BESTON GLOBAL FOOD COMPANY

Beston Global Food Company Limited

Interim report for the half-year ended 31 December 2019

Beston Global Food Company Limited
Appendix 4D
Half-year ended 31 December 2019

Name of entity
Beston Global Food Company Limited

ABN or equivalent company reference	Half-year
ABN 28 603 023 383	31 December 2019 (Previous corresponding period: 31 December 2018)

Results for announcement to the market

			$'000
Revenue from ordinary activities	Up	17.1%	51,173
Earnings before interest and taxation (EBIT)	Up	64.1%	(4,809)
Net loss after tax (from ordinary activities) for the period attributable to members	Up	73.0%	(3,091)

Net tangible asset backing (per share)

	31 December 2019 Cents	31 December 2018 Cents
Net tangible asset backing (per share)	0.14	0.19

Audit

The Financial Statements upon which this Appendix 4D is based have been reviewed and the Independent Auditor's Review Report to the members of Beston Global Food Company Limited is included in the attached Consolidated Interim Financial Statements.

Review of operations and activities

1. Operating performance

During the half year, the group reported a loss attributable to members of $3.1 million. The result is a $12.4m improvement on the previous half, and reflects the significant progress made in 1H20. The following analysis highlights the key operational and financial aspects of this result.

1.1 Group performance

Group	1H20	2H19	1H19
Revenue ($000's)	$51,173	$41,522	$43,703
Impairment ($000's)	-	($3,715)	($5,900)
EBIT ($000's)	($4,809)	($17,853)	($13,398)
NPAT ($000's)	($3,091)	($15,534)	($11,441)

Group performance shows a continuing increase in revenue half on half for the last 3 periods, along with significant improvements in EBIT and NPAT. There was no impairment expense recorded in the current period.

1.2 Dairy performance

Dairy Segment	1H20	2H19	1H19
Revenue ($000's)	$45,508	$35,000	$40,870
Production (MT)	5,224	2,850	2,940
Milk Supply (000's litres)	57,417	44,652	58,105
Gross Margin ($000's)	$3,524	$1,770	$3,831
Operating Result ($000's)	($3,344)	($8,273)	($4,209)

The current period shows an 83% increase in cheese production within the Dairy segment. The growing product sales pipeline has led to increased utilisation of milk in the production of cheese products in the current period, particularly mozzarella, delivering higher gross margins.

The improved operating result has however been inhibited by lower than expected milk receivals (as a consequence of the ongoing drought), reduced lactoferrin production (as explained in 3.1 below), and increased milk costs of circa 10% curtailing margin growth in the current period.

1.3 Meat performance

Meat segment	1H20	2H19	1H19
Revenue ($000's)	$5,410	$5,171	$1,314
Gross Margin ($000's)	$68	$673	($269)
Operating Result ($000's)	($2,661)	($1,370)	($1,370)

Lower than expected gross margin and operating results due to unexpected yield and production cost issues relating to the development of plant-based products for a new contract (which has since been terminated). The focus of the meat segment for 2H20 will be on growth in its core meat business. The capability to manufacture plant-based products that has been built will be maintained and opportunities in this growing market sector will also be pursued for the medium term.

1.4 Other businesses

Other	1H20	2H19	1H19
Revenue ($000's)	$255	$1,384	$1,519
Other Income ($000's)	$3,033	$345	$210
Impairment ($000's)	-	($3,715)	($5,900)
Other expenditure ($000's)	($2,876)	($6,993)	($3,957)
Operating Result ($000's)	$412	($8,979)	($8,338)

The decreased operating loss in other businesses reflects the gain on the sale of the lobster quota, the lack of impairment in 1H20, and cost reductions including the closure of overseas entities.

Review of operations and activities

2. Strategic objectives

At our AGM on 28 November, 2019 we outlined the 5 strategic imperatives which were at the forefront of our focus in BFC's core dairy business:

1. **Sales Pipeline**: Broadening and deepening of the relationships in our sales pipeline.
2. **Product Mix**: Increasing the proportion of Mozzarella cheese and other high value products in our product mix.
3. **Dairy Nutraceuticals**: Increasing the production of high value lactoferrin and extending the portfolio of dairy nutraceutical products.
4. **Milk Supply**: Increasing milk supply (and factory throughput) from 90 million litres in FY18 and 103 million litres in FY19 to 115 to 130 million litres in FY20.
5. **Capacity Utilisation**: Making greater use of our productive capacity (e.g. by "stretching" our milk)

These 5 strategic imperatives are inter-related with the execution of imperatives 1,2 and 3 helping to achieve higher returns per kilogram of milk solids processed in our factories. Higher returns increase the financial capacity to pay for milk (imperative 4) and thereby increases capacity utilisation in our factories (imperative 5).

The inter-relationships of these strategic imperatives are a virtuous circle leading to profit maximisation.

As explained at the AGM, BFC currently utilises around 40% of our installed processing capacity. The most valuable contribution to growth and profits that we can achieve over the next few years is to increase the utilisation of our production capacity. The bottom-line effects of achieving an increase in capacity utilisation are very significant and directly correlated.

The key enabler for achieving this outcome is via a strategic reallocation of capital within the business, which is to be achieved from the farm sale and leaseback transaction outlined at the AGM. (refer below)

3. Progress report

Total Revenues have increased by 17.1% on the previous half year and the mix of mozzarella cheese sales have increased from 20.4% in the previous half year to 47.9% in H1 of FY20.

The following outlines the progress being made on increasing the production of lactoferrin (Imperative 3) and milk supply (Imperative 4).

3.1 Lactoferrin

BFC successfully commissioned our dairy protein extraction plant in late 2018. Since then, we have added a freeze drying and milling facility to enable Lactoferrin to be delivered to customers in final product, powder form. The Lactoferrin produced by BFC is currently derived from the whey liquid which is generated as a by-product in the manufacture of Mozzarella.

The Dairy Protein Market is one of the most valuable markets in the dairy industry. Lactoferrin is an iron-binding glycoprotein, with significant anti-viral, anti-fungal and anti-bacterial properties. It is in high demand in the global pharmaceuticals and nutraceuticals market, and commands high prices with high margins. The Lactoferrin produced at our Jervois factory is very high grade, making it highly sought after by customers in Australia and China, as well as in other countries.

Despite successfully commissioning the Lactoferrin plant in late 2018, production performance began to decline towards the end of FY19. In June/July 2019 it became apparent that the specialised resin used for Lactoferrin extraction purchased with the plant had deteriorated much more quickly than expected. Production was curtailed and then ceased for a period whilst the matter was investigated. Production recommenced at lower levels than planned whilst replacement resin was ordered from the overseas manufacturer.

Review of operations and activities

3. Progress report (continued)

3.1 Lactoferrin (continued)

The replacement resin arrived into Adelaide shortly before Christmas 2019. Work commenced in January 2020 to install the new resin and progressively refurbished parts of the plant to bring it back to peak operating efficiency. This work was completed in mid-February 2020 and the plant has gradually been brought back to full production in recent weeks. This work completes the upgrade of the existing lactoferrin whey-based process.

Management estimate that the restoration of the whey-based Lactoferrin plant to its full operating capability, as from 1 March 2020, will add up to $4 million to EBITDA in a full year based on production of 2.5 tonnes per annum.

In parallel with the restoration work on our whey based Lactoferrin plant, a study was conducted into the feasibility of increasing Lactoferrin production by extracting it from skim milk rather than from whey liquid. The study, undertaken by Australian based specialist firm HPS Engineering, also looked at the options for further expansion of the Company's dairy protein fractionation plant to increase both its capacity and its capabilities for producing other high value nutraceuticals.

The results from the study have shown that for an expenditure of around $10million, BFC could install some new plant and equipment at Jervois which would significantly increase the production of Lactoferrin. It would enable Lactoferrin to be extracted from skim milk before the milk goes into the production of Mozzarella cheese whereas currently, the Lactoferrin is extracted after the mozzarella is made. The Lactoferrin yields from whey are much less than from skim milk, as a large portion of the Lactoferrin is captured in the cheese (i.e. not all of the Lactoferrin finds its way into the whey liquid by-product which is generated from the cheese-making process).

The study shows that the production of Lactoferrin can be increased from around 3MT per annum currently, to between 10MT to 12 MT per annum through the installation of the new equipment (and upgrade of the existing plant). The production estimates are based on the existing milk supply (of circa. 100 million litres per annum) and will increase further as additional milk supply is introduced into the Jervois factory.

Producing 10MT to 12MT of lactoferrin will add circa $20m per annum of revenue of this high-margin product at $1,500 per kilogram selling price. The payback on the investment would be around 1 year.

Following on from the findings of the HPS study, the Board of BFC has resolved to proceed with the installation of the new Lactoferrin extraction plant. The capital cost of this project will be met from the proceeds of the farm sale and lease-back transaction (refer 4 below).

The project will take approximately 9 to 12 months to complete. Production of Lactoferrin from whey liquid will continue in the meantime.

3.2 Milk supply

Milk receivals by BFC for 1H20 were 57.4ML, 10.3% down on budget but in line with the previous year (58.0ML) Milk production by BFC owned farms followed a similar trend to the total Australian production in the first few months of H1 (i.e. in September and October) but picked up significantly in subsequent months.

BFC has put a number of new initiatives in place to increase milk supply to its factories and expects the total throughput of milk for 2019-20 to be around 110 million litres, up by 10% on the 103 million litres received in 2018-19.

As advised at the AGM, each additional 20 million litres of milk would add around $2.5 million to NPAT with whey based Lactoferrin production. This increases to around $4.5m using skim-based Lactoferrin production. Our medium-term target is to source around 200 million litres of milk per annum which would utilize around 70% of the current capacity of our factories.

3. Progress report (continued)

3.2 Milk supply (continued)

As we proceed, we will continue to position BFC as a manufacturer of choice for dairy farmers, based on trust, reliability and transparency. In late 2019, we took on an additional experienced Milk Supply Manager. As explained at our AGM, our dairy business lifeline is a sustainable, consistent milk supply and we remain committed to delivering outcomes for our dairy farmers that give them long-term benefits.

4. Farm sale and leaseback

BFC advised shareholders at the AGM on 28 November that it intended to sell and leaseback its dairy farms at Mt Gambier, South Australia in order to:

- Redeploy the capital currently tied up in our dairy farms to invest in assets which are higher revenue and profit generating, commencing with the lactoferrin plant upgrade to extraction from skim milk.
- Free up capital to provide funds for securing additional milk to utilize the excess capacity in our dairy factories.
- Reduce gearing levels.

Under the proposed sale and leaseback arrangement, to have an initial term of 10 years, BFC will continue to operate the farms, take the milk produced into our own factories and have the right to buy-back the farms at market value in future periods. The overriding objective is for BFC to retain long-term control over the dairy farms to secure the future supply of milk from the farms to BFC factories.

Formal expressions of interest in this sale and leaseback opportunity were invited from both Australian and International investors in late January, with registration of interests closing on 5 March 2020. The dairy farms comprise a highly productive irrigated 545Ha contiguous landholding in one of Australia's premium dairy regions (and with secure, high quality water entitlements) and have been independently valued at circa $35 million. The sale and leaseback will not include our dairy/herd or moveable plant and equipment.

BFC expects that the evaluation of Expressions of Interest (EOI), and negotiations with the successful party, will be completed by the end of April, with settlement expected during May 2020. Following completion of the sale and leaseback transaction the gearing level of the Company will reduce from 49%, as at 31 December 2019, to around 10%.

5. Appointment of corporate advisors

As a result of the investments made over the past four years, and the growth in revenue achieved, BFC is now the 8th largest dairy company in Australia, and the 3rd largest producer of Mozzarella cheese.

In our 2018-19 Annual Report, we noted that the Company had adopted a "be ready" stance in relation to strategic expansion opportunities and was evaluating several potential bolt-on opportunities. We continue to assess opportunities either through partnership or consolidation that are consistent with our strategic objectives.

To assist in evaluating these various opportunities (both in M&A and other areas), the Board of BFC resolved to appoint Moelis Australia ("Moelis") as Corporate Advisors to the Company. The appointment took effect on 3 February 2020.

Directors' report

Your Directors present their report on the Consolidated Entity consisting of Beston Global Food Company Limited and the entities it controlled at the end of, or during, the half-year 31 December 2019. Throughout the report, the Consolidated Entity is referred to as the Group.

Directors

The following persons held office as Directors of Beston Global Food Company Limited during the financial period:

R Sexton (Chairman)
S Gerlach
P Coventry
J Kouts
I McPhee
C Cooper

Principal activities

The principal activities of the Group during the period consisted of the core activities of processing, manufacturing, and distribution of dairy, meat, and other food-related products. Additionally, the Group processes high pH natural spring water, and continues the development and commercialisation of anti-counterfeiting and provenance technologies.

Dividends

There were no dividends provided for during the half-year ended 31 December 2019 (31 December 2018: nil).

Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the review of operations and activities on page 1.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the period, not otherwise disclosed in this report.

Events since the end of the financial period

No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/91, relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with the instrument.

This report is made in accordance with a resolution of Directors.

R N Sexton
Chairman

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Auditor's Independence Declaration to the Directors of Beston Global Food Company Limited

As lead auditor for the review of the financial report of Beston Global Food Company for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Beston Global Food Company Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

BJ Pollock

BJ Pollock
Partner

Melbourne
28 February 2020

Beston Global Food Company Limited

Interim financial report - 31 December 2019

Contents

Consolidated statement of comprehensive income
For the half-year 31 December 2019

	Notes	31 December 2019 $'000	31 December 2018 $'000
Revenue from continuing operations			
Sale of goods		51,056	43,277
Other revenue		117	426
	4	51,173	43,703
Other income	5	3,983	220
Expenses			
Cost of sales of goods		(47,667)	(40,114)
Other expenses from ordinary activities			
Operating overheads		(4,773)	(4,255)
Selling and distribution		(1,708)	(1,194)
Other		150	-
Corporate overheads and business support		(5,967)	(5,858)
Profit/(loss) from operations		(4,809)	(7,498)
Finance income		4	221
Finance expenses		(788)	(740)
Net finance income	6	(784)	(519)
Impairment of financial asset		-	(5,900)
Income tax benefit	7	2,297	2,418
Loss for the period		(3,296)	(11,499)
Item that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(19)	(343)
Item that will not be reclassified to profit or loss			
Changes in the fair value of equity investments at FVOCI		300	(5,658)
Other comprehensive income/(loss) for the period, net of tax		281	(6,001)
Total comprehensive income/(loss) for the period		(3,015)	(17,500)
Profit/(loss) is attributable to:			
Owners of Beston Global Food Company Limited		(3,091)	(11,441)
Non-controlling interests		(205)	(58)
		(3,296)	(11,499)
Total comprehensive income/(loss) for the period is attributable to:			
Owners of Beston Global Food Company Limited		(2,810)	(17,442)
Non-controlling interests		(205)	(58)
		(3,015)	(17,500)
		Cents	**Cents**
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic earnings per share	18	(0.6)	(2.6)
Diluted earnings per share	18	(0.6)	(2.6)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet
As at 31 December 2019

	Notes	31 December 2019 $'000	30 June 2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents		1,474	1,920
Trade and other receivables	8	22,716	15,740
Inventories		13,785	14,192
Total current assets		37,975	31,852
Non-current assets			
Receivables		150	-
Property, plant and equipment		70,167	68,168
Biological assets		5,666	5,303
Deferred tax assets		17,971	15,802
Intangible assets		14,269	19,437
Total non-current assets		108,223	108,710
Total assets		146,198	140,562
LIABILITIES			
Current liabilities			
Trade and other payables	10	18,078	15,689
Borrowings	11	20,932	5,516
Current tax liabilities		-	45
Employee benefit obligations		496	428
Total current liabilities		39,506	21,678
Non-current liabilities			
Borrowings		26,670	35,807
Deferred tax liabilities		2,664	2,785
Employee benefit obligations		260	179
Total non-current liabilities		29,594	38,771
Total liabilities		69,100	60,449
Net assets		77,098	80,113
EQUITY			
Contributed equity	12(a)	147,535	147,535
Other reserves	12(b)	(8,854)	(9,135)
Retained earnings		(61,224)	(58,133)
Capital and reserves attributable to owners of the Company		77,457	80,267
Non-controlling interests		(359)	(154)
Total equity		77,098	80,113

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity
For the half-year ended 31 December 2019

	Notes	Attributable to owners of Beston Global Food Company Limited					
		Share capital $'000	**Other reserves $'000**	**Accum-ulated losses $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'000**
Balance at 1 July 2018		147,535	(237)	(26,192)	121,106	186	121,292
Adjustment on adoption of AASB 9		-	-	(4,098)	(4,098)	-	(4,098)
Restated total equity at the beginning of the financial period		**147,535**	**(237)**	**(30,290)**	**117,008**	**186**	**117,194**
Profit/(loss) for the half-year		-	-	(11,441)	(11,441)	(58)	(11,499)
Other comprehensive income/(loss)		-	(6,001)	-	(6,001)	-	(6,001)
Total comprehensive income for the period		**-**	**(6,001)**	**(11,441)**	**(17,442)**	**(58)**	**(17,500)**
Balance at 31 December 2018		**147,535**	**(6,238)**	**(41,731)**	**99,566**	**128**	**99,694**
Balance at 1 July 2019		147,535	(9,135)	(58,133)	80,267	(154)	80,113
Profit/(loss) for the half-year		-	-	(3,091)	(3,091)	(205)	(3,296)
Other comprehensive income/(loss)		-	281	-	281	-	281
Total comprehensive income for the period		**-**	**281**	**(3,091)**	**(2,810)**	**(205)**	**(3,015)**
Balance at 31 December 2019	12	**147,535**	**(8,854)**	**(61,224)**	**77,457**	**(359)**	**77,098**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows
For the half-year ended 31 December 2019

	Notes	31 December 2019 $'000	31 December 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		45,595	45,601
Payments to suppliers and employees (inclusive of goods and services tax)		(56,256)	(49,445)
Interest received		4	221
Interest paid		(782)	(713)
Net cash (outflow) from operating activities		(11,439)	(4,336)
Cash flows from investing activities			
Payments for property, plant and equipment		(3,382)	(9,290)
Payments for investment property		(48)	-
Payments for intangible assets		-	(171)
Payments for livestock		-	(420)
Proceeds from sale of property, plant and equipment		7,767	-
Proceeds from sale of livestock		369	258
Net cash inflow (outflow) from investing activities		4,706	(9,623)
Cash flows from financing activities			
Proceeds from borrowings		6,279	12,007
Loans (to)/from related parties		33	-
Net cash inflow from financing activities		6,312	12,007
Net (decrease) in cash and cash equivalents		(421)	(1,952)
Cash and cash equivalents at the beginning of the financial year		1,920	4,463
Effects of exchange rate changes on cash and cash equivalents		(25)	(371)
Cash and cash equivalents at end of period		1,474	2,140

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation of half-year report

This interim report for the half-year reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Beston Global Food Company Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(a) New and amended standards adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019, except for the adoption of new standards effective for reporting periods commencing on or after 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, AASB 16 *Leases* can require restatement of previous financial statements. As required by AASB 134, the nature and effect of these changes (if any) are disclosed below.

(b) AASB 16 *Leases*

AASB 16 supersedes AASB 117 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 did not have an impact for leases where the Group is the lessor.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adopting AASB 16 as at 1 July 2019 is, as follows:

Operating Lease commitments as at 30 June 2019	$306,809.20
Weighted average incremental borrowing rate as at 1 July 2019	5.13%
Discounted operating lease commitments at 1 July 2019	$305,980.82
Less:	
Commitments relationg to short-term leases	$292,369.20
Commitments relating to leases of low-value assets	$13,611.62
Lease liabilities as at July 1 2019	$0.00

1 Basis of preparation of half-year report

(b) AASB 16 (continued)

(i) Summary of accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application:

- *Right-of use assets*
  The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

- *Lease liabilities*
  At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term leases and leases of low-value assets*
  The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $10,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

- *Significant judgement in determining the lease term of contrracts with renewal options*
  The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.
  The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).
  The Group included the renewal period as part of the lease term for leases of plant and machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years) and there will be a significant negative effect on production if a replacement is not readily available. The renewal options for leases of motor vehicles were not included as part of the lease term because the Group has a policy of leasing motor vehicles for not more than five years and, hence, not exercising any renewal options.

2 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(i) Impairment of goodwill

The Group assesses annually whether there is objective evidence that an asset or a group of assets is impaired. For the purpose of the assessment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

The recoverable amounts of cash-generating units have been determined based on the higher of fair value less costs of disposal and its value-in-use. These calculations require the use of assumptions with regards to each cash-generating unit.

(ii) Impairment of investments accounted for using the equity method

The Group tests equity accounted investments for impairment on a half-yearly basis and when circumstances indicate the carrying value may be impaired. The recoverable amounts of equity accounted investments have been determined based on the higher of fair value less costs of disposal and value-in-use calculations. These calculations require the use of assumptions with regards to each equity accounted investment.

(iii) Recoverability of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable the future taxable profit will be available to utilise those temporary differences. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits.

(iv) Going concern consideration

The financial report has been prepared on the basis that the Group is a going concern, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The directors in their consideration of the appropriateness of the going concern basis for the preparation of the financial report have reviewed the Group's revenue projections and cash flow forecasts based on current market conditions and business plans, including the planned farms sale and leaseback transaction referred to in Note 11.

At the date of this report and having considered the above factors, the directors believe the Group will continue as a going concern on the basis that the Group's cash flow forecasts indicate that the Group will be able to meet its forecast net outgoings over the coming 12 months on the basis that sufficient funds will be received from the planned sale and leaseback of the dairy farms (independently valued at $35.1 million) prior to the repayment of $14.2 million due upon maturity of one of the Group's financing facilities on 31 May 2020.

In the unlikely event that the sale and lease back of the farms were delayed beyond 31 May 2020, the directors are of the view there are strong grounds to believe that the Farms Facility can be refinanced in the ordinary course of business given the high asset quality and low loan-to-valuation ratio applicable (circa 44%). The provider of the Farms Facility has formally advised that it would consider refinancing the facility or, if requested, it would provide a six months extension to allow an orderly refinancing of the facility. Accordingly, the directors do not believe there is a material risk that the Group would be unable to continue as a going concern if the farms sale and lease back transaction does not complete before 31 May 2020.

However, the factors referred to above indicate the existence of an uncertainty which may cast doubt on the Group's ability to continue as a going concern, and therefore whether it will be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

The financial report does not include adjustments, if any, relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

3 Segment information

(a) Description of segments

The Group's Executive Management Committee, consisting of the Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer, examines the Group's performance both from a product and geographic perspective and has identified four reportable segments of its business:

- The Australian Dairy segment which owns farms and production plants and uses milk to produce cheese and other dairy products.
- The Australian Meat segment is focused on production of high quality and innovative meat and related products for expanding domestic and export markets.
- The Australian Other segment includes other Australian domiciled businesses developing technological software for tracking the provenance and authenticity of goods, as well as the production of spring water and related products.
- The International Other segment includes foreign entities providing sales support and customer support for customers of the consolidated entity.
- The Corporate segment provides business support to the operating segments.

During the prior reporting period, the Group announced changes to its operating model, with an increased focus on fewer core businesses comprising Australian Dairy and Australian Meat, to simplify its operations and improve visibility of each business's performance. Management reassessed the identified reportable segments reported to the executive management committee and the segment disclosure has been amended, including comparatives to reflect this, to enable readers of the financial statements to better understand the entity's operations.

The executive management committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

The following summarises the changes made to the reporting of business segments:

- Segments are now aligned with the core strategic entity operations of the business, being the Australian Dairy and Australian Meat segments.
- A clearer disaggregation of the corporate costs incurred by the consolidated entity has been implemented with the introduction of a Corporate segment, and transparency of the costs allocated out the operational business units is improved.

Management also reviewed the classification of expenditure during the period to improve the transparency of disclosure of the nature of expenditure and comparability with similar operations. The comparative period in both the Statement of Comprehensive Income and in Note 3 have been restated to allow inter-period comparability of information, assisting users assess trends in the financial information.

The following identifies the nature, amount, and reason for each classification:

	Re-stated disclosure 31 December 2018 $'000	Original disclosure 31 December 2018 $000's	Variance $000's
Cost of sales of goods	40,114	33,855	6,259
Operating overheads	4,255	11,221	(6,966)
Selling and distribution	1,194	2,081	(887)
Corporate overheads and business support	5,858	3,773	2,085
Other	-	491	(491)
Total	51,421	51,421	-

3 Segment information

(b) Segment reports

The segment information provided to the Executive Management Committee for the reportable segments for the half-year ended 31 December 2019 is as follows:

Half-year ended 31 December 2019	Australian Dairy $'000	Australian Meat $'000	Australian Other $'000	International Other $'000	Corporate $'000	Total $'000
Revenue						
Sale of goods	45,481	5,410	57	108	-	51,056
Other revenue	27	-	6	-	84	117
Other income	934	16	2,574	299	160	3,983
Finance income	4	-	-	-	-	4
Total revenue	**46,446**	**5,426**	**2,637**	**407**	**244**	**55,160**
Expenses						
Cost of sales	(41,984)	(5,342)	(30)	(311)	-	(47,667)
Operating overheads	(2,461)	(1,888)	(413)	(11)	-	(4,773)
Selling and distribution	(1,586)	(112)	(10)	-	-	(1,708)
Other expenses	150	-	-	-	-	150
Business support	(1,981)	(520)	(21)	(276)	(3,169)	(5,967)
Finance costs	-	-	-	-	(788)	(788)
Corporate allocation	(1,928)	(225)	(3)	(17)	2,173	-
Total expenses	**(49,790)**	**(8,087)**	**(477)**	**(615)**	**(1,784)**	**(60,753)**
Segment profit/(loss)	(3,344)	(2,661)	2,160	(208)	(1,540)	(5,593)

The segment information provided to the Executive Management Committee for the reportable segments for the half-year ended 31 December 2018 is as follows:

Half-year ended 31 December 2018	Australian Dairy $'000	Australian Meat $'000	Australian Other $'000	International Other $'000	Corporate $'000	Total $'000
Revenue						
Sale of goods	40,624	1,314	109	1,230	-	43,277
Other revenue	246	-	-	-	180	426
Other income	136	84	-	-	-	220
Finance income	11	-	-	-	210	221
Total revenue	**41,017**	**1,398**	**109**	**1,230**	**390**	**44,144**
Expenses						
Cost of sales	(37,039)	(1,583)	(56)	(1,436)	-	(40,114)
Operating overheads	(3,054)	(740)	(293)	(168)	-	(4,255)
Selling and distribution	(1,081)	(60)	(40)	(13)	-	(1,194)
Business support	(2,006)	(315)	(29)	(151)	(3,357)	(5,858)
Finance costs	-	-	-	-	(740)	(740)
Impairment of financial assets	-	-	(5,900)	-	-	(5,900)
Corporate allocation	(2,046)	(70)	(5)	(80)	2,201	-
Total expenses	**(45,226)**	**(2,768)**	**(6,323)**	**(1,848)**	**(1,896)**	**(58,061)**
Segment profit/(loss)	(4,209)	(1,370)	(6,214)	(618)	(1,506)	(13,917)

3 Segment information

(b) Segment reports (continued)

The information on segment assets and liabilities provided to the Executive Management Committee for the reportable segments as at 31 December 2019 and 30 June 2019 is as follows:

	Australian Dairy $'000	Australian Meat $'000	Australian Other $'000	International Other $'000	Corporate $'000	Total $'000
As at 31 December 2019						
Total segment assets; including	101,241	13,660	3,762	-	27,535	146,198
Capital expenditure	2,983	906	51	-	8	3,948
Total segment liabilities	(52,679)	(6,999)	(491)	-	(8,931)	(69,100)
As at 30 June 2019						
Total segment assets; including	93,210	9,431	4,041	5,778	28,102	140,562
Capital expenditure	4,685	2,086	557	-	6,342	13,670
Total segment liabilities	(39,804)	(4,828)	(873)	(2,634)	(12,310)	(60,449)

4 Revenue

	31 December 2019 $'000	31 December 2018 $'000
Sales revenue	51,056	43,277
Other revenue		
Leasing income	117	426
	117	426
Total revenue	51,173	43,703
Geographic markets		
Australia	45,953	41,007
Asia	3,539	1,123
Europe	1,564	1,147
Total revenue from contacts with customers	51,056	43,277

5 Other income

	31 December 2019 $'000	31 December 2018 $'000
Net gain/(loss) on disposal of property, plant and equipment (excluding property, plant and equipment sold as part of the engineering division)	2,531	-
Fair value adjustment to biological assets	795	88
Government grants	141	141
Other items	516	(9)
	3,983	220

6 Net finance income

	31 December 2019 $'000	31 December 2018 $'000
Finance income		
Interest income	4	221
Finance costs		
Finance charges paid for financial liabilities	(782)	(713)
Net exchange losses	(6)	(27)
	(788)	(740)
Net finance income	(784)	(519)

7 Income tax

(a) Income tax

	31 December 2019 $'000	31 December 2018 $'000
Deferred tax	(2,297)	(2,418)
Income tax benefit	(2,297)	(2,418)
Income tax expense is attributable to:		
Profit from continuing operations	(2,297)	(2,419)

(b) Tax losses

	31 December 2019 $'000	31 December 2018 $'000
Unused tax losses for which no deferred tax asset has been recognised	12,417	7,430
Potential tax benefit @ 30.0%	3,725	2,229

The unused tax losses were incurred by a foreign subsidiary that is not part of the Australian tax consolidated group. The Directors have agreed not to recognise a deferred tax asset in relation to the tax losses on the basis that the entity is still in its establishment phase.

8 Trade and other receivables

	31 December 2019 $'000	30 June 2019 $'000
Current assets		
Trade receivables	17,755	13,346
Other receivables	839	-
Prepayments	2,604	1,178
Goods and services tax (GST) receivable	1,518	1,216
	22,716	15,740

(a) Fair value of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is assumed to approximate their fair value.

9 Non-financial assets and liabilities

(a) Property, plant and equipment

During the half-year ended 31 December 2019, the Group acquired assets with a cost of $3.8m (half-year ended 31 December 2018: $10.1m).

(b) Intangible assets

(i) Acquisitions and disposals

During the half-year ended 31 December 2019, the Group acquired assets with a cost of $0.2m (half-year ended 31 December 2018: $8.3m).

(ii) Impairment tests for goodwill and indefinite life intangibles

Goodwill and indefinite life intangibles are tested for impairment annually as part of their cash generating units and when circumstances indicate their carrying value may be impaired. At 31 December 2019, there have been no indicators of impairment present.

10 Trade and other payables

	31 December 2019 $'000	30 June 2019 $'000
Trade payables	12,815	10,844
Goods and services tax (GST) payable	1,701	-
Accrued expenses	2,000	3,328
Government grants	370	432
Payroll liabilities	461	426
Other creditors	731	659
	18,078	15,689

11 Current liabilities - Borrowings

(a) Reclassification of Non-Current Borrowings to Current Borrowings

The Group's debt at 31 December 2019 totals to $46.6 million comprising a $24.6 million long term loan and $2.5 million overdraft under certain multi-option loan facilities ('Multi-Option Facilities'), a $4.2 million long term loan facility ("Loan Facility') and $14.2 million loan and $0.5 million overdraft under the farms loan facility ('Farms Facility').

As initially announced at the last Annual General Meeting, the Group is undertaking a process to sell and lease-back of its dairy farm properties, which are security for the Farms Facility. The farms subject to the sale process were independently valued at $35.1m as at 31 December 2019. The Farms Facility will be repaid from the proceeds of the sale of the farms. The balance of the sale proceeds, expected to be approximately $20m will initially be applied to reduce other debt and will provide the funds necessary to invest in the proposed lactoferrin plant upgrade at the dairy factories over the ensuing 9-12 months. The Farms Facility now has a formal expiry date of by 31 May 2020, given the proposed timing of the sale of the farm properties which provide security for the loan.

As at the date of this report the proposed sale and leaseback transaction is well progressed with the Group currently in advanced negotiations with several parties. The Directors believe that that the proposed sale and leaseback transaction will be satisfactorily completed, with gross cash proceeds expected to be received ahead of the expiry date of the Farms Facility. If there were to be a delay in settlement of the sale and leaseback transaction, the current provider of the Farms Facility has formally advised that it would provide up to 6 months to complete the transaction, or to undertake a refinancing.

12 Contributed equity

(a) Share capital

	Notes	31 December 2019 Shares	30 June 2019 Shares	31 December 2019 $'000	30 June 2019 $'000
Ordinary shares - fully paid		443,315,867	443,315,867	147,535	147,535

(b) Other reserves

	31 December 2019 $'000	30 June 2019 $'000
Revaluation surplus - property, plant and equipment	(8,393)	(8,693)
Foreign currency translation	(461)	(442)
	(8,854)	(9,135)

13 Contingencies

The Group had no contingent assets or liabilities at 31 December 2019 (2018: nil).

14 Dividends

Ordinary shares

There were no dividends provided during the half-year ended 31 December 2019 (31 December 2018: nil).

15 Interests in other entities

Name of entity	Ownership interest December 2019 %	Ownership interest June 2019 %	Measurement method	Carrying value December 2019 $'000	Carrying value June 2019 $'000
Ferguson Australia Pty Ltd	-	32	FVOCI	-	-
Neptune Bio-Innovations Pty Ltd	10	10	FVOCI	-	-
Total investments				-	-

The Group sold it's equity interest in Ferguson Australian Pty Ltd on 14 November 2019.

16 Related party transactions

(a) Transactions with related parties

	31 December 2019 $'000	31 December 2018 $'000
Sales of goods and services		
Sales of goods to investee entities	97	229
Remuneration received for directors services	-	23
Interest income from investee entities	80	153
Purchases of goods and services		
Purchases of various goods and services from related parties	-	(831)
Management fees to the Investment Manager	1,250	(1,164)

(b) Receivables/(payables) with related parties

	31 December 2019 $'000	30 June 2019 $'000
Outstanding balances arising from sales and purchases of goods and services		
Current receivables	60	430
Current payables	(474)	(303)
Loans receivable from related parties		
Beginning of the year	33	33
Loans repayments received	(33)	-
End of period	-	33

(c) Terms and conditions

For details on the terms and conditions on transactions with the Investment Manager and other related parties, refer to the 30 June 2019 Annual Report.

For the half-year ended 31 December 2019, the Investment Manager was not entitled to receive a performance fee in respect of the Company's out-performance of the benchmark index.

17 Events occurring after the reporting period

On 9 January 2020, Beston Global Food Company Limited announced the launch of a Share Purchase Plan offer (SPP). The intention to make as SPP offer was announced at Beston's Annual General Meeting held on 28 November 2019. The SPP was closed on 31 January 2020. $2.39 million was raised and approximately 27.7 million new shares were issued at 8.6 cents in accordance with the terms and conditions of the SPP.

Other than the SPP noted above, and what has already been disclosed in the financial report, no matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

18 Earnings per share

(a) Basic earnings per share

	31 December 2019 Cents	31 December 2018 Cents
From continuing operations attributable to the ordinary equity holders of the Company	(0.6)	(2.6)
Total basic earnings per share attributable to the ordinary equity holders of the Company	(0.6)	(2.6)

(b) Diluted earnings per share

	31 December 2019 Cents	31 December 2018 Cents
From continuing operations attributable to the ordinary equity holders of the Company	(0.6)	(2.6)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(0.6)	(2.6)

(c) Weighted average number of shares used as denominator

	2019 Number	2018 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	443,315,867	443,315,867

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 7 to 22 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards AASB 134 *Interim Financial Reporting,* the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) complying with International Financial Reporting Standards, as disclosed in note 1, and

  (iii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.

R N Sexton
Director

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Independent Auditor's Review Report to the Members of Beston Global Food Company Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Beston Global Food Company (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2019, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Emphasis of Matter – Material Uncertainty Related to Going Concern

We draw attention to Note 2(iv) in the financial report which describes the principal conditions that may raise doubt about the entity's ability to continue as a going concern. These events or conditions indicate there is a material uncertainty, that may cast significant doubt about the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Ernst & Young

Ernst & Young

BJ Pollock
Partner

Melbourne
28 February 2020