIA**



STRICTLY PRIVATE AND CONFIDENTIAL

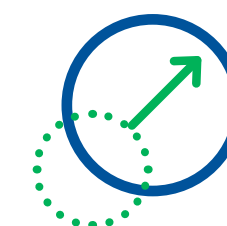


**Continued
expansion**
of supermarket
retail channel



**Implementation
of merchandising
technology
platform**

facilitating further
SOR conversions
and core store
merchandising
support



**Relocation of
Sydney site**
in mid 2022

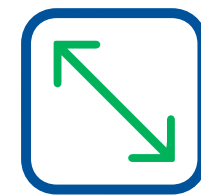


**New channels
to market**
– Big W and
Rocklea markets

KEY OPERATIONAL OBJECTIVES FY22: **CHINA**



STRICTLY PRIVATE AND CONFIDENTIAL



**Continued
greenhouse
expansion**



**Transfer of
Australian
know-how** into
China setting
to develop the
consumer market



**Serve more
customers** with
an increased
range assisted by
additional packing
capacity



**Commence
in-store
merchandising**

OUTLOOK

- **Reconfirm NPATA guidance for CY21 (12 months to December 2021) of \$31.6m - \$32.6m. Prospectus forecast was \$29.3m**
- December 2021 is end date of the Prospectus forecast
- A further update on trading conditions is expected to be provided with the half year results in late February



