

**ASX Announcement :** 26 April 2016

## **The Food Revolution Group – Growing distribution channels, expanding product line and China**

Open Briefing interview with CEO of The Food Revolution Group Bill Nikolovski

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**In this Open Briefing®, CEO Bill Nikolovski will discuss:**

- **Recently announced distribution agreements**
- **Additions to its product line**
- **FOD's view of China's changes to trade regulations**

### **Record of interview:**

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Since listing on 19 February this year, FOD has announced significant agreements with Chinese-based distributors and also with Australian retail giants Woolworths and Coles. What will the impact of these agreements be on your business?

#### [CEO Bill Nikolovski](#)

We're delighted to have secured such significant distribution agreements since listing. Coles and Woolworths are two names that Australian consumers know and trust and the credibility and validation that they bring to our products is a major benefit. In terms of impact, the new distribution agreements signed with Australian retailers are likely to double FOD's revenue in the coming year, contributing an additional \$15m. In terms of China, FOD has signed agreements with four retailers and/or distributors and we have received first orders from two of these retailers/distributors. Importantly, these retailers/distributors have direct channels to market either in China through ownership of the physical stores, or through established relationships with such stores. The orders from two of the retailers/distributors will see FOD products distributed in more than 1,000 stores across four Chinese provinces. We expect to finalise agreements with a further four distributors/retailers in different provinces in China shortly. In total we expect that China will be a key platform for our growth with 50 per cent of the Company's revenues expected from this region within the next three years. To help us in this regard, we have recruited three full-time staff based in China to support the sales and marketing efforts for our products in the Chinese market, and to identify and develop additional strategic relationships in China.

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You've also expanded the product range, tell us more about your new products and your plans for future development?

#### [CEO Bill Nikolovski](#)

In total, FOD has launched 21 products in April, in addition to its four existing Juice Lab – Pressed Juice products. The successful Juice Lab brand will be extended from the current Juice Lab – Pressed Juice range to Juice Lab – Limited Edition (Limited edition, Grab and Go range), Juice Lab – Smoothies (smoothies) and Juice Lab – Vegessentials (vegetable juices) ranges.

FOD has also launched new brands Badu (infused fruit waters) and Mixologist (lightly carbonated juice). We are very excited about these new products which will be in some of Australia's biggest and best known retailers, making them available across the country.

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China has recently introduced some changes to the regulations governing food imports. The result has been uncertainty and volatility in companies that distribute food products to China. What is your assessment of the new changes and how will they impact FOD?

**CEO Bill Nikolovski**

We don't think we will be negatively impacted, and, in some respects, we think the changes might benefit FOD. As we previously mentioned, we have set up direct channels into China, and our products are physically in store. This reduces our reliance on free trade zones and e-commerce platforms, which are channels that we will service, but which will not be our primary route to market. In that respect we are well placed and could potentially benefit through our strong expected presence in supermarkets, convenience stores and hypermarkets. There is strong demand for healthy and natural products in China, and, while it is early days still, we don't think a small increase in tax, which applies to e-commerce platforms only, will meaningfully change the demand for these products. All our formulations have been developed to meet the global demand for healthy and all natural products. None of our products fall into the vitamin category. The Hi-Fi product is a 100% natural extract of orange and apple fibre, delivering a healthy, natural, functional benefit to our consumers.

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What do you think is behind the changes, what is the Chinese government hoping to achieve?

**CEO Bill Nikolovski**

We have spoken to our distributors, and our view is that the Chinese government want to eradicate copy-cat and unregulated brands in the e-commerce space. FOD support the decision and believe that trusted and recognised manufacturers and suppliers who are exporting products into China will benefit in the long term from a more vigilant, controlled and regulated market. For established businesses in Australia with direct channels and relationships in China, it will help clean up the marketplace and improve confidence with Chinese consumers.

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Is Hi-Fi a health food or vitamin product?

**CEO Bill Nikolovski**

Our Hi-Fi Product is a 100% natural extract of fruit, this is a natural food supplement so will not have any restrictions into China. With Chinese customs tightening regulations on vitamins and other supplements into China, we believe these new laws will help Hi-Fi be a stronger brand in an unsaturated market.

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Are FOD products currently imported to China under the FTA and what duties are payable?

**CEO Bill Nikolovski**

This is relatively complex, as it varies between products and sub-category classifications, however, taxes in China are still considered competitive when compared to exporting to other countries. Furthermore, Australian companies are competitive against other nations exporting into China. We don't forecast our products will be overly affected by a change in duties.

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Will duties payable on FOD products increase?

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**CEO Bill Nikolovski**

For e-commerce and free trade zones trades, taxes will increase slightly from 0% to about 11.5% or 70% of the taxes you would pay if you purchased the products in the supermarket. These changes have been forecast for some time, and are the reason we set up our business around strong physical distribution through supermarkets and hypermarkets. However, the online channel is still an important market in China, and we believe the new tax will force online retailers to implement more stringent restrictions on copy-cat brands, while driving consumers back to stores.

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