

# half year financial report

**BESTON**  
GLOBAL FOOD COMPANY

APPENDIX 4D  
HALF YEAR ENDED  
31 DECEMBER 2015

# BESTON GLOBAL FOOD COMPANY LIMITED

ACN 603 023 383

## APPENDIX 4D - HALF YEAR FINANCIAL REPORT

### HALF YEAR ENDED 31 DECEMBER 2015

(Previous corresponding period: half year ended 31 December 2014)

The information contained in this report should be read in conjunction with the most recent annual financial report. This report contains the half year information provided to the Australian Securities Exchange under listing rule 4.2A. The report also satisfies the half year reporting requirements of the Corporations Act 2001.

## CORPORATE INFORMATION

### DIRECTORS

Roger Sexton  
 Stephen Gerlach  
 Petrina Coventry  
 Jim Kouts  
 Don Taylor

### CEO

Sean Ebert

### COMPANY SECRETARY

Richard Willson

### REGISTERED OFFICE

72 Sturt Street Adelaide, South Australia 5000

### SHARE REGISTER

Link Financial Services, Level 12, 680 George Street, Sydney, NSW, 2000  
 Beston Global Food Company Limited shares are listed on the Australian Stock Exchange (ASX)

### LEGAL ADVISORS

Minter Ellison

### AUDITORS

Ernst & Young Australia

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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Up / Down from previous corresponding period	%	\$
Revenue from ordinary activities	Up	N/A	7,606,084
Profit (loss) from ordinary activities after tax attributable to members	Up	N/A	(1,079,981)
Net profit (loss) for the period attributable to members	Up	N/A	(1,079,981)

No dividend has been declared for the period.

A dividend reinvestment plan is not in operation.

## OPERATING AND FINANCIAL REVIEW

It has become customary for public companies to provide Half Year results in presentation formats similar to Full Year Results (ie., in a compliance driven format, often with accompanying road shows), but to carry comprehensive written reports on corporate philosophies and business models (and strategies) over to the Annual Report. But, as a company which is still effectively in start-up mode, we believe that we should do more than is customary and provide our shareholders with an explanation of "what" we have been doing at BFC in this past six months, and "how", in addition to reporting on the operating and financial results from the date of listing of BFC on 28 August 2015 to the end of the Half Year on 31 December 2015.

### Corporate Philosophy and Business Model

Almost four years ago we started a journey to build a global food company – a company which would not only focus on taking healthy food and beverage products to the world's growing communities but which would also be unique in its approach by having its own sources of raw materials, its own production facilities and its own marketing and distribution.

Today our Beston Global Food Company Ltd (BFC) has achieved many of the objectives which we defined at the outset.

BFC is well on its way to becoming one of the few food companies in the world which has its own closed loop supply chain and is able to provide consumers in burgeoning global markets with an authentic, genuine, healthy food experience with products sourced and verified from its own raw materials.

BFC listed on the Australian Securities Exchange on 28 August 2015 and currently has a market capitalisation of around AUD 170 million.

We have a lot of moving parts at BFC... but all the parts are moving in the same direction and are coming together to build a company which we are positioning to become one of the leading food and beverage companies in the world.

We have a wide range of premium, healthy, functional food and beverage products sourced substantially from our own farms, produced substantially in our own factories and sold through our own people on the ground in the markets we aim to serve.

To ensure the safety and quality of supply, we have also developed our world first, patent pending, OZIRIS technology which is able to ensure consumers about the traceability and authenticity of our products, including anti tamper and anti-counterfeiting.

## Corporate Philosophy and Business Model (continued)

It is important to note that we have been taking a very holistic approach in building BFC.

Our approach is not simply about getting food and beverage products into markets for short term revenue gain and profits. These objectives are certainly important and quite obviously are being pursued by BFC in its daily activities.

Short term revenue and margin gains translate to profits which are important for many obvious reasons. These are key priorities and performance measurement objectives for all of our operational managers.

These are key priorities and performance measurement objectives for all of our operational managers.

But, short term results do not, in themselves, necessarily grow the long-term sustainable value of the business – and capital growth for our shareholders.

Our wider long-term focus is to build strategic value into our BFC business by taking a whole-of-life perspective in relation to the healthy eating needs of populations.

To do this we are creating new foods, as well as adapting existing foods, to make them more nutritious, more healthy and kinder on our bodies.

We are doing this, for example, by taking out the sugar in foods that we sell and replacing it with the proprietary "Sweetin" product from our investee company NBI..... and by substituting the salt in foods with the proprietary "Lo-Sal" salt replacement product, also from NBI.

We are also doing it by starting with the foods required from early childhood development and taking them right through to the foods required by seniors.

It is well recognised that the first five years of a person's life is the most important in determining many health outcomes later in life.

It is the critical age when the growth and development trajectory of the individual is established.

It is important to get the best start in life – with the best foods.

We believe that our foods from the Beston Global Food Company stable of products – our "Beston Pure Foods", "Beston Farms", and associated investee company products – provide the best foods for this important start in life.

Through our investee company, Scorpio Foods we already provide more than 90% of the meat which goes into Australian baby foods through various brands. This achievement reflects our high standards of quality and quality control in Scorpio. Through Scorpio Foods also, we have launched our "no numbers" initiatives to provide an allergen free range of meat products. Parents are able to buy ready-to-eat meals for their families which are nutritious and high in protein, while being confident that the products are safe for their family to eat (the products contain no artificial additives, colourings or preservatives which, if added, are required to be shown as "numbers" on food packaging).

We see the approach we are adopting in BFC as the way of the future for the Australian food industry..... and the way of best meeting the needs of a growing middle class around the world (especially in Asia) as they become more health conscious and more discerning about their food and beverage needs.

## Executive Summary

### Financial Results

- Statutory NPAT result of (\$1.1 million) incorporating four months of post IPO trading and including all IPO costs
- Underlying Net Profit After Tax (UNPAT) result of \$1.7 million.

### Operations\*

- Substantially exceeded production targets for cheese and whey powder
- Expanded lobster production by 197%
- Increased processing of tuna by 13%
- Increased meat processing capacity by 25%
- Launched new allergen free ready-to-eat meat meals
- Signed orders for Sal 50 salt replacer and condensed milk replacer product from Asia

### Marketing and Distribution

- Built a presence in food service and on retail shelves in China, Thailand, Cambodia, Vietnam and Brunei
- Launched gift box sales in China
- Designed developed and launched BFC owned "Kyubu" Japanese style cheese snacks for ASEAN market

### Beston Technologies

- Designed, developed and released OZIRIS food safety technology
- Awarded four provisional patents on the technology
- A world first technology which ensures consumers about the traceability and authenticity of BFC products, including anti tamper and anti-counterfeiting
- To be offered to other food (and non-food) producers, thereby creating an additional revenue model.
- Designed and developed the e-commerce "Beston Market Place" which provides a 360° view of products, ingredients and sources of raw materials (first stage released) and will enable on-line ordering of BFC portfolio products

\*Includes operations from investee companies.

## Financial Results

The audited results presented in the financial report for the Half Year reflect the operations of BFC and its subsidiaries and investee companies from 1 July 2015 to 31 December 2015, although the company was only listed for four of these six months (ie from 28 August 2015).

The first two month period of the Half Year therefore, relate to the operations of the Company when it had pre-IPO capital of \$27.5 million and a limited number of investments:

- 36% indirect interest in Ferguson Australia Pty Ltd (via convertible notes)
- 26.5% indirect interest in B-d Farm Paris Creek (via convertible notes)
- 100% interest in Wellington Dairies Pty Ltd, and
- 100% ownership of marketing and distribution operations in China, Thailand and Vietnam and through our strategic alliances, in Brunei

The last four month period of the Half Year (ie September to December 2015) relate to the operations of the Company after it had raised an additional \$100 million through the IPO and put these funds to work in acquiring the assets detailed in the IPO Prospectus, including:

- Kurleah Dairy Farm
- Pedra Branca Dairy Farm
- United Dairy Power (UDP) assets (now re-branded as Beston Pure Foods)
- Australian Dairy Proteins
- Mori Seafood
- Five Star Seafoods
- Additional Lobster Pot Quotas
- 30% interest in Scorpio Foods Pty Ltd
- 30% interest in Australia Provincial Cheese
- 20% interest in Neptune Bio Innovation Pty Ltd
- and further capitalisation of the operations of BFC in China, Thailand and Brunei

It should be noted, of course, that the post IPO acquisitions were not "instantaneous" on listing, and that the application of funds occurred over the subsequent few months. As settlements proceeded, the IPO funds were held in a bank deposit until fully employed. In actuality, therefore, the First Half Year results reflect the trading results of BFC as a listed public Company for only a three month period, rather than the six month accounting period.

The Group revenue for the Half Year was \$7.6 Million.

The statutory NPAT result for the Half Year was a loss of \$1.1 million. This statutory figure includes all the costs of the capital raising associated with the IPO including ASX listing fees, professional fees and other non-recurring expenses.



## Financial Results (continued)

The following table, which has not been audited, provides a reconciliation between the reported results of the Company and the underlying net profit after tax (UNPAT). In calculating UNPAT the Company reverses the impact on profit of certain items, predominantly those associated with the Company's IPO, and other start-up and establishment costs, to enable a better understanding of its operational result .

	<b>Half Year to 31-Dec-15 \$</b>
Net profit/(loss) attributable to members of the parent entity	-1,079,980
Underlying net profit after tax (UNPAT) adjustments	
- IPO & Corporate Establishment Costs	3,074,363
- Sales & Distribution Establishment Costs	364,834
- Dairy Manufacturing Plant Start-up Costs	174,431
- Farms Purchase & Start-up Costs	993,306
- Provision for abnormal Doubtful Debts	230,458
- Gain on business acquisition	-2,087,864
UNPAT	1,669,548

The half year to December 2015 UNPAT result of \$1.7 million is \$0.4 million ahead of the YTD November UNPAT result reported at the AGM.

We had a number of tail winds which "helped" our numbers over the period and a number of head winds which "hindered" it.

Chief amongst the tail winds were the ahead-of-budget production numbers at our Beston Pure Foods factories at Murray Bridge and Jervois. Production of cheese for the Half Year period was 2,863 tonnes against a budget of 1,400 tonnes for the full year. Production of whey powder for the Half Year was 825 tonnes against a budget of 270 tonnes for the Full Year.

The key head winds which hindered (held back) our revenues and profit result for the Half Year were:

- the slowness in gaining sales traction with Dashang and with our customers in Thailand;
- delays in getting product registration approvals from government authorities in a number of ASEAN countries,
- the greater than anticipated costs and time delays involved in regaining export licences at Murray Bridge and Jervois (which were allowed to lapse by the Receiver of UDP), and
- some unexpected delays in implementing production improvements and efficiency enhancements on some of our farms (many of which related to regulatory and/or planning issues).

As a result of several unexpected issues which arose during the final due diligence for the acquisition of the Weneda Dairy Farm, we resolved not to proceed with the purchase of this property and announced this decision to the ASX on 6 October 2015.

As at 31 December 2015, the Company had no debt and cash reserves of \$34.45 million.



## Share Market Activity

It has been interesting to note that nearly 140 million shares in our company changed hands during the few months from listing to 31 December 2015. This represents some 44% of our total share capital on issue.

We have viewed this turnover in our shares as being very positive for our shareholders as it has demonstrated that:

- We have liquidity, and depth, in our shares – something which is not always observed in newly listed, small cap stocks.

- Many shareholders who invested in our company at the time of our IPO have taken a profit on their investment, and presumably a good profit since the BFC share price closed at \$0.48 on 31 December 2016 after listing at \$0.35

It also shows that many new shareholders have come onto our register after the IPO and after becoming aware of our achievements and future plans, as detailed in on-going announcements to the ASX.

Under the terms of the Investment Management Agreement by which Beston Pacific Asset Management Pty Ltd (BPAM) manages BFC on behalf of shareholders, BPAM is entitled to accrue a performance fee for the Half Year, which is calculated on the basis of 17.5% of the outperformance of the company, as measured against Total Shareholder Returns over the same period.

The reasons for the external management structure and performance fee were explained at the time of the IPO, and the terms and conditions of the arrangements outlined in the Prospectus. The reasons include the facts that:

- BPAM was not reimbursed at the time of the IPO, other than very partially, for the considerable expenditures incurred over a period of more than three years in establishing and growing BFC to the point of its public listing.

- BPAM negotiated and acquired a number of significant assets over this period at substantial discounts to their replacement values (such as the United Dairy Power assets) which were then included in the IPO at cost, so as to share the capital gain benefits with all shareholders.

- BPAM receives a management fee of 1.2% per annum of the gross asset value (GAV) of BFC. Paid monthly, this fee has not covered, and is not likely to cover, the actual costs of managing BFC on a monthly basis, at least until BFC substantially increases in size. This means that BPAM subsidises the running costs of BFC, and will need to continue to do so for some time, for which other shareholders are benefitting. If the management costs of BFC were internalised, shareholders would incur considerably greater costs for the operations of BFC than under the present external management arrangements.

As explained at the time of the IPO, and again at the inaugural Annual General Meeting on 27 November 2015 the remuneration arrangements that have been established under our external management structure aligns the interests of our management and staff with our shareholders, so that they get rewarded when our shareholders get rewarded. Most of our executives and senior staff receive take-home salaries which are well below market levels. Part of any outperformance fee payable to BPAM is therefore shared with these staff as a way of topping up their salaries to levels closer to market. Moreover, the outperformance rewards are paid in shares, not cash, in order to further align employees with the interests of our shareholders.

The modus operandi and moral philosophy of the Principals of BPAM in all of its corporate start-ups and successful company growth stories over the last twenty years has been to put the interests of its fellow shareholders first, before that of its own, notwithstanding that BPAM, may have unsatisfied financial and other entitlements. The focus of BPAM in managing BFC, as with other previous situations, has been to first build the wealth of non-BPAM shareholders before taking appropriate compensation for its own efforts. We believe this approach to be a fair and reasonable way of aligning the interests of management and shareholders, especially when BFC is in its early stages of growth.

For this reason BPAM has elected to waive its right to a performance fee, for the Half Year to 31 December 2015, as set out in the Notes to the Accounts.

BFC has enjoyed strong institutional support from a number of major global investors (primarily Asia based) from the time of listing on the ASX. That institutional support has continued through the First Half, such that they remained on our share register at 31 December 2015.

Pleasingly, we have noted significant new interest in BFC in recent weeks from a number of global non-Asia based institutional investors.

We have also noted that several similar companies to BFC have emerged recently which attempt to mimic, at least in part, the strategic focus of BFC. Clearly, "emulation is the best form of flattery", but is the reason that we have sought, from the outset, to be the first mover in bringing healthy, verifiable, functional food and beverage products to global markets.

## Operations

The following section of this report is intended to provide our original IPO shareholders, and our new shareholders who have invested in BFC since the IPO with an understanding of “where we have been” over the four months to 31 December and “where we are going”.

A lot of things went well, and to plan for us over the period; a few things did not go as well as had been expected. (as explained above). These “pluses” and “minuses” are outlined by operating division in the sections below.

### Dairy Division

- Re-opened: UDP factory at Murray Bridge, renamed Beston Pure Dairies
- 29 million litres milk processed in 4 months (vs budget of 25 million litres for full year 2015-16)
- Produced 2,870 tonnes of cheese to 31 December 2015 (vs budget of 1,400 tonnes for full year 2015-16)
- Reopened Jervois dairy factory
- Produced 837 tonnes of whey powder YTD (vs budget of 270 tonnes for the full year 2015-16)
- First shipment of 220 tonnes of cheese (in December 15)
- First order received from Europe for 120 tonnes of cheese
- Restart of high value Lactoferrin plant
- Produced first batch of 50% low sodium (salt) Cheese for trialling with health conscious consumers
- Brought back former iconic “Centenary” black waxed vintage Cheddar and former range of Murray Bridge Cheeses (Gouda, Aussie Jack, Goshread)

### Seafood

- Settled acquisition of Mori Seafood (Port Lincoln) and Five Star Seafood (Port MacDonnell) (via Ferguson Australia Pty Ltd)
- Increased lobster production from 128 tonnes pa to 380 tonnes p.a. (197% increase)
- Increased processing of Southern Blue Fin Tuna from 650 tonnes p.a. to 735 tonnes pa (13% increase on prior period production)
- First to market with 4 tonnes of Southern Blue Fin vacuum packed Tuna loins to China
- First BFC shipment of Kingfish and Oysters to Shanghai and Cambodian customers
- Developed concept for a new retail “Ferguson” range of seafood to meet changing consumer markets

### Meat

- Completed acquisition of a 30% interest in Scorpio Meats
- New plant and equipment purchased and installed
- Meat processing production increased from 2,000 tonnes to 2,500 tonnes (25% increase in capacity)
- Scorpio now has a more than 90% market share of all meat used in Australian-produced baby foods
- Launched a “No Numbers” initiative i.e., an “Allergen Free” range of meat products (the products contain no artificial additives or preservatives which are normally shown as “Numbers” on food packaging)
- Signed agreement with leading food company for supply of Angus beef sliders to a major Australian supermarket chain
- New beef bacon product exported to Middle East and organic meatballs to Singapore
- Export of cooked lamb shanks to Japan
- Range of healthy, ready-to-eat meals introduced to the markets in Australia and overseas (under the “Yarra Valley” brand)

## Operations (continued)

### Health Foods

- Settled 20% investment in Neptune Bio Innovations Pty Ltd
- Range of new health enhancing functional foods developed in conjunction with BFC Dairy and Meat Divisions for release in 2016 (e.g. "Heart Healthy" Milk)
- New HQ and product research facility established at Lidcombe Business Park, Sydney
- Long-term contract signed with global customer for use of Lo-Sal 50 salt replacement product
- Orders obtained for condensed milk replacer product for export to India, Bangladesh and Pakistan
- Established Tropical Research Centre in Brunei (in conjunction with Government of Brunei) to produce a range of epidemiologically based medicinal, pharmaceutical and health products from plants in the Borneo Rain forest

## Marketing and Distribution

When we started BFC, back in late 2012, we started with a blank canvas in terms of our marketing and distribution capabilities (as indeed, we did in all areas of our business).

In order to achieve the successful implementation of our business plan we resolved that we needed to have, as far as possible, dedicated sales teams in key locations in Asia who were focussed solely on selling BFC portfolio products. By the time we went public last year, we had our own BFC employed marketing and distribution teams on the ground in China, Thailand and Vietnam, as well as access to resources in Brunei through our investee company partner, Neptune Bio Innovations Ltd.

In order to expand our sales coverage in the region, we have gradually been "filling in the canvas" over the last five months with strategically located joint ventures and distribution agreements as outlined below:

### China Operations

- Our BFC (China) team developed a Beston Foods gift box for the Chinese New Year (February 2016).
- Products from investee companies Ferguson, Mori, Australian Provincial Cheese and Scorpio were shipped into Shanghai cold stores and then packed into gift boxes.
- A total of 2,000 boxes of both seafood and mixed products (cheese, meat, seafood) were manually packed in readiness for the Chinese New Year, of which some 50% had been pre-sold by 15 December 2015. The average price of the gift boxes was AUD \$400.
- The exercise was designed, in part, to test our capabilities to achieve sales in China using social media along with our partner distribution and logistics infrastructure as well as to evaluate market acceptance of grouping some of the products in our BFC portfolio and selling via a gift box.
- Our success in achieving pre-sales of 50% by mid-December (some two months ahead of the Chinese New Year celebrations) demonstrated the feasibility of using both sales avenues in the future.
- The exercise also demonstrated the benefits of being able to sell product direct to consumers once it is "on the ground" in China rather than taking orders and then shipping (which can involve a time lag between order and delivery of 4 to 6 weeks).
- Overall, our sales in China to 31 December were down on budget, in large part due to the delay in securing on-going orders from Dashang. The Dashang Group holds a 14.99% interest in BFC and has committed to purchase agreed volumes of product in the 2015-16 financial year. To date, the orders have primarily consisted of sample shipments to allow individual store managers across China to determine which products will best suit the particular customer base in their region.

Dashang management have advised that a group of buyers from their major stores will visit Australia in the near future to inspect a number of BFC production facilities and finalise their agreed orders.

- Separately from Dashang, our BFC China team has been working with a number of other supermarket chains in China including SunGiven Stores from whom we have secured orders for a number of our seafood products.

## Marketing and Distribution(continued)

### ASEAN Region

- Our ASEAN team has built excellent working relationships with a number of the major food importing companies in the region which resulted in trial shipments of oysters to Cambodia over the period to 31 December 2015 as well as orders for cheese and meat.
- Three containers of cheese produced at Beston Pure Foods Murray Bridge were shipped to Bangkok in December 2015. The containers arrived and cleared customs in January 2016.
- A number of in-store promotions were conducted in major Bangkok and resort town supermarkets with a range of BFC products during November and December 2015. These included dairy, seafood, meat and health food products.
- Separate demonstrations were conducted at the Raddison Blu Hotel Bangkok for a number of NBI healthy food products in November 2015 and were attended by major food importers and distributors, 5 star hotel chefs and supermarket buyers.
- These in-store promotions and demonstrations are expected to translate into purchase orders in the second half.
- Some similar marketing exercises, albeit on a smaller scale, were conducted in Vietnam and Cambodia over the same period. This led to trial shipments of a number of BFC products including oysters and meat, as above, and the appointment of a distributor for BFC products in Cambodia.
- Discussions are on-going with several food importers in Vietnam, including a significant potential partner in the health food and nutrition space.
- As part of the in-store promotions and other marketing efforts conducted by the ASEAN team, a market was identified for Japanese style snack cheeses, both for Adults (eg as nibbles with a beer or other drinks) and for Children (eg as a school or after school healthy snack).
- Extensive product development work was subsequently undertaken by BFC through a strategic relationship with a leading Japanese based food technology company. This work has resulted in the creation of a new dairy product, which we have named "Kyubu" (and registered the trademark and brand name).
- "Kyubu" Japanese style cheese snacks are derived from Beston Pure Dairies cheese produced at Murray Bridge and are flavoured bite size cheese cubes presented in attractive 80 gram pouch packs.
- The flavour profiles produced in our "Kyubu" range were selected from taste tests conducted in stores and in focus groups run by a specialist team of consultants. Currently the flavours comprise: natural, strawberry, nacho and chocolate almond.
- The "Kyubu" Japanese style snack range of products is being launched in stores in Thailand in late March 2016 and will be progressively rolled out to stores in Vietnam, Cambodia, Myanmar, Malaysia and Singapore, as well as to Japan in due course.
- The ASEAN team will participate at the Singapore Hotel and Food Expo in April 2016 and will feature the "Kyubu" snack food range of products in a major promotion at the Expo.

### Brunei

- Various groups from Brunei visited BFC in the period to 31 December 2015.
- Our Beston Pure Dairies manufacturing facilities have been approved for Brunei Halal status.
- Brunei based Ghanim International placed an order for 53 tonnes of cheese in January 2016, 8 tonnes of which is for our new Lo-Sal (low salt) cheese products.

## Marketing and Distribution (continued)

### Beston Technologies

BFC announced on 23 December 2015 that its "OZIRIS" food safety technology being developed by the company had been substantially completed and had been awarded patent pending protection. The development of OZIRIS fulfils the undertaking in our IPO Prospectus to build a customised track and trace system for verification of food integrity.

Details of OZIRIS are summarised below:

- OZIRIS is 100% owned by BFC and is a user-friendly, multi-level food traceability supply chain authentication system for use at all points in the supply chain, and especially by consumers.
- The concept behind OZIRIS is based on the ability to capture information about the transformation of meat, fish and other produce from upstream ingredients to enable farm-to-fork traceability.
- OZIRIS utilises Data Dot and Brandlok Brand Protection Solutions technologies to add authentication and anti-counterfeiting capabilities to its traceability features and provide consumers with a very powerful tool to obtain food safety assurance about the products they are contemplating buying.
- BFC applied for, and was awarded, provisional patents for OZIRIS and subsequently vested the technologies and all the associated intellectual property, in a BFC wholly owned subsidiary company, Beston Technologies Pty Ltd.
- OZIRIS has been linked to the recently launched, by invitation only mode, e-commerce Beston Market Place which provides a 360° view of products, ingredients and sources of raw materials. When fully operational the e-commerce platform will facilitate on-line ordering by customers, both in Australia and overseas.
- BFC has offered its patent pending OZIRIS technology to other food producers in Australia – which provides the opportunity to monetise the data generated to create future additional revenue streams for our company.
- BFC has recently established an Order Fulfilment Centre at its Jervois factory as a state-of-the-art pick and pack dispatch centre utilising its expansive refrigerated warehouse facilities to fill e-commerce orders taken on the OZIRIS and Beston Market place web sites.

One of the potential side benefits of the OZIRIS technology is that it has the capacity to empower consumers over time by enabling them to open up the "ledger" about the source and nature of the ingredients in the products they are looking to buy. BFC consumers using OZIRIS will have full transparency about the identity and the quality of the ingredients in our products.

Food manufacturers who do not facilitate equivalent access to product information such as provided by OZIRIS may find it increasingly difficult to "snowball" their customers with cheap, substandard ingredients or pass off inferior products at high prices. OZIRIS is a technology that will enable consumers to verify for themselves that they are buying the "real thing" and getting value for money in the product they are buying.

### New Initiatives

The net result of our company's activities over the few months to 31 December 2015 is that we have put in place some very solid foundations on which to take BFC forward and achieve our corporate objective of taking healthy food and beverage products to the world's growing communities.

These foundations include: the necessary infrastructure to deliver on our closed loop supply model, a broad base and depth of hands-on experience in the agri-business sector (in Australia and overseas) at Board level and management, and the establishment of our own suite of brands with our own proprietary products.

We believe that our value proposition is compelling.

The world is facing the challenge of trying to feed an ever expanding population on an ever shrinking resource footprint. To meet this challenge, food manufacturers are taking short-cuts and introducing more preservatives and artificial ingredients into food. The World Health Organisation (WHO) has warned that the risk of unsafe food is a "growing global threat", and that food contamination is rising, thereby increasing the incidence of sickness and deaths from eating contaminated foods.

## Marketing and Distribution (continued)

Consumers are increasingly voting with their wallets and seeking out safe, healthy and affordable food and beverage products which have surety of origin. This is precisely the niche where BFC has positioned itself in the global food market. Our offer to consumers is a more healthy array of products with food safety verification and ingredient integrity.

To further extend our value proposition and expand our revenue base, BFC is in the process of developing a number of new initiatives based around our existing capabilities and core competencies (including new products and new alliances and distribution arrangements) which will be announced when ready for implementation.

Consistent with our previously stated objective to provide access for other Australian food producers to access BFC technologies, production capabilities and marketing and distribution infrastructure, BFC has entered into international distribution arrangements with a number of non BFC companies.

These include:

- Preshafruit Cold Pressed Fruit Juices and Preshafruit YOLO Cold Pressed Cleanse Juices produced by Preshafood Pty Ltd, Victoria
- Bondi Chai Latte (a premium grade, dry-powder pre-mix "Chai Latte") produced by Karmer Pty Ltd, New South Wales
- Life X10 Health Drink produced by Life X10 Pty Ltd, South Australia

The criteria for inclusion in our product portfolio require that the products fit our healthy nutritious value for money theme and are capable of being verified as having honesty and integrity in their ingredients and formulation.

### Summary

Beston Global Food Company Limited is a growth company. We are investing for growth, and we are acquiring for growth.

As explained at our AGM on Friday 27 November 2015, we have an unswerving commitment to become one of the world's leading food and beverage companies with a focus on supplying healthy nutritious foods to the world's growing consumer markets. This is our "North Star"... and to keep us constantly focussed on this objective and remind us every day of what are seeking to achieve, our staff have, of their own volition, taken to wearing a lapel badge of the green North Star which features in our Beston Global Foods logo.

As explained at our AGM also, we are not simply about being a "me too" food company... or in other words a company which is simply producing commodities that compete against every other similar food producer in Australia or elsewhere.

Our modus operandi is to add value to the products we produce by taking our raw materials and transforming them into food and beverage products which have a point of difference and which are nutritious and verifiably safe to eat.

This is the reason for example that we have developed our "Kyubu" flavoured cheese cubes... and why we have put so much energy and effort into developing our Beston Technologies OZIRIS phone App... to protect the customers from fraudulent products and assure them that the BFC products they are about to purchase contain only pure ingredients sourced substantially on our own farms and transformed in our own factories in a "grass to glass" or "farm to fork" closed loop supply chain.

This is the reason also, why we have taken a holistic approach to developing and growing our portfolio of food and beverage products in BFC. We believe that consumers should have access to healthy choices of high quality, nutritionally superior food and beverage products through the whole of their life span, and be empowered, at the same time to have full transparency about the identity, source and safety of the ingredients in these products..... and be able to ensure themselves that they are getting value for money.

This is what defines our Beston Global Food Company.

## NET TANGIBLE ASSETS

Net tangible assets increased by 100% from 31 December 2014, to \$105.5 million at 31 December 2015.

Net tangible assets per share decreased from \$1 per share at 31 December 2014 (at which time the Company held Net Assets of \$100 in cash and had 100 shares on issue) to \$0.30 per share.

## ACQUISITION ACTIVITIES

On 21 December 2015 Beston Technologies Pty Ltd was incorporated as a 100% owned subsidiary of Beston Global Food Company Limited to hold the Groups technology developments.



Dr Roger Sexton AM  
Chairman



## DIRECTORS' REPORT

The Board of Directors of Beston Global Food Company Limited submit its report for the half year ended 31 December 2015.

### Directors

The names of the Company's Directors in office during the half year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Dr Roger Sexton AM (Chairman)  
Mr Stephen Gerlach AM  
Ms Petrina Coventry  
Mr Jim Kouts  
Mr Don Taylor

### Review of operations

On 28th August 2015 the Company listed on the Australian Stock Exchange having raised \$100m in the Initial Public Offering. Since listing the Company completed the acquisition of various assets as outlined on the IPO prospectus and commenced the set up of the operations. The period saw strong cheese production at the Murray Bridge production facility, along with the production of whey at the Jervois plant utilising milk produced by the Company's farms. There has been a focus on establishing the Company's international sales teams, and strong sales were achieved late in the period .



Dr Roger Sexton AM  
Chairman  
29 February 2016

## INCOME STATEMENT

	Notes	Half Year to 31-Dec-15 \$	Half Year to 31-Dec-14 \$
Sales revenue	4	7,606,084	-
Cost of sales		<u>(3,302,318)</u>	<u>-</u>
Gross profit		4,303,766	-
Other income	4	4,123,608	-
Equity profit from associate	4	191,880	-
Selling & distribution expenses	4	(77,283)	-
Administration expenses	4	(3,378,783)	-
IPO transaction and establishment costs	4	(6,153,523)	-
Other expenses	4	<u>(128,702)</u>	<u>-</u>
Profit / (loss) from ordinary activities before income tax expense		(1,119,037)	-
Income tax benefit / (expense) relating to profit from ordinary activities	5	39,056	-
Net profit/(loss) attributable to members of the parent entity		<u>(1,079,981)</u>	<u>-</u>
Other comprehensive income			
Other comprehensive income to be reclassified to income statement in subsequent periods (net of tax)			
Foreign currency translation		(42,912)	-
Total comprehensive income		<u>(1,122,893)</u>	<u>-</u>
Profit /(loss) for the period is attributable to:			
Equity holders of the parent entity		(1,075,065)	-
Non-controlling interests		<u>(4,916)</u>	<u>-</u>
		<u>(1,079,981)</u>	<u>-</u>
Total comprehensive income for the period is attributable to:			
Equity holders of the parent entity		(1,117,977)	-
Non-controlling interests		<u>(4,916)</u>	<u>-</u>
		<u>(1,122,893)</u>	<u>-</u>
<b>Earnings per share</b>			
Basic, loss for the period attributed to ordinary equity holders of the parent	6	(0.004)	-
Diluted, loss for the period attributed to ordinary equity holders of the parent	6	(0.004)	-

The accompanying notes form an integral part of this Income Statement.

## BALANCE SHEET

	Notes	31-Dec-15 \$	30-Jun-15 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		34,451,858	7,546,943
Other current financial assets		168,132	1,132,198
Inventory		2,395,583	-
Trade and other receivables	7	15,928,952	5,314,357
Prepayments		386,577	8,877
<b>Total current assets</b>		<b>53,331,102</b>	<b>14,002,375</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	36,361,712	2,151,755
Trade and other receivables	7	5,035,226	5,053,751
Livestock		2,863,001	-
Intangible assets	10	9,044,552	25,000
Deferred tax assets		2,898,276	871,012
Equity accounted investments		12,235,031	-
<b>Total non-current assets</b>		<b>68,437,798</b>	<b>8,101,517</b>
<b>TOTAL ASSETS</b>		<b>121,768,900</b>	<b>22,103,892</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		4,303,965	1,736,685
Provisions		31,990	-
<b>Total current liabilities</b>		<b>4,335,955</b>	<b>1,736,685</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables		-	-
Deferred tax liabilities		553,898	-
<b>Total non-current liabilities</b>		<b>553,898</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>4,889,853</b>	<b>1,736,685</b>
<b>NET ASSETS</b>		<b>116,879,047</b>	<b>20,367,207</b>
<b>EQUITY</b>			
Contributed equity	12	113,489,017	21,471,007
Founders rights reserve		5,616,721	-
Foreign currency translation reserve		(42,912)	-
Accumulated (losses)/profit			
Equity attributable to equity holders of the parent		(2,178,150)	(1,103,087)
Non-controlling interests		(5,629)	(713)
<b>TOTAL EQUITY</b>		<b>116,879,047</b>	<b>20,367,207</b>

The accompanying notes form an integral part of this Balance Sheet.

## STATEMENT OF CHANGES IN EQUITY

Notes	Share capital	Retained earnings	Founders rights reserve	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	\$	\$	\$	\$	\$	\$	\$
Share capital on incorporation	100	-	-	-	100	-	100
As at 31 December 2014	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>100</u>
Ordinary shares issued to Founders	29,167	-	-	-	29,167	-	29,167
Share issues	21,441,740	-	-	-	21,441,740	-	21,441,740
Profit / (loss) for the period	-	(1,103,087)	-	-	(1,103,087)	(713)	(1,103,800)
As at 30 June 2015	<u>21,471,007</u>	<u>(1,103,087)</u>	<u>-</u>	<u>-</u>	<u>20,367,920</u>	<u>(713)</u>	<u>20,367,207</u>
Profit / (loss) for the period	-	(1,075,063)	-	-	(1,075,063)	(4,916)	(1,079,979)
Other comprehensive income	-	-	-	(42,912)	(42,912)	-	(42,912)
Total comprehensive income	-	(1,075,063)	-	(42,912)	(1,117,975)	(4,916)	(1,122,891)
Share issues	<b>12</b> 92,018,010	-	5,616,721	-	97,634,731	-	97,634,731
As at 31 December 2015	<u>113,489,017</u>	<u>(2,178,150)</u>	<u>5,616,721</u>	<u>(42,912)</u>	<u>116,884,676</u>	<u>(5,629)</u>	<u>116,879,047</u>

The accompanying notes form an integral part of this Statement of Changes in Equity

## CASH FLOW STATEMENT

	Half Year to 31-Dec-15	Half Year to 31-Dec-14
	\$	\$
<b>Operating activities</b>		
Receipts from customers	3,137,618	-
Payments to suppliers and employees	(8,788,720)	-
Interest received	488,625	-
<b>Net cash flows from operating activities</b>	<u>(5,162,477)</u>	<u>-</u>
<b>Investing activities</b>		
Advancement of convertible notes	(3,400,056)	-
Receipt of deposit	180,000	-
Purchase of equity investments	(12,000,028)	-
Purchase of livestock	(486,206)	-
Purchase of property, plant and equipment	(13,166,411)	-
Acquisition of dairy farms	(26,084,149)	-
Purchase of intangible assets	(5,476,346)	-
<b>Net cash flows used in investing activities</b>	<u>(60,433,196)</u>	<u>-</u>
<b>Financing activities</b>		
Proceeds from share issues	100,000,000	-
Transaction costs on issue of shares	(7,499,412)	-
<b>Net cash flows from/(used in) financing activities</b>	<u>92,500,588</u>	<u>-</u>
Net increase in cash and cash equivalents	26,904,915	-
Cash and cash equivalents as at 1 July 2015	7,546,943	-
Cash and cash equivalents at 31 December	<u>34,451,858</u>	<u>-</u>

The accompanying notes form an integral part of this Cash Flow Statement.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1: Corporate Information

The interim consolidated financial statements of Beston Global Food Company Ltd and its subsidiaries (collectively, the Group) for the six months ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 29 February 2016.

Beston Global Food Company Limited (the Company) is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded. The Group's principal activities are the production and sale of Australian food and beverages.

### Note 2: Basis of Preparation and Changes to the Group's Accounting Policies

#### Basis of preparation

The interim consolidated financial statements for the six months ended 31 December 2015 have been prepared in accordance with AASB 134 Interim Financial Reporting. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2015.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

#### Changes to accounting policies, accounting standards and interpretations

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those following in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2015, except for the adoption of the new standards and interpretations, noted below, none of which had any impact on the financial position and performance of the Group:

- AASB 2013-9: Amendment to Australian accounting standards-conceptual framework, materiality and financial instruments.
- AASB 2015-3: Amendments to Australian accounting standards arising from withdrawal of AASB 1031 materiality.

#### a) Inventories

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on first in/first out basis
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on operating capacity; but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

#### b) Foreign Currency Translation

##### (i) Functional and presentation currency

Both the functional and presentation currency of Beston Global Food Company Limited and its Australian subsidiaries is Australian Dollars (AUD). Subsidiaries incorporated in countries other than Australia, which have a functional currency other than Australian Dollars, are translated to the presentation currency.

##### (ii) Transactions and balances

Transactions in foreign currencies are initially recorded by subsidiaries at their respective functional currency rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

## Notes to the Financial Statements (cont)

Differences arising on settlement or translation of monetary items are recognised in profit and loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

### (iii) Translation of Subsidiary Companies' functional currency to presentation currency

The results of subsidiaries incorporated in countries other than Australia, are translated into Australian dollars (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date. Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of net investments in overseas subsidiaries are taken to the foreign currency translation reserve. If such a subsidiary was sold, the proportionate share of exchange differences would be transferred out of equity and recognised in profit and loss.

### c) Biological assets

Cattle fair value adjustments disclosed in the financial statements result from the valuation of the livestock herd in accordance with AASB 141 Agriculture which requires biological assets to be valued at fair value. The company holds dairy cattle that are treated as non-current assets. Any market value increments or decrements are recorded in the profit and loss under other income. The fair value of a biological asset is based on its present location and condition. If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining fair value of that asset.

### d) Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate are accounted for using the equity method. Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Equity accounted earnings' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.



## Notes to the Financial Statements (cont)

### Note 3: Segment information

For management purposes, the Group is organised into business units based on its products and services and has four reportable segments, as follows:

- The Dairy division which owns farms and production plants and uses milk to produce cheese and other Dairy products
- The Seafood division is focussed on sourcing and supplying high quality seafood to the markets.
- The Health division targets innovative products for health conscious markets.
- The Meat division brings high quality and innovative Meat products to expanding 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 above 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.

	Dairy	Seafood	Health	Meat	Distribution	Total segments	Adjustments & eliminations	Consolidated
<b>Revenue</b>								
External customers	6,083,857	-	-	-	1,931,284	8,015,141	(409,057)	7,606,084
Other income	379,638	237,500	-	92,039	-	709,177	431,768	1,140,945
Equity share of income of associate	-	-	191,880	-	-	191,880	-	191,880
<b>Total revenue</b>	<b>6,463,495</b>	<b>237,500</b>	<b>191,880</b>	<b>92,039</b>	<b>1,931,284</b>	<b>8,916,198</b>	<b>22,711</b>	<b>8,938,909</b>
<b>Income/(expenses)</b>								
Cost of sales	(2,482,080)	-	-	-	(1,229,294)	(3,711,374)	409,056	(3,302,318)
Selling & distribution expenses	-	-	-	-	(36,242)	(36,242)	(41,041)	(77,283)
Administration expenses	(4,017,205)	-	-	-	(661,260)	(4,678,465)	(4,571,168)	(9,249,633)
Other expenses	(320,294)	-	-	-	-	(320,294)	(91,081)	(411,375)
<b>Segment operating profit / (loss)</b>	<b>(356,084)</b>	<b>237,500</b>	<b>191,880</b>	<b>92,039</b>	<b>4,488</b>	<b>169,823</b>	<b>(4,271,523)</b>	<b>(4,101,700)</b>
Gain on business acquisition	2,982,663	-	-	-	-	2,982,663	-	2,982,663
<b>Segment profit / (loss)</b>	<b>2,626,579</b>	<b>237,500</b>	<b>191,880</b>	<b>92,039</b>	<b>4,488</b>	<b>3,152,486</b>	<b>(4,271,523)</b>	<b>(1,119,037)</b>
<b>Total assets</b>	<b>62,414,775</b>	<b>5,430,493</b>	<b>-</b>	<b>2,633,538</b>	<b>3,832,693</b>	<b>74,311,499</b>	<b>47,457,401</b>	<b>121,768,900</b>
<b>Total liabilities</b>	<b>(54,816,871)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,396,660)</b>	<b>(57,213,531)</b>	<b>52,323,678</b>	<b>(4,889,853)</b>

## Notes to the Financial Statements (cont)

	Half Year to 31-Dec-15 \$	Half Year to 31-Dec-14 \$	
<b>Note 4. Revenue and expenses</b>			
Revenues:			
Sales revenue	6,531,638	-	
Rental income	1,074,446	-	
Total Revenue	<u>7,606,084</u>	<u>-</u>	
Gain on business acquisition	2,982,663		
Interest income	973,957	-	
Other charges / income / fair value adjustments	166,988		
Total other income	<u>4,123,608</u>	<u>-</u>	
Equity accounted income	<u>191,880</u>	<u>-</u>	
Net profit from ordinary activities is after charging the following expenses:			
	Operating expenses \$	IPO and establishment costs \$	Total \$
Selling and distribution expenses	77,283	-	77,283
Administration expenses	3,378,783	5,870,850	9,249,633
Other expenses	128,702	282,673	411,375
Total expenses	<u>3,584,768</u>	<u>6,153,523</u>	<u>9,738,291</u>

**Note 5. Income tax**

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed statement of profit or loss are:

**Income taxes**

Current income tax expense	-
Deferred income tax expense relating to origination and reversal of temporary differences	39,056
<b>Income tax (expense) / benefit recognised in statement of profit or loss</b>	<u>39,056</u>

**Note 6. Earnings per share (EPS)**

Basic EPS amounts are calculated by dividing the loss for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the loss attributable to ordinary equity holders of the Parent by the sum of the weighted average number of ordinary shares outstanding during the year and the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

There are no founders rights included in the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for the current period presented. The number that could potentially be dilutive in future periods is 16,047,776.

Loss attributable to ordinary equity holders of the Parent:	(1,075,065)
Loss attributable to ordinary equity holders of the Parent for basic earnings	(1,075,065)
Weighted average number of ordinary shares for basic EPS	274,028,770
Weighted average number of ordinary shares adjusted for the effect of dilution	274,028,770

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

## Notes to the Financial Statements (cont)

### Note 7. Trade and other receivables

<u>Trade and other receivables - Current</u>	\$
Trade debtors	4,957,127
Doubtful debt provision	(329,226)
Convertible notes receivable	8,979,554
GST Recoverable	2,321,497
Total current receivables	<u>15,928,952</u>

During the prior year, the Group entered into a Convertible Note Agreement with potential to acquire a 36% interest in Ferguson for an amount of \$5,000,000. This Note was issued at a 9.5% interest rate on 10 March 2015 and converts to that number of ordinary shares which equate to 36% of the investee Company. The Group may convert the note at the discretion of the Group, after satisfaction of certain objectives and financing conditions. The investee Company may be able to convert the note subject to the satisfaction of certain objectives and timeframes.

During the period, the Group entered into a Convertible Note Agreement with potential to acquire a 40% interest in Scorpio Foods Pty Ltd and Australian Provincial Cheese Pty Ltd for an amount of \$3,500,000. This Note was issued at a 9.5% interest rate on 25 August 2015 and converts to that number of ordinary shares which equate to 40% of the investee Company entities. The Group may convert the note at the discretion of the Group, after satisfaction of certain objectives and financing conditions.

The notes are contracted to mature 12 months after the issue date. The Directors consider the embedded derivative component of the convertible notes are not material and has not been separately brought to account on inception. At balance date, the Directors also consider any movement in the fair value of the embedded derivative to not be material.

<u>Trade and other receivables - Non-Current</u>	\$
Convertible notes receivable	<u>5,035,226</u>

During the prior year, the Group entered into a Convertible Note Agreement with potential to acquire 26.5% interest in B d Paris Creek for an amount of \$5,000,000. This Note was issued at a 9.5% interest rate in the months leading up to 30 June 2015, and can be converted within 24 months.

### Note 8. Property, plant and equipment:

#### Acquisitions and disposals

During the six months ended 31 December 2015, the Group acquired assets with a cost of \$13,166,411 (the six months to 31 December 2014 \$Nil), excluding property, plant and equipment acquired through a business combination (see Note 13).

### Note 9. Subsidiaries

	<u>Principal Activities</u>	<u>Country of incorporation</u>	<u>% equity interest</u>
The consolidated financial statements of the Group include:			
Beston Global Food Company Limited	Food services	Australia	
Beston Farms Pty Ltd	Investment company	Australia	100%
Beston Global Food (Thailand) Company Limited	Sales and distribution	Thailand	98%
Beston Pure Foods (Australia) Pty Ltd	Sales and distribution	Australia	100%
Beston Pure Dairies Pty Ltd	Dairy production	Australia	100%
Beston Technologies Pty Ltd	Food technologies	Australia	100%
Beston Global Food Company (Dalian) Limited	Food distribution	China	100%
Beston Global Food Company (Hong Kong) Limited	Food distribution	China	100%

## Notes to the Financial Statements (cont)

### Note 10. Intangible assets

	Intangible assets with indefinite useful lives \$
<b>Cost</b>	
Cost - at start of period	25,000
<b>Additions</b>	
Northern Zone Lobster Quota	2,380,215
Southern Zone Lobster Quota	2,570,697
Water Licences	3,729,348
Goodwill	227,345
Capitalised development costs	111,947
As at 31 December 2015	<u>9,044,552</u>

Intangible assets comprise water licences used on dairy farms, and lobster quota which have an indefinite useful life.

### Note 11. Financial assets and financial liabilities

#### (a) Financial assets

##### Loans and receivables

Convertible loan notes	<u>14,014,780</u>
------------------------	-------------------

Loans and receivables are non-derivative financial assets carried at amortised cost which generate a fixed interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties. At pre-determined future dates they can be converted into equity. They are included within Trade and other receivables in the balance sheet.

#### (b) Fair values

The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

### Note 12. Contributed equity:

Issued and paid up capital:

- ordinary shares	<u>363,241,052</u>
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#### Movement in share capital

	Shares	\$
Establishment	100	100
Issuance of Founders shares on 6 - 9 February 2015	2,916,666	29,167
Shares issue via placement on 23 February 2015	55,000,000	16,500,000
Shares issue via placement on 7 July 2015	19,610,000	5,883,000
Shares issued via IPO on 28 August 2015	285,714,286	100,000,000
less equity raising costs (net of deferred tax of \$1,851,040)		(8,923,250)
Total shares on issue at 31 December 2015	<u>363,241,052</u>	<u>113,489,017</u>

## Notes to the Financial Statements (cont)

### Note 13. Business Combinations:

#### (a) Acquisition of Kurleah Dairy Farm

On 3 September 2015, the Company acquired the 'Kurleah' dairy farm business.

The acquisition has been accounted for using the acquisition method. The interim financial statements include the results for 'Kurleah' for the period from acquisition date.

'Kurleah' was established in 1966 and is a 314 hectare dairy farm. It is located at Allendale, 30 kilometres from Mt Gambier in the South East of South Australia. It has carried 700 cows year round with replacements and is located in a reliable high rainfall area. The property has 184 hectares of irrigated pasture (using 3 centre pivots) and carries 2.3 cows per useable hectare.

The fair value of the identifiable assets and liabilities of 'Kurleah' as at the date of acquisition were:

	\$
	<b>Fair Value recognised on acquisition</b>
Livestock	705,920
Property	3,268,715
Plant & Equipment	1,726,300
Intangibles (Water Licences)	1,024,416
Total identifiable net assets at fair value	<u>6,725,351</u>
Goodwill arising on acquisition	<u>227,345</u>
Purchase consideration transferred (net of transaction costs)	<u>6,952,696</u>

As the 'Kurleah business is integrated within the Beston Farms business unit it is impractical to segregate and isolate revenue and profit impact of the 'Kurleah' business on the Statement of Comprehensive Income for the period (1 July 2015 to 31 December 2015) and the period from date of acquisition (3 September 2015 to 31 December 2015)

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets of 'Kurleah' with those of the group.

Transaction costs of \$380,509 have been expensed and are included under Administration expenses in the Income Statement and are part of operating cash flows in the Cash Flow Statement.

#### (b) Acquisition of Pedra Branca Dairy Farm

On 3 September 2015, the Company acquired the 'Pedra Branca' dairy farm business.

The acquisition has been accounted for using the acquisition method. The interim financial statements include the results for 'Pedra Branca' for the period from acquisition date.

'Pedra Branca' is an established 1229 hectare dairy farm located approximately 20 kilometres south west of Mount Gambier, in the south east of South Australia. It is the consolidation of three dairy farms which had operated separately in the past. As an integrated property it currently carries approximately 1,200 dairy cows year round with herd replacements, but has previously carried approximately 2,300-2,400 cows and 1,835 as recently as 2012. In a very reliable 750mm pa rainfall area, production is supported by 542 hectares of irrigation.

## Notes to the Financial Statements (cont)

The fair value of the identifiable assets and liabilities of 'Pedra Branca' as at the date of acquisition were:

	\$
	<b>Fair Value recognised on acquisition</b>
Livestock	1,643,200
Property	15,920,000
Plant & Equipment	530,000
Intangibles (Water Licences)	2,700,000
Total identifiable net assets at fair value	<u>20,793,200</u>
Gain on business acquisition	<u>2,982,663</u>
Purchase consideration transferred (net of transaction costs)	<u>17,810,537</u>

As the 'Pedra Branca' business is integrated within the Beston Farms business unit it is impractical to segregate and isolate revenue and profit impact of the 'Pedra Branca' business on the Statement of Comprehensive Income for the period (1 July 2015 to 31 December 2015) and the period from date of acquisition (3 September 2015 to 31 December 2015)

Transaction costs of \$940,407 have been expensed and are included under Administration expenses in the Income Statement and are part of operating cash flows in the Cash Flow Statement.

### Note 14. Impairment Testing

The carrying values of all plant and equipment including the plant and equipment acquired as part of the above business combinations are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. At this reporting date there have been no indicators of impairment present, particularly given the business combinations only occurred during September 2015 which was close to the reporting date, with external valuations and appraisal obtained to support the fair value of the assets acquired at this time.

Goodwill and water licence intangibles are tested for impairment annually (as at 30 June) as part of their cash generating units and when circumstances indicate the carrying value may be impaired. At this reporting date there have been no indicators of impairment present, particularly given the business combinations only occurred during September 2015 which was close to the reporting date with external valuations and appraisals obtained to support the fair value of the assets acquired at this time.

Equity accounted investments are tested for impairment annually (as at 30 June) and when circumstances indicate the carrying value may be impaired. At this reporting date there have been no indicators of impairment present.

Lobster quota intangibles are tested for impairment annually (as at 30 June) and when circumstances indicate the carrying value may be impaired. At this reporting date there have been no indicators of impairment in light of considering the fair value less cost to sell of comparable lobster quota intangible sales in the market close to the reporting date.

### Note 15. Related party disclosures

Note 8 provides the information about the Group's structure including the details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial period.

	Sales to related parties \$	Purchases from related parties \$	Amounts owed by related parties \$	Amounts owed to related parties \$
Directors' interests, via the Investment manager				
Management fee	-	549,846	-	7,234
Reimbursement of costs associated with business formation (ex GST)	-	640,000	-	-
Main & Cherry Wine	-	1,154,751	-	-

## Notes to the Financial Statements (cont)

### ***The ultimate parent***

The ultimate parent of the Group is Beston Global Food Company Limited and is based in Australia.

Certain Directors and members of the Management Team ("Senior Management") acquired shares following formation of the Company (Founder Shares). They have also subscribed for shares in the pre-IPO capital raisings. The Founder Shares are fully paid ordinary shares and were issued for market consideration. The Senior Management team were entitled to be issued Founders' Rights on the successful close of the Offer on 26th August 2015, so as to bring the total number of Founders' Shares and Founders Rights to 5% on a fully diluted basis. Each right entitles the holder to be issued one ordinary share for nil consideration subject to certain conditions and not before July 2016.

### ***Terms and conditions of transactions with related parties***

The company outsources various investment management and administrative functions to an Investment Manager including key management personnel services. Dr Sexton controls and Mr Gerlach is a director of the Investment Manager, Beston Pacific Asset Management Limited. The Investment Manager receives a fee for its management of the Group. This fee is equal to 1.2% per annum (exclusive of GST) on the gross asset value of the assets of the Group. The Investment Manager is also entitled to receive a Performance Fee for outperformance against total shareholder return against a benchmark index. (refer Note 16)

Grape Ensembles Co Pty Ltd is beneficially controlled by Dr Sexton. Grape Ensembles Co Pty Ltd holds an 80% interest in a company that owns the BRANDLOK intellectual property associated with brand protection seals which has been developed as an anti counterfeiting device. The company has an option to purchase Grape Ensembles 80% shareholding in Brandlock Protection Solutions Pty Ltd (BBPS). The purchase price for Brandlok has been agreed at the greater of 10 times the Net Profit after tax of BBPS; the then market value of the 80% holding of BBPS; and \$2 million. These rights are exercisable by the independent directors of BFC and include tag along and drag along rights to enable BFC to acquire 100% of BBPS.

During the period wine was purchased from Main & Cherry Wines. Main & Cherry Wines is controlled by a relative of a member of the Company's Key Management Personnel. All transactions were made at arm's length.

### **Note 16. Beston Pacific Asset Management Pty Ltd (BPAM) Performance Fee**

The Management Agreement between BPAM and BGFC, provides for the payment of a management fee and a performance fee to BPAM. The performance fee component is to be settled annually in shares of BGFC. The calculation of the fee includes consideration of the market capitalisation of BGFC and the performance of the BGFC share price relative to a broader ASX accumulation index. As such the performance fee represents a share based payment under AASB 2 *Share-based Payment*.

BGFC and BPAM have agreed that the commencement date of the performance period should be amended to 1 January 2016, with an initial net asset value agreed between the parties at \$0.3468 per share, this agreement was executed on 26 February 2016. No expense has been brought to account in regards to this performance fee for the period ended 31 December 2015.

### **Note 17. Share based payments**

In July 2015, 16,047,776 founders' rights were granted to senior executives under a Founders Performance Rights Plan. The Plan gives founders the right to acquire the number of shares necessary for their overall shareholding to equate to 5% of the total shares on issue post IPO. The fair value of the rights granted during the six months ended 31 December 2015 was estimated on the date the rights were issued being the value of shares at the time of the IPO, \$0.35.

For the six months ended 31 December 2015, the Group has recognised a share based payment reserve of \$5.6m in relation to the rights. The share based payments expense in the statement of profit or loss is \$1.18m representing the portion of the share based payment that relates to the pre IPO shares on issue. The remaining share based payment has been recognised in contributed equity as an equity raising cost.

### **Note 18. Subsequent events**

There have been no material events subsequent to balance date.



## Notes to the Financial Statements (cont)

### Note 19. Financial risk management objectives and policies

The Group's principal financial liabilities comprise of trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade and other receivables, and cash and short-term deposits that are derived directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

#### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include cash, convertible notes and deposits.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

#### Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

#### Commodity price risk

The Group is affected by the price volatility of certain commodities. Its operating activities require the ongoing purchase of milk and manufacture of cheddar and other cheese products, in addition to seafood and therefore require a continuous supply of milk and seafood. The Group manages commodity risk by where possible entering into longer term relationships with key suppliers that create more certainty around key commodity prices.

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

#### Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Management have regular reporting and assessment of key customers credit risk in order to manage this.

#### Liquidity risk

The Group monitors its risk to a shortage of funds using a liquidity planning tool. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank balances, overdrafts, bank loans, finance leases, trade finance facilities and hire purchase contracts.

### Note 20. Commitments and Contingencies

#### Operating lease commitments – Group as lessor

The Group has entered into operating leases consisting of certain farms (including plant & equipment, land and cattle herds), lobster quotas and dairy processing plant & equipment.

These leases have terms of between 10 and 25 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The total contingent rents recognised as income during the year is \$0.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	\$
Within one year	910,762
After one year but not more than five years	889,000
More than five years	823,333
	<u>2,623,095</u>

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Beston Global Food Company Ltd, the Directors declare :

In the opinion of the directors :

- (a) the financial statements and notes of the Beston Global Food Company Ltd for the half-year ended 31 December 2015 are in accordance with the Corporations Act 2001, including
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; 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.

On behalf of the Board



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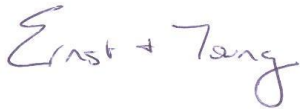
Dr Roger Sexton AM  
Chairman  
29 February 2016

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

As lead auditor for the review of Beston Global Food Company Limited for the half-year ended 31 December 2015, 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



Mark Phelps  
Partner  
Adelaide  
29 February 2016

To the members of Beston Global Food Company Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Beston Global Food Company Limited, which comprises the balance sheet as at 31 December 2015, the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### 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 controls as the directors determine are 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, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its 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 Beston Global Food Company Limited and the entities it controlled during the half-year, 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.

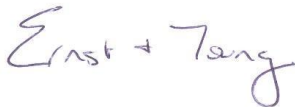
### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Beston Global Food Company Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its 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*.



Ernst & Young



Mark Phelps  
Partner  
Adelaide  
29 February 2016

follow the beston direction..

**BESTON**  
GLOBAL FOOD COMPANY