

4 April 2017

ASX CODE: BFC

RELINQUISHMENT OF INVESTMENTS IN B-D. FARM PARIS CREEK AND WELLINGTON DAIRY FARM

Beston Global Food Company Limited ('BFC' or the 'Company') advises that it has, in agreement with B.-d. Farm Paris Creek ('Paris Creek'), relinquished its convertible notes in Paris Creek and agreed to sell the Wellington dairy farm owned by BFC to Paris Creek. The transactions will provide proceeds to BFC of \$7.0 million which will be used to further expand the dairy operations of BFC (Beston Pure Dairies).

BFC acquired a 26.5% indirect interest in B-d. Farm Paris Creek prior to the IPO of the Company. The indirect interest was structured in the form of a convertible note which earned interest of 9.5% per annum until conversion or maturity.

The maturity date for conversion was 10 March, 2017 or on achievement of certain key performance objectives, with conversion at the discretion of the Board of BFC. The key performance objectives involved undertaking building works at Paris Creek to extend the dairy factory for the following purposes:

- Upgrading of the milk filling line
- Installation of an Extended Shelf Life ('ESL') production facility
- Establishment of a yoghurt filling line (pouch pack) using new generation clean packing technology

As part of the arrangements which were put in place with B-d. Farm Paris Creek prior to the IPO, BFC acquired a dairy farm at Wellington, South Australia and leased it back to the original owners for conversion to bio-dynamic status, under the guidance of Paris Creek. The purpose of the acquisition was to increase the supply of organic milk to Paris Creek to meet the increase in production of dairy products associated with the installation of the new milk filling line, the ESL production facility and the yoghurt filling line.

As a result of planning approval delays and wet weather, the construction and fit out of the new factory extension at Paris Creek and the installation of the new plant and equipment, was pushed out well beyond the original timelines. Consequently, the conversion of the notes on achievement of the key performance objectives did not occur during the 24-month term as expected.

The factory extension was completed in late November 2016 and the installation of the new bottling line, ESL facility and yoghurt pouch pack line is now underway. Commissioning of this new plant is still some months away.

At the time of subscribing for Convertible Notes in Paris Creek, BFC did not have its investment in United Dairy Power (now Beston Pure Dairies). The acquisition came about via a subsequent public tender process in which BFC was successful in acquiring the whole of the assets of United Dairy Power (minus the Mozzarella plant which was sold separately to Murray Goulburn and removed from the factory at Jervois). The funds for the re-establishment of manufacturing operations at the former United Dairy Power factories at Murray Bridge and Jervois, South Australia, the upgrade of the factories to export standards, and the installation of a new dairy processing plant were derived from the proceeds of the IPO.

As time has elapsed, the separate businesses of Beston Pure Dairies and Paris Creek have tended to converge onto similar paths. For example:

- Paris Creek has launched a non-organic range of products under the “Adelaide Hills” Dairy brand
- Beston Pure Dairies, through its newly established Award winning non-organic “Edwards Crossing” brands has won shelf space in retail outlets traditionally supplied by Paris Creek organic products.

Paris Creek now operates as a fully integrated dairy supply, processing and export business with products in both the organic and non-organic dairy categories.

As such, the businesses of Paris Creek and Beston Pure Dairies are beginning to compete with each other, and as time progresses, this will become increasingly so. Both businesses are also competing for milk supply, which has tightened up in the past twelve months as more dairy farmers have exited the industry.

The Board of BFC has therefore decided that the allocation of capital by BFC to its investments in the dairy industry will generate greater returns to shareholders by being deployed solely within Beston Pure Dairies where the company can obtain economies of scale and develop new products without causing conflicts of interest with Paris Creek.

The Beston Pure Dairies factories at Murray Bridge and Jervois have operating capacities to process 300 million litres of milk per annum, and are likely to process around 60 million litres this year (i.e. around 20% of capacity). BFC has plans in place to increase production at Beston Pure Dairies to 100 million litres of milk throughput per annum, once the mozzarella line is operational, and then gradually increase this production over time, in line with new product development and sales, to the plants operating capacity of 300 million litres per annum.

BFC has previously announced plans to expand the hard cheese manufacturing facilities within Beston Pure Dairies, establish a soft cheese line and re-establish a mozzarella production facility. These plans are all now well advanced. The hard cheese line has commenced trial production this month. The soft cheese business of Australian Provincial Cheese has been acquired by BFC and shifted from Victoria to Murray Bridge. And, the first items of the plant and equipment for the mozzarella facility have arrived at Murray Bridge from overseas suppliers with the balance expected to arrive by August for a scheduled commissioning of the plant later in 2017.

The re-commissioning of the dairy dessert production facility has been completed and contract manufacturing of “Le Rice” dairy dessert has been underway for several months on a three days per week basis. Other BFC owned dairy dessert products are now in trial phase as a means of taking this plant to full utilisation and generating new profit streams from our own brands.

BFC considers that all of these expansion initiatives, together with investment in various new product developments currently under investigation, will provide higher returns to shareholders over the medium to long term than holding a minority interest in Paris Creek on conversion of the convertible notes.

Accordingly, the Board of BFC resolved not to convert its note holding in Paris Creek on maturity at 10 March, 2017 and, with the agreement of the Board of Paris Creek, has negotiated the relinquishment of the notes, with settlement occurring on 3 April 2017.

The Wellington dairy farm, which is in advanced stages of conversion to biodynamic status, is now an integral part of the operations of Paris Creek and will therefore be acquired by Paris Creek.

The \$5.0 million in convertible notes invested in Paris Creek has been redeemed for face value (\$5.0 million) and Wellington Farm will be sold at its current valuation of \$2.0 million thereby yielding cash proceeds to BFC of \$7.0 million.

These proceeds will be deployed into the expansion of the operations of Beston Pure Dairies as outlined above.

As part of the settlement arrangements, BFC has entered into a supply arrangement with Paris Creek whereby Paris Creek will supply organic yoghurt pouch packs as part of the menu of “kid’s nutrition” products provided by BFC to MindChamps early childcare centres in Singapore. The first product to be supplied by Paris Creek to the Beston MindChamps kids nutrition joint venture will be organic bush honey yoghurt which will launch in the early childcare centres in May, 2017. Other products may also be sourced under this agreement where BFC identifies a demand for Paris Creek products via the overseas offices of BFC.