



**Beston Global Food Company Limited**

**Interim report for the half-year ended  
31 December 2018**

# Beston Global Food Company Limited

## Appendix 4D

### Half-year ended 31 December 2018

Name of entity

Beston Global Food Company Limited

ABN or equivalent company  
reference

ABN 28 603 023 383

Half-year

31 December 2018

(Previous corresponding period: 31  
December 2017)

#### Results for announcement to the market

			\$'000
Revenue from ordinary activities	Up	138.3%	43,703
Earnings before interest and taxation (EBIT)	Down	241.0%	(13,398)
Net profit after tax (from ordinary activities) for the period attributable to members	Down	287.0%	(11,441)

#### Net tangible asset backing (per share)

	31 December 2018 Cents	31 December 2017 Cents
Net tangible asset backing (per share)	0.19	0.27

#### 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

The Directors of Beston Global Food Company Limited (ASX: BFC or the "Company") herewith submit the financial report of the Consolidated Entity ('Beston Global Foods' or the 'Group') consisting of the Company and the entities it controlled at the end of, or during the half year ended 31 December, 2018.

### 1.0 Review of Operations

BFC is an Australian food, beverage and nutritional company producing premium products across dairy, meat, seafood and health and nutrition sectors. BFC comprises wholly owned and operated businesses which together with a range of strategic investments in other companies, provide a diverse portfolio of natural, health, safe and clean premium Australian produced products.

#### 1.1 Business Footprint

The Group owns and operates the following:

- A dairy factory at Murray Bridge, South Australia, engaged primarily in the manufacture of hard cheeses (Cheddar, Colby, Gouda, Parmesan, Gruyere, Romano, Pepato etc.).
- A dairy factory at Jervois, South Australia engaged primarily in the manufacture of Mozzarella cheese, cream, butter and sweet whey powder.
- A dairy protein fractionation plant at Jervois, South Australia.
- Four dairy farms in Mt Gambier, South Australia comprising 1,545 Hectares with a current herd of 3,300 cows and permanent water rights of 5,114 mega litres.
- A meat processing factory at Shepparton, Victoria (Provincial Food Group) engaged in the production of ready-to-eat meals.
- A 32% equity interest in seafood business, Ferguson Australia Pty Ltd based in Adelaide with operations in Port Lincoln, Port McDonnell and Kangaroo Island. The Group also owns lobster quota and property that is leased to Fergusons.
- A track-and-trace and anti-counterfeiting technology business, Beston Technologies Pty Ltd, which holds 11 International Patents.
- A 10% equity interest in consumer health product manufacturer, Neptune Bio Innovations Pty Ltd. NBI has in-house scientific R&D capabilities and owns a number of innovative health products: Heart Salt, BIOlyte, Sweet & Gentle, Le Mayo, and Type 2. The Company also holds convertible notes that equate to a further 10% interest if converted.

The overall result shows the turnaround achieved in the Company during the six months to December 2017 and demonstrate the measures which BFC has been implementing with the goal of achieving profitability for the full year (see 2.0 below).

#### 1.2 Leadership Change

- During the half year the Company announced a change in the leadership for the Company.
- The former CEO, Sean Ebert stepped down from this position in August 2018 and the Chairman, Dr Roger Sexton became Executive Chairman while an executive search process was conducted to find a new Chief Executive.
- The Company announced on 28 November 2018 that Mr Jonathan Hicks had been appointed as the Chief Executive Officer of BFC, and would take up his position on 7 January 2019.
- Dr Sexton resumed his position as Non-Executive Chairman as of this same date.

## Review of operations and activities

### 2.0 Financial Results

At 31 December 2018, the Group recognised an impairment of its investment in NBI. An amount of \$5.9m was recognised in the reported result which became a loss after tax of \$11.4m for the period ended 31 December 2018. This non-cash write down is explained further in section 3 below.

The financial performance for the rest of the Group contributing to this after tax loss result was a loss of \$5.5m for the period. The analysis of the result provided below discusses a number of one-off, non-recurring costs incurred as we transition to full commercial operations for our dairy and meat businesses. But for the impact of these one-off, non-recurring items the result for the rest of the Group would have been a loss of approximately \$1.5m.

The statutory result, while disappointing, masks improvements in the underlying performance of the business over the period. The result shows the further strong top line growth which has been achieved by the Company over the six months to 31 December. The bottom-line results were affected by subdued margins on sales (i.e. margins below those expected) and one-off expenditures as a consequence of the significant restructuring changes undertaken during the period (as outlined in 4 below).

Key performance highlights for the period are:

- Group sales revenues for the six months to December 2018 jumped to \$43.7 million, an increase of 138% on the Group sales revenues for the same period last year.
- Revenues for the Dairy division for the first half were almost on par with the revenues for the whole of the previous financial year.
- Milk supply contracted increased to an annualised level of 117 million litres on the back of achieving commercial production at the Jervois Mozzarella plant.
- The Company's farms performed strongly on the back of significant on-farm investment over the past three years, enabling the farms to more than double silage production and mitigate the effects of the crippling drought conditions in Australia.
- Milk production on BFC owned farms is up 17% on a year on year basis.
- The start-up of commercial Mozzarella production has substantially increased the range and quantity of dairy products available for sale and broadened the potential customer base.
- • Production of liquid Lactoferrin commenced at Jervois during H1 with freeze drying and milling facilities being added in January 2019 to enable final form powdered product to be produced and sold in H2.
- Scorpio Foods (now re-named Provincial Food Group) has been extensively transformed and repositioned during H1 which incurred costs but has enabled the securing of major new contracts and has set up the business for significant earnings momentum in H2.

BFC implemented a number of restructuring changes during the first half, as outlined in 4 below in order to improve the return on assets and reduce costs.

The Group incurred a number of non-recurring transitional impacts and costs as a consequence of this restructuring, which reduced the reported result by approximately \$4.0 million over the first half. These matters are described below. The Group's reported NPAT, after normalising for the impact of these matters, was a loss of approximately \$1.5 million.

As such, this normalised result reflects a significant improvement in the underlying operating performance of the Group and is a step-change improvement on the 2018 result. It indicates that the work done over the past three years (and the investments which have been made) have positioned the Group to achieve a meaningful uplift in earnings (and margins) going forward.

The Group remains on track to more than double sales for the full financial year in comparison with the previous financial year.

## Review of operations and activities

### 2.1 Dairy division

The Company started the first half with profitable trading results and positive cash flow in its Dairy Division. The start-up of commercial Mozzarella production subsequently increased the range and quantity of dairy products available for sale (including cream, butter and sweet whey powder as well as Mozzarella) and also broadened the range of potential customers for the Company. However, these results were subsequently impacted by the flow on effects of several non-recurring factors:

- The later than scheduled commissioning of the Company's Mozzarella plant, due to its late delivery in the prior financial year, meant that the customer base for Mozzarella product had not been built up sufficiently ahead of the spring peak-milk production period.  
The take up of orders for BFC Mozzarella in the wholesale and food service sectors was also slower than anticipated in the earlier part of the period due to the need for targeted customers to undertake their own independent testing of the product and, in many cases, being already locked into fixed term deals with other suppliers.  
This meant that the Mozzarella plant operated below capacity targets for the period, resulting in higher per unit costs and lower per unit margins than anticipated. It also meant that a significant portion of the milk received in the first half needed to be traded out. As the trade-out of milk occurred during the spring flush, when demand for additional milk by other producers is at its lowest, the milk was traded out at cost.  
The lost margin opportunity from these transitional occurrences totalled approximately \$2.8 million. This situation will not recur. Any milk traded during the second half of this financial year will attract an appropriate margin and increasing sales of Mozzarella will mean that it is unlikely that the Company will need to trade large volumes of milk in the next year.
- The Company expected sales during late November and December to be seasonally lower than at other times of the year. However, sales in this period were lower than anticipated due to inconsistent fill rates by a number of retail customers in the lead up to the Christmas holiday period and a major contract customer deferring its expected monthly production off-take into January and February 2019 (an issue which was indirectly exacerbated by the changeover in BFC's sales team from an external third party to an in-sourced team as explained in 4 below).
- With the large inventory position at 30 June 2018 and the slower growth in sales in the high milk supply period, the Company decided to reduce its inventory holdings and sell some of its production at lower prices to maintain cash flow and operational performance.  
The margin opportunity cost was approximately \$1.6 million. The company also wrote off some Mozzarella stocks from the early production runs (when the plant was in the process of being fine-tuned) due to the product not satisfying BFC's quality standards.

The impact of the lost margin opportunities from these factors is non-recurring but depressed the first half reported net result of the Group by approximately \$3.1 million in total, after tax.

### 2.2 Meat division

The Company's acquisition of Scorpio Foods was completed on 23 August 2018 (prior to this time, BFC held a beneficial interest in Scorpio of 45%).

BFC has undertaken an extensive transformation of this business since taking management control early in January. A much needed and critical turnaround plan was implemented over the course of calendar 2018 including the closure and sale of the Colac, Victoria factory and the consolidation of operations in the previously underutilised, Shepparton Victoria factory. A new operating model was put in place with new and experienced management.

As part of the re-positioning of the business, the name "Scorpio Foods" was recently changed to the "Provincial Food Group" (PFG).

The need for a change in direction of the business was highlighted in October 2018 when a single major customer, which previously accounted for close to 80% of the revenues of the business, held a shut-down of their business for two weeks, which ultimately extended to four weeks. Purchase orders were subsequently much lower than initial customer forecasts and have only recently recovered to normal levels.

## Review of operations and activities

Trading conditions for the business were challenging during the first half, as a result of the set-back referred to above and the impact on revenues and costs of the transformation strategies implemented across the business. PFG reported a loss after tax of \$0.9 million since acquisition, which is included in the results of the Group for the first half.

Recent progress in PFG have shown the benefits of the transformative actions which have been taken to reposition the business, including by expanding and diversifying the customer base, consolidating operations to achieve economies of scale and focussing more on value-added cut portion control and cooked foods.

Production trials commenced in January 2019 for three new major customers. These trials have been successfully concluded resulting in commercial agreement which are expected to contribute close to \$10 million in revenues over the next 12 months. These agreements are in addition to several other contracts which will commence supply in February and March, 2019.

With these new contracts underpinning a substantial portion of the budgeted revenues in the second half, the return of orders from the existing major customer, and the potential offered by the diversified customer base now being pursued, the \$0.9 million after tax loss incurred whilst repositioning PGF since acquisition will not recur. PFG is expected to generate significant earnings momentum in the second half of this financial year.

### 3.0 Operations

Operationally, the first half performance of the Group has, in many respects, been strong notwithstanding the reported statutory financial loss.

#### 3.1 Dairy Factories

Sales from the dairy factories were \$40.0 million for the half year (i.e. sales revenues in H1 were almost as high as the whole of last year).

Yield performance at the Mozzarella plant has been better than expected, even at lower volumes of throughput than anticipated. This is an important result as small yield variances can have a significant impact on the quantity of product produced for sale and ultimately profit.

The introduction of the Mozzarella plant has been, and will be increasingly in the future, transformative for the Company.

The core sales of dairy products to existing customers continues to be healthy and growing.

BFC advised shareholders in the 2018 Annual Report that it had incurred costs over the past three years to overhaul the Dairy Protein Fractionation Plant in order to upgrade the protein extraction operations and fully integrate these operations with its Mozzarella plant.

Since that time, as announced by the Company on 1 February 2019, BFC has completed the installation and commissioning of a freeze drying and milling facility at the Dairy Protein Fractionation Plant.

Production of liquid Lactoferrin, in commercial quantities, commenced at the plant late in the first half, following the increased production of whey from the new mozzarella plant at Jervois. The addition of the freeze drying and milling facility means that Lactoferrin can now be produced at Jervois in final product form, that is as a powder, rather than the liquid Lactoferrin being shipped interstate to third party contractors for further processing.

The Dairy Protein Market is one of the most valuable markets in the Dairy industry. BFC's investment into highly specialised infrastructure and process technology to facilitate the extraction of Lactoferrin into a finished powdered product, aims to meet the market demand for high purity and yield.

## Review of operations and activities

Lactoferrin is a high value dairy protein that is primarily known for its use in infant formula to provide the bioactive properties that mimic breastmilk. It also maintains high bio-functionality and enables a wide range of biological and technical functionalities including dairy foods, dietary supplements, pharmaceutical products including respiratory medications, cosmetics and oral hygiene products.

Lactoferrin specifically improves iron absorption and has antimicrobial and antibacterial activity and can assist in the health and functioning of the digestive system.

The new freeze drier and milling facility received Australian Government accreditation on 30 January, 2019 thereby enabling the end product, powdered Lactoferrin, to be exported to overseas markets. With the increasing demand in China for these products, coupled with limited global supply, the value of these proteins has increased significantly.

The completion of the new facilities means that the Company now has the ability to extract substantial value from the by-products of our cheese manufacturing activities and be a significant player in the global dairy nutraceuticals industry.

A number of process improvements and controls had been introduced as part of the overall refurbishment of the Dairy Protein Extraction Plant which have assisted volume flows and improved the consistency of production.

At the time when BFC acquired the dairy protein fractionation plant in 2015, high grade milled Lactoferrin product was selling for around AUD200 to 250 per kilogram. Lactoferrin is presently fetching up to 8 to 10 times that price in global markets.

BFC has signed contracts for the committed sales of all of its current production of Lactoferrin.

### 3.2 Dairy Farms

The dairy farms owned by BFC have performed strongly during the first half of the year, despite the general drought conditions. Milk production of circa 8.7 million litres exceeded the management budget and is up by 17% on a year on year comparative basis.

The herd size at 31 December 2018 of 3,300 cows has grown by approximately 1,000 cows since June 2017.

Operating costs on the farms were contained, despite industry-wide increase in feed costs, aided by a record silage harvest. This result demonstrates the benefits of the investments which have been made in farm improvement over the past three years (including via the acquisition of additional water, pasture improvement, herd enhancement and upgrading of on-farm management).

The general drought conditions in Australia did however have a negative impact on the book value of the dairy herd, which suffered a non-cash write down of \$386K.

### 3.3 Seafood Division

BFC received lease payments during the first half from Ferguson Australia for the use of our lobster pot licences and quota and the seafood processing factory at Port McDonnell. No dividends were received during the period on our equity stake in Ferguson Australia.

As noted in our 2018 Annual Report, the Ferguson family have resolved to place their 68% shareholding in the business of Ferguson Australia on the market for sale, due to a change in family circumstances. The sale process is being conducted and managed by Ferguson's and is not yet concluded.

BFC will exit its investment as part of this process. Accordingly, the assets owned by BFC have been classified in the half year accounts as "assets held for sale". The assets comprise:

- An equity investment of 32% in Ferguson Australia
- Lobster Licences and Quota: leased to Ferguson Australia Pty Ltd.
- Property (seafood processing factory at Port McDonnell)

## Review of operations and activities

### 3.4 Health and Nutrition Division

Neptune Bio-Innovations (NBI) made no contribution to the Group in the First Half. The investment made by BFC in NBI at the time of our IPO followed on from comprehensive financial and due diligence reports prepared by independent professional experts, primarily major Australian accounting firms. BFC relied on these independent reports when making its investments, and were supported by historical performance.

For various reasons, our investment in NBI has not performed as expected or as was forecast. BFC has used the R&D facilities of NBI for technical support and advice. However, NBI has not paid a dividend to BFC other than in the first year of our investment (i.e. 2015-16).

NBI continues to make advancements in the development of new innovative health products. It has developed a new innovative product, URICIL, which is a ground breaking, all natural, product which both treats and prevents Urinary Tract Infections (UTI). URICIL is scientifically formulated, acts as a natural microbial agent and has no known side effects.

NBI identified a gap within the therapeutic treatment options available in Pharmacy used to treat UTIs.

One in two Australian Women are reported to experience a UTI in their lifetime. (Health Fact Sheet - Urinary Tract Infections - Kidney Health Australia September 2014).

Current available treatment options are Antibiotics, Antibacterials and Alkalisers, but no single brand or product provides both natural therapeutic and symptomatic treatment.

NBI researched and developed in-house their innovative new brand URICIL, based upon scientific principles, and utilising a natural microbial agent. URICIL is unique in that it is dual action, both providing therapeutic and symptomatic relief.

NBI will be launching their key new brand: URICIL at the National APP Conference, Gold Coast, March 7-11. APP is Australia's Largest Pharmacy Trade Exhibition, with over 70 International and National speakers.

URICIL will be available in leading Pharmacies from June.

Notwithstanding these activities by NBI, BFC has been unable to obtain a line of sight on future revenues and earnings, at least at a sufficient level of certainty to satisfy its impairment tests. Accordingly, the Company has resolved to fully impair its equity and Convertible Notes interests in NBI.

BFC will continue to retain our securities in NBI (i.e. 10% shareholding and 10% beneficial Convertible Note interest) and use NBI for technical support for our operations, as required. However, the operating results of BFC will not, henceforth, be affected by the activities of NBI. Any gains to BFC which may arise from the process being run by NBI to raise additional funds to finance their growth and/or sell parts of NBI and/or its brands, products and formulations will be recognised at the time.

### 3.5 China Division

In the 30 June financial report, the Company advised that the China operations had been further restructured. The reduced cost base reflects the activities necessary to support the Company's focus on driving sales of Mozzarella and other dairy products into the China food services channel.

The China operations were break even in the first half of the financial year compared to a loss of \$4.2 million for the 2018 financial year. New contracts for the sale of Mozzarella into the China market were announced at the AGM on 23 November 2018. These contracts involved the initial shipment of two containers of Mozzarella which have now been shipped to China.



## Review of operations and activities

### 4.0 Restructuring changes

The Company announced a number of significant management changes in August 2018. The then CEO, Sean Ebert, stepped aside and the Chairman Dr Roger Sexton assumed the position of Executive Chairman pending the search for and recruitment of a new Chief Executive Officer.

Since that time, a comprehensive review has been undertaken of the Group's operations across all areas of the business: factories, farms, warehouses, customers, systems, people and culture. This review has resulted in a wide range of changes being implemented including:

- Re-setting of the operating cost base
- Introduction of a "cost-out" program and efficiency improvements at the factories
- Improved inventory management
- Re-structuring and re-tuning of the sales and marketing functions (termination of several contract third party providers and recruitment of a number of new salaried sales personnel with extensive FMCG experience)
- Improved customer management
- Re-setting of strategic customer relationships
- Further ("deep dive") implementation of best practice methods on our Company owned farms
- Improved pasture management on the farms via improved nutrition and irrigation
- Introduction of a sorghum crop (maize) on the farms (maize silage is a high energy substitute for grain and saved substantially on grain costs during the drought period in 2018)
- Re-setting of the standard costing systems
- Improved stock and purchasing controls
- Improved sales recording and reporting

The restructuring changes outlined above, along with others, has had the effect of both reducing costs and increasing revenues.

As previously announced to Shareholders (11 January, 2019), these changes are expected to result in net savings in excess of \$1.0 million over a full year.

Since then, our new CEO, Mr Jonathan Hicks has initiated further operational improvements which will deliver at least a further \$1.0 million per annum cost savings.

The changes implemented on the Company-owned dairy farms have been significant and have resulted, inter alia, in the more than doubling of silage production in the first half, compared with previous periods (pcp). BFC has been amongst the first to introduce maize silage to dairy farms in the Mt Gambier area.

In addition to these restructuring changes undertaken in the last six months, BFC has pushed ahead with the cash flow funded refurbishment of its dairy protein fractionation plant at Jervois.

As announced on 1 February 2019, the Company has now completed the installation and commissioning of a freeze drying and milling facility at the plant, enabling Lactoferrin to be produced in final product (powder) form. This will avoid the need for and high cost of shipping liquid Lactoferrin to interstate third party contractors for further processing. As above, the new facility received Australian Government accreditation on 30 January, 2019, enabling powder-form Lactoferrin to be exported to fulfil signed contracts for the produce.

The newly appointed Chief Executive of BFC, Mr Jonathan Hicks, took up his position on 7 January, 2019 and Dr Sexton resumed his position as Non-Executive Chairman of the Group.

## Review of operations and activities

### 5.0 Capital Management

The Company announced on 11 January 2019 that it was giving consideration to capital management initiatives to assist the Company in improving its profitability in the near term. The Board of BFC believes that there are compelling opportunities to allocate capital to projects which can accelerate the profitability of the Company.

As part of the process of implementing the restructuring changes outlined in 4 above, the Company has identified a number of areas in the factories and farms where investment in new technology and plant and equipment could result in significant cost savings and increases in profits from the existing revenue base (i.e. even without any further increases in revenues).

The investment areas relate to in-house packaging, dairy protein expansion, storage and logistics, production line upgrades, ESG cost saving measures and dairy cow herd expansion.

The areas identified are all “low hanging fruit” in terms of providing relatively short pay-back periods (i.e. less than four years) and have now been developed into detailed costed “priority projects”.

As well as providing the opportunity to extract greater returns from the existing asset base at the dairy factories, the projects will also enable full oversight of the quality assurance processes and total control over the quality of the end products shipped to customers. Many of the projects will also generate significant environmental benefits.

A number of high value-added “priority projects” have been earmarked for investment. These include:

- The acquisition and installation of plant and equipment to bring the Company’s Cut, Pack and Shred requirements back in-house (these services are currently provided by interstate third party contractors at an annual cost of approximately \$3.1 million).
- Further expansion of the Company’s dairy nutraceutical capabilities and capacities to produce other high demand products in addition to the current production of Lactoferrin.
- Energy cost reductions through the introduction of solar energy-based solutions to the Company’s power needs at its two dairy factories at Murray Bridge and Jervois in South Australia, subject to further commercial review. (Electricity and gas are the largest operating costs in the conversion of milk into cheese).
- The introduction of trade waste recycling and treatment equipment at the Murray Bridge factory (to save the costs of waste cartage and dumping and enable the recapture of cheese fines and nutrients currently lost in the waste water).
- The acquisition of additional dairy cows to utilise the expanded productive capacity of the Company’s farms and increase on-farm milk production.

The Company is currently involved in discussing a range of options for funding these cost saving/profit enhancing projects and increasing the Company’s working capital to the level which Directors believe is appropriate to support the Company growing profitably (including by securing additional milk volume) whilst managing the ongoing volatility inherent in the dairy industry.

## Review of operations and activities

### 6.0 Overview

The Board of BFC remains committed to the “Path Forward” outlined in the 2018 Annual Report. Good progress continues to be made in fully realising the significant potential of the Company’s under-valued assets and in building a strong and resilient business for our shareholders. For instance:

- The Company is making significant inroads into our key market segments and is forging strong relationships in our domestic markets and overseas.
- The yield improvements made in our new Mozzarella plant lay the basis for expecting additional yield gains as processing volumes increase.
- The sales and marketing area has been completely restructured and the function brought in-house with the recruitment of well skilled and experienced personnel from the FMCG sector.
- The completion of the infrastructure for the production of final form, powdered Lactoferrin has occurred against a backdrop of burgeoning global demand for dairy nutraceuticals.

In short, the base has been set for continued progress towards securing sustainable positive earnings results under the new CEO, Jonathan Hicks who started with the Company on 7 January 2019.

As we have pointed out to shareholders previously, BFC is a Company which has been in start-up (and high growth) mode. At the core of the Company’s strategy for the past three years has been a “Build-Out” program whereby BFC has invested to expand the infrastructure in its operating divisions, and particularly in the Dairy Division, to enable the Company to grow and expand while extracting progressively increasing returns from the capital employed.

We had always assumed in our business plans that this “Build-Out” phase could take a period of up to three years to complete (and explained this in various presentations to shareholders including at the 2018 Annual General Meeting). We hoped that it could be achieved in lesser time, but it wasn’t.

Restructuring and rebuilding the assets of the Company, in the both the Dairy and Meat divisions, and then establishing a sustainable customer base with new products and new brands, has taken longer than we expected.

BFC has now completed the “Build-Out” phase of its development as a start-up Company and is moving into its second stage of “Earnings Growth”. Our new CEO has a deep knowledge of the global dairy industry and with his extensive industry network in the food industry, built up over many years of operating in the industry in Australia and overseas, is well placed to drive the Company forward into its next stage of growth and development.

Further profit improvements will be delivered through restoring lost margin opportunities, commencement of high value/high margin Lactoferrin sales, new sales contracts commencing (in both the Dairy and Meat Divisions), realising value-accretion from our under-utilised assets, achieving traction from the cost reduction/margin increasing actions taken as part of the restructuring changes implemented in the first half and investment in the “priority projects” earmarked for completion from the proceeds of the funding options currently under consideration.

## 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 2018. 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

During the period the principal continuing activities of the Group consisted of:

- (a) Production of milk, cheese and other dairy related products.
- (b) Production and processing of meat products.
- (c) Marketing and distribution of dairy, meat, seafood, wine, water, health and nutrition products into local and international markets.
- (d) Processing of natural spring water.
- (e) Development and production of health and well-being focused food, beverage and pharmaceutical products.
- (f) Development and commercialisation of end-to-end food traceability and anti-counterfeit technology.
- (g) Development and commercialisation of a premium e-commerce platform.

### Dividends

There were no dividends provided for during the half-year ended 31 December 2018 (31 December 2017: 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 12.

### 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.

## Directors' report

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

A handwritten signature in black ink, appearing to read 'R N Sexton', written in a cursive style.

R N Sexton  
Chairman

Adelaide

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

As lead auditor for the review of Beston Global Food Company for the half-year ended 31 December 2018, 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



BJ Pollock  
Partner

28 February 2019

# **Beston Global Food Company Limited**

## **Interim financial report - 31 December 2018**

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**Consolidated statement of comprehensive income**  
For the half-year 31 December 2018

	Notes	31 December 2018 \$'000	31 December 2017 \$'000
<b>Revenue from continuing operations</b>			
Sale of goods		43,277	18,342
Other revenue		426	852
	4	<u>43,703</u>	<u>19,194</u>
Other income	5	220	1,517
<b>Expenses</b>			
Cost of sales of goods		(33,855)	(11,503)
Other expenses from ordinary activities			
Operating overheads		(11,221)	(5,044)
Selling and distribution		(2,081)	(3,124)
Other		(491)	(734)
Corporate overheads and business support		(3,773)	(4,210)
<b>Profit/(loss) from operations</b>		<u>(7,498)</u>	<u>(3,904)</u>
Finance income		221	502
Finance expenses		(740)	(92)
<b>Net finance income</b>	6	<u>(519)</u>	<u>410</u>
Impairment of financial asset	17	(5,900)	-
Share of profit/(loss) from associates		-	(22)
<b>Profit/(loss) before income tax</b>		<u>(13,917)</u>	<u>(3,516)</u>
Income tax benefit	7	2,418	455
<b>Profit/(loss) for the period</b>		<u>(11,499)</u>	<u>(3,061)</u>
<i>Item that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(343)	303
<i>Item that will not be reclassified to profit or loss</i>			
Changes in the fair value of equity investments at FVOCI		(5,658)	-
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<u>(6,001)</u>	<u>303</u>
<b>Total comprehensive income/(loss) for the period</b>		<u>(17,500)</u>	<u>(2,758)</u>
Profit/(loss) is attributable to:			
Owners of Beston Global Food Company Limited		(11,441)	(2,958)
Non-controlling interests		(58)	(103)
		<u>(11,499)</u>	<u>(3,061)</u>

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



**Consolidated statement of comprehensive income**  
For the half-year ended 31 December 2018

		<b>31 December 2018 \$'000</b>	<b>31 December 2017 \$'000</b>
	Notes		
Total comprehensive income/(loss) for the period is attributable to:			
Owners of Beston Global Food Company Limited		(17,442)	(2,655)
Non-controlling interests		(58)	(103)
		<u>(17,500)</u>	<u>(2,758)</u>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	19	(2.6)	(0.7)
Diluted earnings per share	19	(2.6)	(0.7)
<b>Earnings per share for loss attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	19	(2.6)	(0.7)
Diluted earnings per share	19	(2.6)	(0.7)

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

**Consolidated balance sheet**  
As at 31 December 2018

	Notes	31 December 2018 \$'000	30 June 2018 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,140	4,463
Trade and other receivables	8	18,139	26,630
Inventories		18,620	22,604
Assets classified as held for sale		10,136	10,136
<b>Total current assets</b>		<b>49,035</b>	<b>63,833</b>
<b>Non-current assets</b>			
Receivables		2,588	5,849
Investments	17	-	11,558
Property, plant and equipment		65,418	55,853
Biological assets		5,026	4,880
Deferred tax assets		12,923	8,351
Intangible assets		14,627	8,360
<b>Total non-current assets</b>		<b>100,582</b>	<b>94,851</b>
<b>Total assets</b>		<b>149,617</b>	<b>158,684</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10	13,866	14,027
Borrowings		14,241	21,444
Current tax liabilities		84	45
Employee benefit obligations		419	230
<b>Total current liabilities</b>		<b>28,610</b>	<b>35,746</b>
<b>Non-current liabilities</b>			
Borrowings		19,242	-
Deferred tax liabilities		1,943	1,576
Employee benefit obligations		128	70
<b>Total non-current liabilities</b>		<b>21,313</b>	<b>1,646</b>
<b>Total liabilities</b>		<b>49,923</b>	<b>37,392</b>
<b>Net assets</b>		<b>99,694</b>	<b>121,292</b>
<b>EQUITY</b>			
Contributed equity	11(a)	147,535	147,535
Other reserves	11(b)	(6,238)	(237)
Retained earnings		(41,731)	(26,192)
Capital and reserves attributable to owners of the Company		<b>99,566</b>	<b>121,106</b>
Non-controlling interests		128	186
<b>Total equity</b>		<b>99,694</b>	<b>121,292</b>

*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 2018

	Attributable to owners of Beston Global Food Company Limited				Non- controlling interests \$'000	Total equity \$'000
	Share capital \$'000	Other reserves \$'000	Accum- ulated losses \$'000	Total \$'000		
<b>Balance at 1 July 2017</b>	147,535	(482)	(13,598)	133,455	685	134,140
Profit/(loss) for the half-year	-	-	(2,958)	(2,958)	(103)	(3,061)
Other comprehensive income/(loss)	-	303	-	303	-	303
Total comprehensive income for the period	-	303	(2,958)	(2,655)	(103)	(2,758)
<b>Balance at 31 December 2017</b>	<b>147,535</b>	<b>(179)</b>	<b>(16,556)</b>	<b>130,800</b>	<b>582</b>	<b>131,382</b>
Opening balance	147,535	(237)	(26,192)	121,106	186	121,292
Adjustment on adoption of AASB 9	-	-	(4,098)	(4,098)	-	(4,098)
<b>Balance at 1 July 2018 (restated)</b>	<b>147,535</b>	<b>(237)</b>	<b>(30,290)</b>	<b>117,008</b>	<b>186</b>	<b>117,194</b>
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)
<b>Transactions with owners in their capacity as owners:</b>						
Contributions of equity, net of transaction costs and tax	-	-	-	-	-	-
Balance at 31 December 2018	<b>147,535</b>	<b>(6,238)</b>	<b>(41,731)</b>	<b>99,566</b>	<b>128</b>	<b>99,694</b>

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*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 2018

	Notes	31 December 2018 \$'000	31 December 2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		45,601	7,647
Payments to suppliers and employees (inclusive of goods and services tax)		(49,445)	(24,249)
Interest received		221	252
Interest paid		(713)	(104)
<b>Net cash (outflow) from operating activities</b>		<b>(4,336)</b>	<b>(16,454)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of business	16	-	(104)
Payments for property, plant and equipment		(9,290)	(7,637)
Payments for intangible assets		(171)	(246)
Payments for livestock		(420)	(153)
Proceeds from sale of property, plant and equipment		-	1,999
Proceeds from sale of livestock		258	169
Loans to related parties		-	(1,525)
<b>Net cash (outflow) from investing activities</b>		<b>(9,623)</b>	<b>(7,497)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		12,007	-
Proceeds from government grants		-	440
Loans (to)/from related parties		-	(213)
<b>Net cash inflow from financing activities</b>		<b>12,007</b>	<b>227</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(1,952)</b>	<b>(23,724)</b>
Cash and cash equivalents at the beginning of the financial year		4,463	28,702
Effects of exchange rate changes on cash and cash equivalents		(371)	226
<b>Cash and cash equivalents at end of period</b>		<b>2,140</b>	<b>5,204</b>

*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 2018 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 2018 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 2018, except for the adoption of new standards effective for reporting periods commencing on or after 1 January 2018. 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 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments*. As required by AASB 134, the nature and effect of these changes are disclosed below.

### (b) AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is effective for reporting periods commencing on or after 1 January 2018. On adoption, the standard has affected in particular the Group's accounting for its available-for-sale financial assets, which under AASB 9 have been designated as fair value through other comprehensive income (FVOCI) as discussed below. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. There is no material impact on the statement of comprehensive income or the statement of cash flows and basic and undiluted EPS.

#### (i) Classification and measurement

Except for certain trade receivables, under AASB 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or FVOCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables, and Receivables included under non-current financial assets
- Debt instruments at fair value through profit and loss (FVTPL) for instruments that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that do not meet the SPPI criterion. This category includes the convertible notes included in Receivables included under non-current financial assets.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under AASB 9. Under AASB 139, the Group's unquoted equity instruments were classified as available-for-sale (AFS) financial assets.

## 1 Basis of preparation of half-year report

### (b) AASB 9 (continued)

#### (i) Classification and measurement

The accounting for the Group's financial liabilities remains largely the same as it was under AASB 139.

#### (ii) Impairment

AASB 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group applied AASB 9 prospectively, with an initial application date of July 1, 2018. The Group has not restated the comparative information, which continues to be reported under AASB 139. Differences arising from the adoption have been recognised directly in retained earnings and other components of equity. The statement of financial position as at 1 July 2018 was restated, resulting in decreases in Trade and other receivables and Retained earnings amounting to \$5,855,042 and \$4,098,529, respectively. The statement of profit or loss for the six months ended 31 December 2017 was not required to be restated.

The Group applied AASB 9 prospectively, with an initial application date of July 1, 2018. The Group has not restated the comparative information, which continues to be reported under AASB 139. Differences arising from the adoption have been recognised directly in retained earnings and other components of equity. The statement of profit or loss for the six months ended 31 December 2017 was not required to be restated. The impact on the statement of financial position as at 31 December 2018 is as follows:

	<b>31 December 2018 \$'000</b>
<b>Assets</b>	
Trade and other receivables	(5,855)
Deferred tax asset	1,757
	<u>(4,098)</u>
 Total assets	 <u>(4,098)</u>
 <b>Equity</b>	
Retained earnings	<u>4,098</u>

Each of the transition adjustments noted above relate to financial assets held at amortised cost under both AASB 139 and AASB 9.

Convertible notes were accounted for at amortised cost with an embedded derivative at FVTPL under AASB 139. On transition to AASB 9 they will be FVTPL in their entirety. No adjustments to carrying value were required on transition.

## **1 Basis of preparation of half-year report**

### **(c) AASB 15 Revenue from Contracts with Customers**

AASB 15 supersedes AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted AASB 15 using the modified approach method of adoption. There is no material effect of adopting AASB 15 on the financial position or performance of the Group.

## **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.

### 3 Segment information

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 five reportable segments of its business:

#### (a) Description of segments

- The Dairy division which owns farms and production plants and uses milk to produce cheese and other dairy products.
- The Meat division brings high quality and innovative meat products to expanding markets.
- The Seafood division is focused on sourcing and supplying high quality seafood to the markets.
- The Health division targets innovative products for health conscious markets.
- The Distribution division creates relationships and digital platforms with both local and offshore parties to distribute products.

No operating segments have been aggregated to form the reportable operating segments.

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.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

#### (b) Segment reports

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	Dairy \$'000	Meat \$'000	Seafood \$'000	Health \$'000	Distribution \$'000	Total segments \$'000	Adjustments and eliminations \$'000	Total \$'000
Revenue								
Sale of goods	41,613	1,490	-	118	-	43,221	56	43,277
Other revenue	17	-	229	-	-	246	180	426
Other income	230	84	15	8	-	337	(117)	220
Finance income	68	95	-	56	-	219	2	221
<b>Total revenue</b>	<b>41,928</b>	<b>1,669</b>	<b>244</b>	<b>182</b>	<b>-</b>	<b>44,023</b>	<b>121</b>	<b>44,144</b>
Expenses								
Cost of sales	(31,649)	(1,694)	-	(66)	-	(33,409)	(446)	(33,855)
Operating overheads	(8,515)	(728)	(3)	(97)	-	(9,343)	(1,878)	(11,221)
Selling and distribution	(1,764)	(125)	-	(19)	-	(1,908)	(173)	(2,081)
Other expenses	(328)	(15)	-	-	-	(343)	(148)	(491)
Corporate overheads and business support	(1,219)	(288)	-	(36)	-	(1,543)	(2,230)	(3,773)
Impairment of financial assets	-	-	-	(5,900)	-	(5,900)	-	(5,900)
Finance costs	(560)	(9)	-	(51)	-	(620)	(120)	(740)
<b>Total expenses</b>	<b>(44,035)</b>	<b>(2,859)</b>	<b>(3)</b>	<b>(6,169)</b>	<b>-</b>	<b>(53,066)</b>	<b>(4,995)</b>	<b>(58,061)</b>
Segment profit/(loss)	(2,107)	(1,190)	241	(5,987)	-	(9,043)	(4,874)	(13,917)



### 3 Segment information

#### (b) Segment reports (continued)

The segment information provided to the Executive Management Committee for the reportable segments for the half-year ended 31 December 2017 is as follows:

Half-year ended 31 December 2017	Dairy \$'000	Meat \$'000	Seafood \$'000	Health \$'000	Distribution \$'000	Total segments \$'000	Adjustments and eliminations \$'000	Total \$'000
<b>Revenue</b>								
Sale of goods	17,697	103	-	437	105	18,342	-	18,342
Other revenue	467	-	203	30	-	700	152	852
Other income	64	11	11	11	-	97	1,420	1,517
Finance income	3	213	-	27	-	243	259	502
Share of profit/(loss) from associates	-	-	(22)	-	-	(22)	-	(22)
<b>Total revenue</b>	<b>18,231</b>	<b>327</b>	<b>192</b>	<b>505</b>	<b>105</b>	<b>19,360</b>	<b>1,831</b>	<b>21,191</b>
<b>Expenses</b>								
Cost of sales	(10,736)	(87)	-	(331)	(103)	(11,257)	(246)	(11,503)
Operating overheads	(4,879)	(9)	(58)	(764)	-	(5,710)	-	(5,710)
Selling and distribution	(611)	(14)	(59)	(390)	(57)	(1,131)	(1,993)	(3,124)
Other expenses	(516)	-	-	-	(39)	(555)	(179)	(734)
Corporate overheads and business support	(362)	-	-	-	(193)	(555)	(2,989)	(3,544)
Finance costs	(11)	-	-	(27)	17	(21)	(71)	(92)
<b>Total expenses</b>	<b>(17,115)</b>	<b>(110)</b>	<b>(117)</b>	<b>(1,512)</b>	<b>(375)</b>	<b>(19,229)</b>	<b>(5,478)</b>	<b>(24,707)</b>
Segment profit/(loss)	1,116	217	75	(1,007)	(270)	131	(3,647)	(3,516)

The information on segment assets and liabilities provided to the Executive Management Committee for the reportable segments as at 31 December 2018 and 30 June 2018 is as follows:

	Dairy \$'000	Meat \$'000	Seafood \$'000	Health \$'000	Distribution \$'000	Total segments \$'000	Adjustments and eliminations \$'000	Total \$'000
<b>As at 31 December 2018</b>								
Total segment assets	139,892	15,070	10,606	4,707	-	170,275	(20,658)	149,617
Capital expenditure	2,873	-	-	79	-	2,952	90	3,042
Total segment liabilities	(42,188)	(2,143)	(32)	(1,013)	-	(45,376)	(4,547)	(49,923)
<b>As at 30 June 2018</b>								
Total segment assets	131,624	2,831	10,609	14,733	-	159,797	(1,113)	158,684
Capital expenditure	13,540	-	-	78	-	13,618	54	13,672
Total segment liabilities	(31,396)	-	(8)	(1,039)	-	(32,443)	(4,949)	(37,392)

## 4 Revenue

	31 December 2018 \$'000	31 December 2017 \$'000
Sales revenue	43,277	18,342
<i>Other revenue</i>		
Leasing income	426	162
Management fees	-	690
	426	852
Total revenue	43,703	19,194
<b>Geographic markets</b>		
Australia	41,007	16,124
Asia	1,123	1,774
Europe	1,147	444
Total revenue from contacts with customers	43,277	18,342

## 5 Other income

	31 December 2018 \$'000	31 December 2017 \$'000
Net gain/(loss) on disposal of property, plant and equipment (excluding property, plant and equipment sold as part of the engineering division)	-	1,428
Fair value adjustment to biological assets	88	-
Government grants	141	43
Other items	(9)	46
	220	1,517

## 6 Net finance income

	31 December 2018 \$'000	31 December 2017 \$'000
<i>Finance income</i>		
Interest income	221	502
<i>Finance costs</i>		
Finance charges paid for financial liabilities	(713)	(104)
Net exchange losses	(27)	12
	(740)	(92)
Net finance income	(519)	410

## 7 Income tax

### (a) Income tax

	31 December 2018 \$'000	31 December 2017 \$'000
Deferred tax	(2,418)	(455)
Income tax benefit	(2,418)	(455)
Income tax expense is attributable to: Profit from continuing operations	(2,419)	(455)

### (b) Tax losses

	31 December 2018 \$'000	31 December 2017 \$'000
Unused tax losses for which no deferred tax asset has been recognised	7,430	2,665
Potential tax benefit @ 30.0%	2,229	800

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 2018 \$'000	30 June 2018 \$'000
<b>Current assets</b>		
Trade receivables	10,304	14,080
Convertible notes receivable	-	2,748
Other receivables	2,239	6,133
Prepayments	2,688	1,100
Goods and services tax (GST) receivable	2,908	2,569
	<u>18,139</u>	<u>26,630</u>

### (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 2018, the Group acquired assets with a cost of \$10.1m (half-year ended 31 December 2017: \$7.8m).

### (b) Intangible assets

#### (i) Acquisitions and disposals

During the half-year ended 31 December 2018, the Group acquired assets with a cost of \$8.3m (half-year ended 31 December 2017: \$0.4m).

#### (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 2018, there have been no indicators of impairment present.

## 10 Trade and other payables

	31 December 2018 \$'000	30 June 2018 \$'000
Trade payables	8,059	7,582
Goods and services tax (GST) payable	1,187	344
Accrued expenses	3,533	3,072
Government grants	571	1,041
Payroll liabilities	125	247
Deferred income on government grants	391	1,741
	<u>13,866</u>	<u>14,027</u>

## 11 Contributed equity

### (a) Share capital

	31 December 2018 Notes Shares	30 June 2018 Shares	31 December 2018 \$'000	30 June 2018 \$'000
Ordinary shares - fully paid	443,315,867	443,315,867	147,535	147,535

### (b) Other reserves

	31 December 2018 \$'000	30 June 2018 \$'000
Share-based payments	9	9
Foreign currency translation	(589)	(246)
Financial assets and liabilities at fair value through other comprehensive income	(5,658)	-
	<u>(6,238)</u>	<u>(237)</u>

## 12 Commitments

### (a) Non-cancellable operating leases

The Group leases its offices under non-cancellable operating leases expiring within 3 years. The Group also leases farm equipment under non-cancellable leases expiring within 5 years. Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	31 December 2018 \$'000	30 June 2018 \$'000
Within one year	123	284
Later than one year but not later than five years	6	10
	<u>129</u>	<u>294</u>

### (b) Lease commitments: Group as lessee

The Group has finance leases and hire purchase contracts for various items of plant and machinery. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts as follows:

	31 December 2018 \$'000	30 June 2018 \$'000
Within one year	87	87
Later than one year but not later than five years	137	180
	<u>224</u>	<u>267</u>

## 13 Contingencies

The Group had no contingent assets or liabilities at 31 December 2018 (2017: nil).

## 14 Dividends

### Ordinary shares

There were no dividends provided during the half-year ended 31 December 2018 (31 December 2017: nil).

## 15 Related party transactions

### (a) Transactions with related parties

	31 December 2018 \$'000	31 December 2017 \$'000
<i>Sales of goods and services</i>		
Sales of goods to investee entities	229	223
Remuneration received for directors services	23	30
Interest income from investee entities	153	221
Leasing income from investee entities	-	203
<i>Purchases of goods and services</i>		
Purchases of various goods and services from related parties	(831)	(2,051)
Management fees to the Investment Manager	(1,164)	(1,169)

### (b) Receivables/(payables) with related parties

	31 December 2018 \$'000	30 June 2018 \$'000
<i>Outstanding balances arising from sales and purchases of goods and services</i>		
Current receivables	268	6,198
Current payables	(283)	(310)
<i>Loans receivable from related parties</i>		
Beginning of the year	33	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 2018 Annual Report.

For the half-year ended 31 December 2018, the Investment Manager was not entitled to receive a performance fee in respect of the Company's out-performance of the benchmark index.

## 16 Business combination

### (a) Summary of acquisition

On 23 August 2018, the Company acquired 100% of the ordinary shares of Scorpio Foods Pty Ltd ("Scorpio"). The acquisition has been accounted for using the acquisition method. The financial statements include the results for Scorpio for the year from the acquisition date. This acquisition has been provisionally accounted for at reporting date, as the fair value of the net assets acquired has not been finally determined.

Scorpio Foods is a HACCP and AQIS accredited processor and exporter of quality meat products supplying the food service industry.

### (b) Purchase consideration

Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

	<b>31 December 2018 \$'000</b>
Cash paid (\$2)	-
Deferred consideration	195
Total consideration to be paid	<u>195</u>
Add: Settlement of pre-existing relationships	
Elimination of loan receivable	5,927
Total consideration in relation to business acquisition	<u>6,122</u>
<b>Assets</b>	
Trade and other receivables	744
Inventory	815
Property, plant & equipment	918
Deferred tax asset	28
<b>Liabilities</b>	
Trade creditors and accruals	(2,360)
Employee provisions	(74)
Overdraft facility	(33)
Interest-bearing liabilities (related party)	(228)
<b>Goodwill</b>	
Goodwill	6,312
<b>Net assets acquired</b>	<u>6,122</u>

The goodwill is attributable to the expected synergies and other benefits from combining the operations of Scorpio with those of the Group. It will not be deductible for tax purposes.

#### (i) Revenue and profit contribution

The acquired business contributed revenues of \$1.4m and a net loss of \$1.3m to the Group for the period from 23 August 2016 to 31 December 2018

#### (ii) Acquisition-related costs

Acquisition related costs of \$30,000 are included in administration expenses in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows.

## 17 Interests in other entities

Name of entity	Ownership interest	June 2018 %	Measurement method	Carrying value	
	December 2018 %			December 2018 \$'000	June 2018 \$'000
Neptune Bio-Innovations Pty Ltd	10	10	FVOCI	-	11,558
<b>Total investments</b>	<b>10</b>			<b>-</b>	<b>11,558</b>

The Group received updated financial forecasts from Neptune Bio-Innovations Pty Ltd (NBI). Analysis of this information has led the Group to assess the fair value of the convertible notes and equity investments as nil, resulting in an impairment of \$11.56 million.

An amount of \$5.90 million has been recognised in relation to the convertible notes through the profit and loss, and an amount of \$5.66 million has been recognised in relation to the equity investment through other comprehensive income.

## 18 Events occurring after the reporting period

Other than 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.



## 19 Earnings per share

### (a) Basic earnings per share

	31 December 2018 Cents	31 December 2017 Cents
From continuing operations attributable to the ordinary equity holders of the Company	(2.6)	(0.7)
Total basic earnings per share attributable to the ordinary equity holders of the Company	(2.6)	(0.7)

### (b) Diluted earnings per share

	31 December 2018 Cents	31 December 2017 Cents
From continuing operations attributable to the ordinary equity holders of the Company	(2.6)	(0.7)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(2.6)	(0.7)

### (c) Weighted average number of shares used as denominator

	2018 Number	2017 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 13 to 31 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 2018 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.

A handwritten signature in black ink, appearing to read 'R N Sexton', with a stylized flourish at the end.

R N Sexton  
Director

Adelaide

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

## Report on the Half-Year Financial Report

### Qualified 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 balance sheet as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, other than the effect, if any of the matter described in the 'Basis for Qualified Conclusion' paragraph of our report 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 2018 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.

### Basis for Qualified Conclusion

As at 30 June 2018 the carrying value of the Group's investments in Neptune Bio-Innovations Pty Ltd ('NBI') was \$11.6 million. The investments comprised a convertible note and put option issued on 3 April 2018 and a 9.9% equity investment which were recorded at 30 June 2018 at \$5.9 million and \$5.7 million respectively. As at 31 December 2018 the carrying value of the convertible note, put option and equity investment are nil, as disclosed note 17.

As at 30 June 2018 we were unable to obtain sufficient appropriate evidence to assess the fair value of the convertible note and we were unable to assess the recoverable amount of the Group's equity investment. Our opinion on the financial report for the year ended 30 June 2018 was modified accordingly. Consequently, we were unable to determine whether adjustments might have been necessary in respect of the consolidated statement of comprehensive income for the half year ended 31 December 2018 as it reflects the movement in the carrying value of Group's convertible note and equity investment from 1 July 2018. We were also unable to determine whether adjustments might have been necessary in respect of the initial adoption of AASB 9 'Financial Instruments' by the Group on 1 July 2018.

### 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 2018 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.

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



BJ Pollock  
Partner

Melbourne  
28 February 2019