

**The Food Revolution Group Limited
ACN 150 015 446**

Notice of extraordinary general meeting

Notice is given that an extraordinary general meeting (**Meeting**) of The Food Revolution Group Limited (**FOD** or **Company**) will be held at 20 Heaths Court, Mill Park, Victoria on Friday 14 June 2019 at 11:00am (Melbourne time).

Information on the business to be considered at the Meeting is contained in the Explanatory Statement, which should be read together with, and forms part of, this Notice of Meeting. The Independent Expert Report and Proxy Form also form part of this Notice of Meeting.

Please read this Notice of Meeting carefully and attend the Meeting. If you are unable to attend the Meeting but eligible to vote at it, please consider appointing a proxy to attend on your behalf. You may direct your proxy on how to vote on a Resolution by marking the appropriate box on the enclosed Proxy Form. Shareholders who intend to appoint the Chair of the meeting as proxy (including appointment by default) should have regard to the Voting and Proxy Instructions included in this Notice.

Resolution 1 — Issue of 310,000,000 ordinary shares to Careline Australia Pty Ltd and/ or nominees

To consider and if thought fit pass the following resolution as an **ordinary resolution**:

That the issue of:

- (a) *100,000,000 fully paid ordinary shares in the Company to Careline Australia Pty Ltd and / or its nominees, Pacific International Fund Management Pty Ltd and Y&L Investments Pty Ltd at an issue price of \$0.054 per share on the next Business Day after this issue of shares has been approved by the Company's shareholders; and*
- (b) *100,000,000 fully paid ordinary shares in the Company to Careline Australia Pty Ltd and / or its nominees, Pacific International Fund Management Pty Ltd and Y&L Investments Pty Ltd at an issue price of \$0.054 per share on or before the later of 5 September 2019 and the Business Day after this issue of shares has been approved by the Company's shareholders; and*
- (c) *110,000,000 fully paid ordinary shares in the Company to Careline Australia Pty Ltd and / or its nominees, Pacific International Fund Management Pty Ltd and Y&L Investments Pty Ltd at an issue price of \$0.054 per share on or before the later of 5 March 2020 and the Business Day after this issue of shares has been approved by the Company's shareholders,*

and entry into the share subscription deed on the terms summarised in the explanatory statement accompanying the notice of this meeting, be approved for the purposes of Rule 10.11 of the ASX Listing Rules, chapter 2E and item 7 of section 611 of the Corporations Act, and for all other purposes.

Note: a voting exclusion applies to this resolution (see the notes to this notice of meeting). If approval is granted under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1 under exception 14 in ASX Listing Rule 7.2.

Resolution 2 — Issue of 190,000,000 Performance Shares to Careline Australia Pty Ltd and/ or nominees

To consider and if thought fit pass the following resolution as an **ordinary resolution**:

That the issue of 190,000,000 Performance Shares in the Company to Careline Australia Pty Ltd and / or its nominees Pacific International Fund Management Pty Ltd and Y&L Investments Pty Ltd on the terms and subject to the conditions summarised in the explanatory statement accompanying the notice of this meeting, be approved for the purposes of Rule 10.11 of the ASX Listing Rules, chapter 2E and item 7 of section 611 of the Corporations Act, and for all other purposes.

Note: a voting exclusion applies to this resolution (see the notes to this notice of meeting). If approval is granted under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1 under exception 14 in ASX Listing Rule 7.2.

Resolution 3 — Issue of 21,750,000 new ordinary shares to Taylor Collison Limited

To consider and if thought fit pass the following resolution as an **ordinary resolution**:

That the issue of 21,750,000 fully paid ordinary shares in the Company to Taylor Collison Limited (and/or its nominees) on the terms summarised in the explanatory statement accompanying the notice of this meeting, be approved for the purposes of Rule 7.1 of the ASX Listing Rules, and for all other purposes.

Note: a voting exclusion applies to this resolution (see the notes to this notice of meeting).

Independent Expert Report

The Company engaged an Independent Expert, Lonergan Edwards & Associates Limited, to provide a report to shareholders of the Company on the transaction the subject of Resolutions 1 and 2, stating whether the transaction is fair and reasonable to shareholders entitled to vote on Resolutions 1 and 2.

The opinion of the Independent Expert is that the transaction is **unfair and unreasonable**.

A copy of the Independent Expert Report is set out in Annexure A to the explanatory statement that accompanies this notice of meeting, and is available on the Company's website at www.thefoodrevolutiongroup.com.au. Shareholders should carefully consider that report before deciding how to vote on Resolutions 1 and 2.

Dated: 10 May 2019

By order of the board


.....
John Fitzgerald
Company Secretary

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one proxy or, if the member is entitled to cast two or more votes at the meeting, two proxies to attend and vote on behalf and instead of the member.

2. Where two proxies are appointed and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes.
3. A proxy need not be a member.
4. A proxy form accompanies this notice. To be valid it must be received together with the power of attorney or other authority (if any) under which the form is signed, or a certified copy of that power or authority, not less than 48 hours before the time for holding the meeting, namely by 11:00am (Melbourne time) on Wednesday 12 June 2019 at the Company's share registrar, Advanced Share Registry Limited, by:
 - (a) post to PO Box 1156, Nedlands, WA, 6909;
 - (b) facsimile on +61 8 9262 3723;
 - (c) email at admin@advancedshare.com.au; or
 - (d) in person at Advanced Share Registry, 110 Stirling Highway, Nedlands, WA 6000
5. Regulation 7.11.37 determination: A determination has been made by the board of directors of the Company under regulation 7.11.37 of the *Corporations Regulations* 2001 (Cth) that those persons who are registered as the holders of shares in the Company as at 7:00pm (Melbourne time) on Wednesday 12 June 2019 will be taken to be the holders of shares for the purposes of determining voting entitlements at the meeting.

Voting exclusion statement:

The Company will disregard any votes cast in favour of:

1. Resolution 1 (issue of 310,000,000 new ordinary shares to Careline Australia Pty Ltd and / or its nominees, Pacific International Fund Management Pty Ltd and Y&L Investments Pty Ltd and entry into the share subscription deed) by or on behalf of any of the foregoing named entities who are expected to receive securities in relation to the Company, or an associate of any such entities.
2. Resolution 2 (issue of 190,000,000 Performance Shares to Careline Australia Pty Ltd and / or its nominees, Pacific International Fund Management Pty Ltd and Y&L Investments Pty Ltd) by or on behalf of any of the foregoing named entities who are expected to receive securities in relation to the Company, or an associate of any such entities.
3. Resolution 3 (issue of 21,750,000 new ordinary shares to Taylor Collison Limited) by or on behalf of any person who may participate in the proposed issue or might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary shares) if the resolution is passed, or an associate of any such person.

However, the Company need not disregard a vote in relation to Resolution 1, 2, or 3 if it is cast by:

1. a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
2. the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

However, if the Chair of the meeting is a person who may participate in the proposed issue under Resolutions 1 or 2, or might obtain a benefit (except a benefit solely in the capacity of a holder of ordinary shares) if Resolution 1 or 2 is passed, or an associate of any such person, then the Chair of the meeting will be unable to vote as proxy for a person who is entitled to vote, unless the proxy form directs the Chair of the meeting how he or she is to vote that proxy.

Where able to do so, the Chair of the meeting intends to vote undirected proxies held by the Chair of the meeting in favour of each resolution. Please refer to the proxy form accompanying this notice of meeting for more information.

Explanatory statement

1. General information

This explanatory statement is an important document and should be read carefully. It comprises part of, and should be read in conjunction with, the notice of extraordinary general meeting of The Food Revolution Group Limited (**FOD** or **Company**) to be held on Friday 14 June 2019.

If you do not understand its contents or are not sure what to do, you should consult your stockbroker or other professional adviser immediately.

If you have any questions regarding the matters set out in this explanatory statement (or elsewhere in the notice of annual general meeting), you may contact the company secretary, John Fitzgerald, by telephone on +61 3 9982 1451, or by email at jfitzgerald@thefoodrevolutiongroup.com.au, or the Company's share registrar, Advanced Share Registry Limited, as follows:

Telephone: +61 8 9389 8033 between 8:30 am and 5:00 pm (Perth time) Monday to Friday (except public holidays).

2. Resolutions 1 and 2 — *issue of 310,000,000 ordinary shares to Careline Australia Pty Ltd and / or its nominees, Pacific International Fund Management Pty Ltd and Y&L Investments Pty Ltd and issue of 190,000,000 Performance Shares to Careline Australia Pty Ltd and / or its nominees, Pacific International Fund Management Pty Ltd and Y&L Investments Pty Ltd*

Background

\$20.25 million capital injection

On 5 September 2018 FOD entered into a share subscription deed (which was amended on 7 March 2019) (**SSD**) with Careline Australia Pty Ltd (**Careline**) and Mr Norman Li, for Careline and/or its nominees to subscribe for 375,000,000 ordinary shares in FOD, at a price of \$0.054 per share totalling \$20.25million (**Strategic Investment**), in the following tranches:

- (a) Tranche 1 – 18.5 million ordinary shares, an investment of \$1,000,000, on or before 28 September 2018.
- (b) Tranche 2 – 46.5 million ordinary shares, an investment of \$2,510,000, on or before 31 October 2018.
- (c) Tranche 3 – 100 million ordinary shares, an investment of \$5,400,000, on or before the next business day after this issue of shares has been approved by shareholders.
- (d) Tranche 4 – 100 million ordinary shares, an investment of \$5,400,000, on or before 5 September 2019 (subject to shareholder approval).
- (e) Tranche 5 – 110 million ordinary shares, an investment of \$5,940,000, on or before 5 March 2020 (subject to shareholder approval).

Upon issue, each of the above shares will be fully paid ordinary shares in the capital of the Company, and will rank equally in all respects with the Company's ordinary shares on issue.

At the time the subscription price under the SSD was negotiated in July 2018, the 90-day volume weighted average price of the Company's shares was 4.1 cents per share. The Strategic Investment has been personally guaranteed by Mr Norman Li, and Tranches 1 and 2 above have already been subscribed for and issued by the Company, and ASX announcements were made confirming this on 26 September and 1 November 2018

respectively. In the announcement made to the ASX on 1 November 2018, Careline's nominee, Pacific International Fund Management Pty Ltd aff the Pi Trust (the **Trust**) was disclosed as having subscribed for 40,740,741 of the 46,481,482 shares the subject of Tranche 2 with Careline subscribing for the balance of 5,740,741 ordinary shares.

On 7 March 2019 Mr Norman Li and Careline agreed to provide FOD an unsecured, interest-free loan of \$1.89 million, which is repayable out of the proceeds FOD is to receive for the subscription of Tranche 3 (subject to shareholder approval for Tranche 3 being granted). Further details of the bridging loan and amendments to the original share subscription deed were disclosed in an announcement made by FOD to the ASX on 8 March 2019.

Careline has also nominated Y&L Investments Pty Ltd (**Y&L Investments**) as the trustee of the Y&L Family Superannuation Fund (**Y&L Superfund**) as a subscriber for shares the subject of Resolutions 1 and 2. The beneficiaries of the Y&L Superfund are Mr Norman Li and his family. It is in this capacity that Y&L Investments will subscribe for shares. Y&L Investments is a company controlled by Mr Li.

If the issue of shares under Tranches 3, 4 and 5 are approved by shareholders, the effect on the capital structure and ownership of FOD as a result of the Strategic Investment will be:

Date	No. of ordinary shares on issue	No. of ordinary shares owned by Careline (and/or nominees)	% of ordinary shares owned by Careline (and/or nominees)
25 September 2018	434,064,903	0	0
26 September 2018	452,583,442	18,518,519	4.09%
31 October 2018	499,064,904	65,000,001	13.02%
17 June 2019 ¹	602,924,526 ²	165,000,001	27.37%
5 September 2019	702,924,526	265,000,001	37.70%
5 March 2020	812,924,526	375,000,001	46.13%

Proposed use of funds from the Strategic Investment

As announced to the ASX on 17 January 2019, FOD expects to use the capital it receives from the subscriptions for each of the five tranches in the Strategic Investment to:

- (a) upgrade its production facilities at its Mill Park factory, allowing for increased volume and product diversification for its push into China, including the installation of:
 - (1) a state-of-the-art fully self-contained clean room with laboratory and powder mix room; and
 - (2) new machinery comprising gel/liquid sachet machines and powder sachet machines to manufacture fish protein and functional health and beauty aids;
- (b) further develop its distribution capabilities;

¹ The date which is one business day after shareholder approval has been obtained.

² This number takes into account shares issued upon exercise of 3,859,622 options between 31 October 2018 and the date that this notice of meeting was dispatched to shareholders. See the Appendix 3B notices published by the Company on the ASX market announcements platform for further details.

- (c) develop new product lines, in conjunction with Careline, such as in-demand functional health and beauty aids which can be sold into China; and
- (d) for general working capital.

In order to minimise disruption to FOD's existing manufacturing requirements and customers these upgrades will occur progressively over the next 6 to 12 months which also ties in with when tranches of funding will be received in connection with the Strategic Investment.

While it is not possible to predict what the exact market value of the shares the subject of each tranche of subscriptions the subject of Resolution 1 will be at the time of their issue, the prevailing market price of a share on the date of issue may be higher or lower than the subscription price for the shares agreed to be paid by Careline under the SSD. This is due to the fact that the subscription price in the SSD was agreed several months ago and also took into account the strategic benefits Mr Li and Careline were bringing to the Company, some of which have already borne fruit as discussed further on pages 9 & 10 below and were the subject of the ASX Announcements dated 2, 12 and 28 November 2018, 10 December 2018, 17 January 2019, 4 February 2019, 13 February 2019 and 16 April 2019.

More detail about the value of the benefit being provided to Careline under the SSD and the strategic distribution deed referred to below is included in the Independent Expert's report at Annexure A.

The above table is prepared on the assumption that there will be no further issues of ordinary shares in the Company, through exercise of options, conversion of performance shares, or otherwise in the period to 5 March 2020, save for the exercise of:

- (a) 133,000 options that occurred on 7 December 2018; and
- (b) the exercise of 250,000 options that occurred on 28 December 2018; and
- (c) the exercise of 3,476,622 options that occurred on 15 February 2019.

The Company is also seeking shareholder approval for its entry into the deed of amendment of the share subscription deed on 7 March 2019 because at the time of entering into this deed, Mr Li and Careline are related parties of the Company.

Strategic Distribution Deed

In connection with the Strategic Investment, Careline and FOD have entered into a strategic distribution deed (**SDD**) on 7 March 2019. Under the SDD, Careline has agreed to distribute FOD products in Australia and mainland China, leveraging Careline's existing sales and distribution networks.

Under the terms of the SDD, Careline has agreed to generate either via direct orders or via introducing customers to FOD who order products directly from FOD, a minimum of \$20 million per annum worth of product orders from 1 July 2021 until the end of the later of 30 June 2024 or the term of the SDD.

The SDD is agreed to continue until at least 30 June 2024. From that point either party may terminate the SDD by giving at least 6 months' written notice. To incentivise Careline to grow the Company's sales rapidly over this initial period, FOD has agreed, subject to shareholders passing Resolution 2, to issue Performance Shares to Careline on the terms set out below.

A summary of the terms of the SDD is set out in the table in Appendix 1.

Performance shares

As part of and in connection with the Strategic Investment, in addition to the 5 tranches of ordinary shares described above, Careline (and/ or its nominees, the Trust and/or Y&L Investments) is to be issued 190,000,000 Performance Shares, for nil consideration, subject to the satisfaction of the following conditions precedent:

- (a) shareholder approval for the issue of shares to Careline and/or its nominee under Resolutions 1 and 2; and
- (b) FOD and Careline have entered into and remain parties to the SDD.

No funds will be raised by FOD from the above issue of the Performance Shares. A Performance Share will be convertible into one ordinary share in the Company, for nil consideration, on the achievement of the following milestones:

- (a) 100,000,000 of the Performance Shares will convert to 100,000,000 ordinary shares if FOD's Introduced Revenue (as defined below) is at least \$60,000,000 in any consecutive 12 month period within the period from 1 July 2019 to 30 June 2022.
- (b) a further 30,000,000 of the Performance Shares will convert to 30,000,000 ordinary shares if FOD's Introduced Revenue (as defined below) is at least \$160,000,000 in any consecutive 12 month period within the period from 1 July 2019 to 30 June 2022.
- (c) a further 30,000,000 of the Performance Shares will convert to 30,000,000 ordinary shares if FOD's Introduced Revenue (as defined below) is at least \$315,000,000 in any consecutive 12 month period within the period from 1 July 2019 to 30 June 2023.
- (d) a further 30,000,000 of the Performance Shares will convert to 30,000,000 ordinary shares if FOD's Introduced Revenue (as defined below) is at least \$465,000,000 in any consecutive 12 month period within the period from 1 July 2019 to 5 years from the date of issue of the Performance Shares.

The term, **Introduced Revenue** means FOD's revenue from ordinary activities (determined in accordance with applicable Accounting Standards, and as reviewed and confirmed by the Company's auditor) that is earned and received by the Company from sales to Careline and/ or its nominees the Trust and/ or Y&L Superfund (the **Nominees**), or alternatively is revenue from sales earned and received by the Company arising from business opportunities and new customers that have been introduced to the Company by Mr Norman Li, Careline and/ or its Nominees (and such sales include revenue received from business acquisitions introduced to the Company by Mr Norman Li, Careline and/ or its Nominees).

For the avoidance of doubt, Careline and FOD have agreed that Introduced Revenue includes:

- Sales to customers (in China, Australia, and any other territory) that have been introduced to FOD by Careline (and who were not, as at 5 September 2018, an existing customer of FOD).
- Sales to entities that have previously been customers of FOD, but who (as at 5 September 2018) were not a current customer of FOD, where Careline convinces that entity to resume its business with FOD. For example, where no sales have been made to a customer for 12 months prior to 5 April 2019, and that customer makes an order from FOD that can reasonably be attributed to Careline, then this will be included in Introduced Revenue.
- Sales to customers of FOD of new product lines that have been developed by Careline, for and in conjunction with FOD.

- Sales to customers of FOD in a new geographic market, where FOD had not previously sold any product to a customer in that market, and the introduction to the customer in that geographic market can reasonably be attributed to Careline (for example, where a customer of FOD has a presence in both China and Australia, and has previously only placed orders for its Australian stores. If that customer then places an order for its Chinese stores, and such an order can reasonably be attributed to Careline, then that sale will be included as Introduced Revenue).

However, Introduced Revenue does not include:

- Sales to customers of FOD (who were customers of FOD as at 5 September 2018) of products currently produced by FOD.
- Sales to customers of FOD (who were customers of FOD as at 5 September 2018) of new products developed by FOD in its ordinary course of business, without assistance from Careline.
- Sales to new customers of FOD that have not been introduced to FOD by Careline (whether in Australia, China or otherwise).

FOD notes that FOD intends to continue to grow and develop a market for its products in parallel with Careline's efforts as a distributor, and the concept of Introduced Revenue and the related performance measures captured in the SSD have been drafted accordingly to take this into account.

A copy of the letter between FOD and Careline setting out the parties' agreement in this respect is set out in Annexure C.

The calculation of Introduced Revenue will also include all revenue from contracts introduced to FOD by Mr Li and Careline prior to shareholder approval under Resolutions 1 and 2 being granted.

No Performance Shares may convert into ordinary shares until all of the remaining tranches of ordinary shares the subject of Resolution 1 have been subscribed for. If Careline (or its Nominees) fail to subscribe for any of the remaining tranches of shares the subject of Resolution 1, then all of the Performance Shares will be forfeited and cancelled for nil consideration.

The further impact that the conversion of the Performance Shares into ordinary shares would have on the ownership and capital structure of the Company, after taking into account the completion of all 5 tranches of the Strategic Investment, is:

Level of Introduced Revenue per 12 month period	No. of Ordinary shares on issue	No. of ordinary shares owned by Careline (and/or nominees)	% of ordinary shares owned by Careline (and/or nominees)
<\$60m	812,924,526	375,000,001	46.13%
\$60m+	912,924,526	475,000,001	52.03%
\$160m+	942,924,526	505,000,001	53.56%
\$315m+	972,924,526	535,000,001	54.99%
\$465m+	1,002,924,526	565,000,001	56.34%

The full terms of the Performance Shares are set out in Appendix 2 to this explanatory statement.

If approval is granted under Resolution 2, the Performance Shares will be issued on the business day following the meeting.

The above table is prepared on the assumption that there would be no other issues of ordinary shares in the Company, through the exercise of options, or otherwise in the period to 5 years from their issue date, save for the issue of ordinary shares under the Strategic Investment and:

- (a) the exercise of 133,000 options that occurred on 7 December 2018;
- (b) the exercise of 250,000 options that occurred on 28 December 2018; and
- (c) the exercise of 3,476,622 options that occurred on 15 February 2019,

(which are factored into the numbers in the above table).

Board control

The SSD provides for Mr Norman Li to be appointed as a director and chairman of the Company, and to also allow Careline to appoint nominees to the board of directors of the Company, such that between Careline's nominees and Mr Norman Li that they will hold at least 50% of all board positions.

Mr Norman Li was appointed as a director and chairman of the Company on 1 November 2018. At the Company's Annual General Meeting held on 30 November 2018 Mr Li was re-elected by the Company's shareholders.

Maximum number of securities to be approved and issued

The maximum number of securities that shareholder approval is being sought for the issue to Careline and/or its Nominees, if Resolutions 1 and 2 are passed, is 500,000,000 made up of:

- (a) 310,000,000 ordinary shares, to be issued on the same terms as FOD's existing ordinary shares; and
- (b) 190,000,000 Performance Shares.

Why is shareholder approval being sought?

ASX Listing Rules 7.1 and 10.11

ASX Listing Rule 7.1 sets out the basic prohibition on an entity issuing or agreeing to issue equity securities in any 12 month period which amount to more than 15% of its ordinary securities. An issue in excess of the 15% limit can be made with the approval of holders of ordinary securities. An exception to the requirement to obtain shareholder approval under Listing Rule 7.1 is if shareholder approval has been granted under Listing Rule 10.11.

Listing Rule 10.11 provides that an entity must not issue or agree to issue equity securities to a related party without the approval of holders of ordinary securities.

Careline and its nominees, Pacific International Fund Management Pty Ltd atf the Pi Trust, and Y&L Investments Pty Ltd as trustee for the Y&L Family Superannuation Fund, as entities controlled by Mr Norman Li, a director and the chairman of the Company, are related parties of the Company. Accordingly, the issue to Careline of ordinary shares under Resolution 1 and Performance Shares under Resolution 2 requires approval of ordinary shareholders of the Company.

ASX Listing Rule 10.13.3 requires that the Company issue the ordinary shares and the Performance Shares the subject of Resolutions 1 and 2 within 1 month from the date of the meeting. Tranche 3 of 100 million ordinary shares will be issued on the business day after shareholder approval is granted, so will be issued within 1 month from the date of the meeting, however due to the timing of the proposed later issues of ordinary shares in two tranches up to 5 March 2020, the ordinary shares the subject of Tranches 4 and 5 will not be issued within 1 month from the date of the meeting.

The reason for the delay in the issue of Tranches 4 and 5 is because under the terms of the SSD negotiated with Careline, FOD agreed that Careline and/ or its Nominees could, subject to shareholder approval, delay providing the subscription funds for Tranches 4 and 5 until 5 September 2019 and 5 March 2020 respectively in order to:

- (a) provide Careline and/ or its Nominees the time to raise the necessary capital to fund the subscription; and
- (b) match the Company's working capital requirements for funding the upgrade of the factory facilities in Mill Park referred to on pages 2 to 3 above.

Accordingly, the Company will not issue the ordinary shares the subject of Tranches 4 and 5 to Careline and/ or its Nominees until the relevant subscription funds for those tranches have been received. For this reason the Company applied to ASX for a waiver of the requirement in Listing Rule 10.13.3 (which would usually require that the Company issue the ordinary shares the subject of Resolution 1 within 1 month) to allow the Company to delay the issue of the ordinary shares the subject of the proposed last two tranches of subscription outlined above to 5 September 2019 and 5 March 2020, subject to shareholder approval.

The full terms of the waiver granted by ASX are included as Annexure B to this notice of meeting.

Chapter 2E of the Corporations Act

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months of the approval,

unless the giving of the financial benefit falls within an exception set out in section 210 to 216 of the Corporations Act.

The issue of ordinary shares and Performance Shares to Careline and its nominees, Pacific International Fund Management Pty Ltd atf the Pi Trust and Y&L Investments Pty Ltd as trustee for the Y&L Family Superannuation Fund, constitutes giving a financial benefit, and these entities are related parties of the Company by virtue of being controlled by Mr Norman Li, a director and chairman of the Company.

Accordingly, the Company seeks shareholder approval for the issue of ordinary shares and Performance Shares described above under Resolutions 1 and 2, for the purposes of Chapter 2E of the Corporations Act. The Company expects that all of the ordinary shares the subject of Resolution 1 will be issued within 12 months of the date shareholder approval is given.

Section 611 item 7 of the Corporations Act

- (a) Section 606 of the Corporations Act – Statutory Prohibition

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest

does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (1) from 20% or below to more than 20%; or
- (2) from a starting point that is above 20% and below 90%.

(Prohibition)

(b) Voting Power

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

(c) Associates

For the purposes of determining voting power, under the Corporations Act, a person (**second person**) is an "associate" of the other person (**first person**) if (pursuant to section 12(2) of the Corporations Act):

- (1) the first person is a body corporate and the second person is:
 - (A) a body corporate the first person controls;
 - (B) a body corporate that controls the first person; or
 - (C) a body corporate that is controlled by an entity that controls the person;
- (2) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the conduct of the company's board or the conduct of the company's affairs; or
- (3) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company's affairs.

Associates are therefore determined as a matter of fact. For example where a person controls or influences the board or the conduct of the company's business affairs, or acts in concert with a person in relation to the entity's business affairs.

An entity controls another entity if it has the capacity to determine the outcome of decisions about that other entity's financial and operating policies. A relevant agreement includes an agreement, arrangement or understanding, whether written or oral, formal or informal, and whether or not having legal or equitable force.

(d) Relevant Interests

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (1) are the holder of the securities;
- (2) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (3) have the power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, section 608(3) of the Corporations Act provides that a person has a relevant interest in securities that any of the following has:

- (4) a body corporate in which the person's voting power is above 20%;
- (5) a body corporate that the person controls.

Careline and its nominees, Pacific International Fund Management Pty Ltd atf the Pi Trust and Y&L Investments Pty Ltd as trustee for the Y&L Family Superannuation Fund, are controlled by Mr Norman Li. Accordingly, the acquisition of ordinary shares by Careline, Pacific International Fund Management Pty Ltd atf the Pi Trust and Y&L Investments Pty Ltd as trustee for the Y&L Family Superannuation Fund will result in an acquisition of a relevant interest by Careline, the Trust and Mr Li.

Reason section 611 approval is required

Item 7 of section 611 of the Corporations Act provides an exemption to the Prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

The full details of the effect of the issue of ordinary shares and Performance Shares to Careline and its nominees, Pacific International Fund Management Pty Ltd atf the Pi Trust and Y&L Investments Pty Ltd as trustee for the Y&L Family Superannuation Fund, on FOD's share capital is explained above, as well as the specific information required by section 611.

Independent Expert's Report

The Independent Expert's Report (a copy of which is attached as Annexure A to this Explanatory Statement) assesses whether the transactions contemplated by Resolutions 1 and 2 are fair and reasonable to the non-associated shareholders of the Company.

The Independent Expert's Report concludes that the transactions contemplated by Resolutions 1 and 2 are unfair and unreasonable to the non-associated shareholders of the Company.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

Additional value Careline and Mr Li have brought to FOD

Since the signing of the SSD, through Mr Li and Careline's connections in China, and in addition to the \$3,510,000 in capital raised through the first two tranches of ordinary shares being subscribed for by Careline and its Nominees, FOD has:

- (a) obtained a China Inspection and Quarantine (**CIQ**) Certificate for FOD's Fruit Farm Orange Juice (as announced to the ASX on 2 November 2018), enabling FOD to show the Fruit Farm Orange Juice at the China International Import Expo held in Shanghai from 5 – 10 November 2018; and
- (b) signed a memorandum of understanding with China Petroleum and Chemical Corporation (**Sinopec**), whereby FOD and Sinopec will negotiate a distribution agreement under which, if a distribution agreement is signed, provide Sinopec with the ability to sell FOD's Australian Canola Oil products across Sinopec's network of more than 35,000 petrol and convenience outlets in China (as announced to the ASX on 12 November 2018);

- (c) on 28 November 2018 FOD announced to the ASX that it had executed a supply contract with JJ Global Fine Foods, a company based in Shanghai, China, to supply FOD's CIQ approved Fruit Farm Orange Juice products into mainland China. JJ Global will distribute FOD's Fruit Farm range of apple and orange juice products through mainland China and to customers such as high-end hotel chains including the Marriott Group (300 hotels in China), Accor (160+ hotels in China), Peninsula, Mandarin Hotel, Hyatt, Shangri-La, and major Chinese supermarkets including China Resources Vanguard, RT-Mart, China Walmart, Lianhua and Carrefour. FOD expects the first orders to come in once FOD receives CIQ approval for its apple juice and pulp-free orange juice products. Subject to CIQ approval, distribution is expected to commence in the second quarter of 2019;
- (d) secured its first order from Careline of FOD's CIQ approved Fruit Farm Orange Juice and Australian Garden Canola Oil for distribution into China (as announced on 11 December 2018);
- (e) announced on 17 January 2019 that it will upgrade its Mill Park processing plant to cater for expected orders from China, using in part, the subscription funds received from Careline and its Nominees to date;
- (f) announced on 13 February 2019 that it had shipped its first order for Fruit Farm orange juice to China, which was followed by an announcement on 26 February 2019 of a second order to China of Fruit Farm orange juice and apple juice from JJ Global; and
- (g) announced on 16 April 2019 that it had signed a memorandum of understanding with ICC Global Pty Ltd (ICC) for a minimum order of 10,000 units of FOD's orange juice and potentially orders up to \$8million by the end of 2020.

FOD is also currently in discussions with Costco China to supply Costco with a range of CIQ approved juice products. FOD notes CIQ approval is currently in progress for its Fruit Farm cloudy apple juices, and the Thirsty Brothers juice range.

FOD notes that, despite the conclusion of the independent expert, none of these developments would have been possible in such a short timeframe without the funding and input from Mr Li and Careline, and these developments are examples of the value that the Board expects Mr Li and Careline will continue to be able to deliver should Resolutions 1 and 2 be passed. FOD notes that prior to the Careline transaction, it had been attempting to break into the Chinese market for the last 3 years and that such attempts were unsuccessful and expensive exercises in the absence of the right contacts.

Additional background regarding Careline and Mr Li

Mr Li has over 20 years worth of experience in growing Asian export businesses, and has brought this significant level of knowledge and expertise regarding the Chinese market into FOD's business. Mr Li was recently overwhelming re-elected as a director of FOD at its AGM held on 30 November 2018. His biography was set out in the notice of Annual General Meeting released to the ASX on 25 October 2018.

In addition to his personal contacts and dealings in China, Mr Li and Careline have specific expertise in manufacturing and developing new products, and have the experience and a track record of taking those products to market.

Careline has also made its distribution network available to FOD, which includes:

- (a) a multi-tiered exclusive distribution network, which it calls registered Daigous. This network is similar to an Amway network, where the distributors (or Daigous), pay up front to join the network (and become registered). As part of that process, the distributors commit to only sell products made or distributed by Careline (and now FOD). Registered Daigous pay between A\$2,000- A\$120,000 up-front, and are trained by Careline at facilities in China and Sydney about the products they sell and sales techniques. They

are also incentivised to boost sales and sell at higher margins than operators in the grey market;

- (b) logistics capabilities, which can ship Careline's (and now FOD's) products from Careline's 10,000 square metre manufacturing facility in Regents Park, Sydney, directly into China into a warehouse owned by a Careline subsidiary; and
- (c) access to 5,000 retail outlets in mainland China, including the Shanghai No 1 Food Store and Shanghai No 1 Pharmacy, which are premium chain stores in China for the sale of health care products, skin care products and infant formula.

Careline employs approximately 90 people in Australia and 200 people in China. Monthly turnover of the Careline daigou network is currently approximately \$1.5million. Careline's existing manufacturing facility is currently running at or close to full capacity and is neither set up for production of a drinks range of products nor able to do so given capacity constraints. Accordingly Careline has sought to partner with FOD via its Strategic Investment and the SDD in order to source appropriate production facilities to enable Careline to supply its distribution network with a range of drinks and food supplements.

Careline has been an active sponsor of the Australian Table Tennis team for the last 5 years and over 2017 and 2018 the Careline group has donated over \$400,000 to local and overseas charities.

Board recommendation

The directors (with Mr Norman Li abstaining) **recommend that shareholders vote in favour of Resolutions 1 and 2**, despite the conclusions of the independent expert, on the basis that the Strategic Investment represents an important injection of capital for the Company, and both the SDD and Mr Li's connections in China will provide the Company with the opportunity to grow rapidly into the Chinese market, which it may not otherwise be able to do.

3. Resolution 3 — Issue of 21,750,000 new ordinary shares to Taylor Collison Limited and/or its nominees

The Company and Taylor Collison are parties to an agreement dated 29 June 2018 under which the Company has agreed to issue 21,750,000 ordinary shares to Taylor Collison (or its nominee) for nil consideration upon shareholder approval of Resolutions 1 and 2 in exchange for Taylor Collison's services in assisting with the introduction of the Strategic Investment. The Board formed the view that the proposed issue to Taylor Collison was fair and reasonable, because at the time their fee was negotiated:

- the value of the shares to be issued represented approximately 6.3% of the capital being raised from the Strategic Investment; and
- by taking equity instead of a cash fee, this preserved cash for the Company at a time when the Company had other significant cash obligations, including repaying debt.

The value of the shares to be issued to Taylor Collison, as at the close of business on 9 April 2019 was \$1,979,250. At the time the agreement with Taylor Collison was executed, the value of the shares agreed to be issued was \$1,283,250. No cash will be raised from the proposed issue of shares to Taylor Collison as the issue is in lieu of their usual advisory fees.

As noted above, ASX Listing Rule 7.1 sets out the basic prohibition on a listed entity issuing or agreeing to issue equity securities in any 12 month period which amount to more than 15% of its ordinary securities. An issue in excess of the 15% limit can be made with the approval of holders of ordinary securities.

Resolution 3 seeks approval by shareholders under ASX Listing Rule 7.1 for the issue of up to 21,750,000 ordinary shares to Taylor Collison (and/or its nominees).

The following additional information is provided pursuant to the requirements of ASX Listing Rule 7.3:

- The Company will issue a maximum of 21,750,000 ordinary shares.
- The shares will be issued in one tranche no later than three months from the date of this meeting, or such later date permitted by ASX.
- The shares will not be issued for cash consideration but for the provision of corporate services in relation to introducing Careline and Mr Li to the Company.
- The shares will be issued to Taylor Collison (and/or its nominees).
- The shares will rank equally with other ordinary shares already on issue.

Resolution 3 is an ordinary resolution.

Board recommendation

The **directors unanimously recommend that shareholders vote in favour** of Resolution 3.

Appendix 1 –Summary of key terms of Distribution Agreement

Item	Detail
Term	From the date of signing (7 March 2019) until 30 June 2024. After 30 June 2024 the SDD will continue for successive 12 month terms until terminated by either party giving the other party 6 months notice.
Territory	The People's Republic of China, Australia, and any other territory mutually agreed between the parties.
Distribution rights	Careline has been appointed to distribute FOD's products in the Territory on a non-exclusive basis.
New product development	FOD and Careline agree to work together to develop new products for export to the People's Republic of China. FOD will retain all intellectual property rights to jointly developed products.
Payment terms	A deposit of 20% is to be paid on order, with payment of the remaining 80% to be made within 90 days of FOD supplying an invoice to the ordering party.
Performance Condition	Each year, during the period from 1 July 2021 to 30 June 2024, Careline, or parties introduced to FOD by Careline, must order a minimum of \$20million worth of FOD products.
Marketing	Careline must use its best endeavours to market, promote and increase sales of FOD products in the Territory.
Introduction of further distribution channels	Careline must use all reasonable endeavours to introduce distributors for FOD products in the Territory to FOD.
Non-compete	Careline must not be directly or indirectly interested or involved in the, sale or distribution of any products which are substitutable for the products Careline has agreed to distribute for the term of the SDD or for 6 months following termination of the SDD.

Appendix 2 – Performance Share Terms

(Shares) Each Performance Share is a share in the capital of the Company.

(General Meeting) A Performance Share confers on the holder of it (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders. The Holder has the right to attend general meetings of shareholders of the Company.

(No Voting Rights) A Performance Share does not entitle the Holder to vote on any resolutions proposed at a general meeting of shareholders of the Company.

(No Dividend Rights) A Performance Share does not entitle the Holder to any dividends (cumulative, preferential or otherwise).

(No Rights on Winding Up) A Performance Share does not confer on the Holder any right to participate in the surplus profits or assets of the Company upon winding up of the Company.

(Not Transferable) A Performance Share is not transferable save for where an ASX waiver has been granted to permit transferability.

(No Return of Capital) A Performance Share does not confer on the Holder any right to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.

(Reorganisation of Capital) If at any time the issued capital of the Company is reconstructed by way of a share split, consolidation, bonus issue, entitlement issue or other reconstruction of capital the ratio at which a Performance Share converts into an ordinary share will be adjusted accordingly at the time of reorganisation in accordance with the ASX Listing Rules.

(Participation in New Offers and Issues of Shares) A Performance Share does not confer on the Holder any right to participate in new offers and issues of securities to holders of ordinary shares in the Company including bonus issues and entitlement issues unless and until the Performance Share is converted into an ordinary share.

(Application to ASX) A Performance Share will not be quoted on ASX. However, upon conversion of a Performance Share into an ordinary share, the Company must within seven days after the conversion, apply for the official quotation of the ordinary shares arising from the conversion on ASX.

(No Other Rights) A Performance Share gives the Holder no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

(Conversion Procedure) Upon conversion of a Performance Share in accordance with the terms of the Subscription Deed:

- (a) each Performance Share will convert into one ordinary share;
- (b) conversion takes effect at no cost to the relevant Holder;
- (c) as soon as practicable after the conversion occurs:
 - (1) the Company must register the new holding of ordinary shares in the register of members, such registration to occur on the date of conversion; and
 - (2) the Company will issue each Holder with a new holding statement for their relevant number of ordinary shares;

- (d) any conversion is without prejudice to the rights of any shareholder in the Company;
- (e) any conversion of any shares in a class pursuant to this clause, does not constitute, for the purposes of section 246B of the Corporations Act, a variation of class rights of the class of shares being converted or the class they are being converted into; and
- (f) the Company must, to the extent that it is legally able to do so, issue a cleansing notice in relation to those ordinary shares pursuant to section 708A of the Corporations Act, within 5 business days of the issue of those Ordinary Shares.

For the avoidance of doubt, any conversion of a Performance Share pursuant to this clause will not constitute a cancellation, buy back or redemption of that Performance Share being converted or any new issue of ordinary shares.

(Ranking of Ordinary Shares) The ordinary shares into which a Performance Share will convert will be fully paid ordinary shares ranking pari passu in all respects with existing ordinary shares.

(Automatic cancellation on failure to convert) If the conditions for the conversion of a Performance Share into an ordinary share under the SSD is not satisfied in full by the date specified for such conditions to be satisfied under in the SSD (**Last Date**) then the Performance Share will be deemed to have been automatically cancelled for nil consideration on the next day after the Last Date.

(Automatic cancellation on failure to pay subscription price) If the Company does not receive all of:

- (a) the payment for the Third Tranche by the next business day after shareholder approval has been obtained;
- (b) the payment for the Fourth Tranche by the later of 5 September 2019 and the next business day after shareholder approval has been obtained; and
- (c) the payment for the Fifth Tranche by the later of 5 March 2020 and the next business day after shareholder approval has been obtained,

in accordance with the terms of the SSD then all of the Performance Shares will be automatically cancelled for nil consideration on the next business day after the date that any one of the relevant payments set out above was due to have been received but was not received by the Company. No Performance Share will be eligible to convert into an ordinary share until the payment for all 5 tranches of ordinary shares due under the SSD have been received by the Company.

(No change to terms) The terms and conditions on which the Performance Shares are issued, including without limitation the relevant milestones that have to be satisfied before each class of Performance Share is converted into ordinary shares, will not be changed without the prior approval of ASX and the Company's shareholders.

Annexure A – Independent Expert’s Report

The Directors
The Food Revolution Group Limited
20 Heaths Court
Mill Park VIC 3082

15 April 2019

Subject: Proposed issue of shares to Careline

Dear Directors

The Proposal

- 1 On 10 September 2018, The Food Revolution Group Limited (FOD) announced a proposal to issue 375 million ordinary shares in FOD to Careline Australia Pty Limited (Careline)¹ at a price of 5.4 cents per share (the Share Issue Price) over the next 15 months to raise \$20.25 million (the Share Issue Proposal).
- 2 At the same time, FOD announced a proposed distribution deed with Careline (Distribution Deed) that could, depending on FOD achieving certain invoiced revenue targets, result in the issue of a further 190 million shares in FOD to Careline² (the Performance Share Proposal and, together with the Share Issue Proposal, the Proposal).
- 3 On 8 March 2019, FOD announced that the Performance Share Proposal had been amended, such that:
 - (a) FOD will now issue all 190 million performance shares (Performance Shares) up front following shareholder approval
 - (b) the conversion of the Performance Shares to ordinary shares will be based solely on the revenue introduced by Careline, its nominees or Mr Norman Li (Mr Li) and/or distribution relationships or acquisitions they introduce (Introduced Revenue)
 - (c) if either any of the Introduced Revenue targets are not achieved or the funds from the Share Issue Proposal described below are not received then the relevant Performance Shares attaching to those targets will not be converted into ordinary shares and will instead be cancelled for nil consideration.

¹ Or Careline's nominee. Further background on Careline is set out at paragraphs 19 to 22 below.

² Or Careline's nominee.

The Share Issue Proposal

4 The Share Issue Proposal involves the issue of 375 million shares in five tranches, as follows:

Share Issue Proposal				
Tranche	No. of shares (million)	Date of issue	Cents per share	Proceeds \$m
1	18.5	Issued on 26 Sep 18	5.4	1.00
2	46.5	Issued on 1 Nov 18	5.4	2.51
3	100.0	1 business day following shareholder approval of the Proposal	5.4	5.40
4	100.0	5 Sep 19 ⁽¹⁾	5.4	5.40
5	110.0	5 Mar 20 ⁽¹⁾	5.4	5.94
Total	375.0			20.25

Note:

1 Or if shareholder approval occurs after that date, one business day following shareholder approval for the Proposal.

Source: Share Subscription Deed.

- 5 The share issues under Tranches 1 and 2 did not require FOD shareholder approval and occurred on 26 September 2018 and 1 November 2018 respectively. Tranches 3 to 5 require FOD shareholder approval. FOD expects to use the equity capital it receives from the Share Issue Proposal to develop its production and distribution capabilities and for general working capital purposes³.
- 6 Following the implementation of the Share Issue Proposal, Careline will have a relevant interest of some 46.1% in FOD⁴ on a fully diluted basis. Prior to the announcement of the Proposal Careline did not hold a relevant interest in FOD. However, as a result of the issue of shares under Tranches 1 and 2, Careline and/or its nominees now hold a 12.9% interest in FOD.
- 7 Following the issue of the Tranche 1 and Tranche 2 shares, Mr Li (the founder of Careline), was appointed as a Director and Chairman of FOD on 1 November 2018. Careline has the right to appoint two additional directors, such that Careline's nominees and Mr Li can between them hold at least 50% of all FOD Board positions.

The Performance Share Proposal

- 8 As stated above, FOD has also agreed to issue 190 million Performance Shares to Careline or its nominee, which will convert to ordinary shares in FOD upon the achievement of specified Introduced Revenue targets.
- 9 In the Share Subscription Deed entered into between the parties, Introduced Revenue is defined as (our emphasis added):

³ On 8 March 2019, FOD also announced that Mr Li had agreed to provide bridge funding to FOD of \$1.89 million (on an interest free, unsecured basis) in advance of receiving shareholder approval for the Share Issue Proposal.

⁴ FOD had 502,924,526 shares on issue as at 14 March 2019 (including the Tranche 1 and Tranche 2 shares).

*“... the Company’s revenue from ordinary activities (determined in accordance with applicable Accounting Standards, and as reviewed and confirmed by the Company’s auditor) that is **earned and received** by the Company from sales to Careline and/ or its Nominees, or alternatively is revenue from sales earned and received by the Company arising from business opportunities and new customers that have been introduced to the Company by Li, Careline and/ or its Nominees (and for the avoidance of doubt such sales include revenue received from business acquisitions introduced to the Company by Li, Careline and/ or its Nominees).”*

10 The parties have further clarified the concept of Introduced Revenue via a letter of agreement dated 8 April 2019. Under this letter of agreement:

(a) Introduced Revenue will include:

- (i) sales to customers (in China, Australia, and any other territory) that have been introduced to FOD by Careline (and who were not, as at 5 September 2018, an existing customer of FOD)
- (ii) sales to entities that have previously been customers of FOD, but who (as at 5 September 2018) were not a current customer of FOD, where Careline convinces that entity to resume its business with FOD. For example, where no sales have been made to a customer for the 12 months prior to the date of this letter, and that customer makes an order from FOD that can reasonably be attributed to Careline, then this will be included in Introduced Revenue
- (iii) sales to customers of FOD of new product lines that have been developed by Careline, for and in conjunction with FOD
- (iv) sales to customers of FOD in a new geographic market, where FOD had not previously sold any product to a customer in that market, and the introduction to the customer in that geographic market can reasonably be attributed to Careline (for example, where a customer of FOD has a presence in both China and Australia, and has previously only placed orders for its Australian stores. If that customer then places an order for its Chinese stores, and such an order can reasonably be attributed to Careline, then that sale will be included as Introduced Revenue)

(b) Introduced Revenue will not include:

- (i) sales to customers of FOD (who were customers of FOD as at 5 September 2018) of products currently produced by FOD.
- (ii) sales to customers of FOD (who were customers of FOD as at 5 September 2018) of new products developed by FOD in its ordinary course of business, without assistance from Careline
- (iii) sales to new customers of FOD that have not been introduced to FOD by Careline (whether in Australia, China or otherwise)⁵.

⁵ Source: Letter to Mr Li from Careline dated 5 April 2019, signed by Mr Li on 8 April 2019.

- 11 Performance Shares will have no voting, dividend or other rights except for the right to convert into ordinary shares (on a one for one basis for no payment) upon achieving the following milestones:

Performance Share Proposal			
Performance period	Performance Shares applicable to Introduced Revenue target (million)	No. of ordinary shares to be issued upon conversion (million)	Introduced Revenue target (at least) A\$m
Any 12 month period between:			
1 Jul 19 and 30 Jun 22	100	100	60
1 Jul 19 and 30 Jun 22	30	30	160
1 Jul 19 and 30 Jun 23	30	30	315
1 Jul 19 and the fifth anniversary of the issue of the Performance Shares	30	30	465
Total	190	190	

- 12 In the event that the performance hurdles are not met, the relevant Performance Shares will be cancelled for no consideration.
- 13 If the Share Issue Proposal is approved and all the Introduced Revenue targets are met, Careline's relevant interest in FOD will increase to some 56.3%. Under this scenario, the average issue price per share will be \$0.036 per share⁶ (the Adjusted Share Issue Price).

Conditions

- 14 The Share Issue Proposal and the Performance Share Proposal are subject to conditions that are summarised at Appendix C.

FOD

- 15 The Food Revolution Group Limited (FOD) is an Australian-based food processing company that uses a combination of conventional juice processing equipment and custom-developed equipment and processes to manufacture a range of high-quality juices, fibres, infused fruits and fruit waters that are sold as branded products or ingredients to customers domestically and overseas.
- 16 FOD uses a range of processing technologies, including Current Counter Extraction (CCE) technology which was developed in conjunction with Australia's CSIRO to extract juice from fruit and vegetables. Its processing facilities are located in Mill Park, Victoria.
- 17 FOD is aiming to generate shareholder value through exploring opportunities for growth in the functional food, beverage and nutraceutical markets in Australian and key international markets, including China.
- 18 Further details on FOD are set out in Appendix D.

⁶ \$20.25 million cash proceeds divided by 565 million shares.

Careline

- 19 The following information on Careline (and the potential benefits of FOD's commercial relationship with Careline) was set out in FOD's Australian Securities Exchange (ASX) announcement dated 10 September 2018:

“Dr Norman Li founded Careline in Sydney in the 1990s and has served as CEO for more than 20 years, growing it from a small shop in the western suburbs of Sydney to become a global exporter. Careline also has a TGA and GMP license for manufacturing, warehousing and packaging health care products.

Careline focuses on Australian health and skin care products as well as international markets including China. It has a number of brands in the skin care and health products market, as well as having cooperated with the largest infant formula maker in Australia to bring the OZ Care infant formula series to sale in both domestic and international markets.”

“Careline and its partners have strong distribution and marketing expertise in China.

At the 2010 Shanghai World Expo in China, Careline's Chantelle brand was enthusiastically sought by Chinese consumers at the Australian National Pavilion. The company won the highest sales championship trophy of the Australian Pavilion. Careline products are currently sold in thousands of stores in dozens of cities in more than 20 provinces and cities, including Hong Kong, Macau, and mainland China, in the Beijing, Shanghai, Guangzhou, Chongqing, Chengdu, and Anhui provinces.

Careline participates in exhibitions every year in Japan, Shanghai, Guangzhou, Hong Kong, Dubai, Las Vegas, Sydney, Melbourne and many other cities. Careline's products have a strong reputation.

Through the proposed distribution agreement, Dr Norman Li will co-operate with FOD to adjust the existing product lines and develop new ones for export. FOD's new product line will include various types of bottled beverage products, new high-end healthy shot and sachet drinks, OEM contracts from potential customers, and the development of new series of health products.

Careline's involvement will assist FOD to cope with the rapid development of demand of the Chinese market.

Careline currently has approximately 10,000 daigous in its distribution network and has a goal of growing this to exceed 30,000. FOD will be able to access these daigous as well as a variety of Careline's distribution channels under the proposed distribution agreement.

It is intended that Careline will also connect FOD to some of the largest online and offline food and distribution companies in China to further expand FOD's distribution reach and sales growth in the region.”

- 20 Since the announcement of the Proposal, FOD has also:
- (a) obtained a China Inspection and Quarantine Certificate for FOD’s Fruit Farm Orange Juice (as announced to the ASX on 2 November 2018), which enabled FOD to show its Fruit Farm Orange Juice product at the China International Import Expo in Shanghai from 5 to 10 November 2018; and
 - (b) signed a memorandum of understanding with China Petroleum and Chemical Corporation (Sinopec), whereby FOD and Sinopec will negotiate a distribution agreement under which, if a distribution agreement is signed, provide Sinopec with the ability to sell FOD’s Australian Canola Oil products across Sinopec’s network of more than 35,000 petrol and convenience outlets in China (as announced to the ASX on 12 November 2018)
 - (c) secured a contract with JJ Global Fine Foods to supply its CIQ-approved Fruit Farm Orange Juice products through mainland China (as announced to the ASX on 28 November 2018)
 - (d) secured its first order from Careline for Fruit Farm Orange Juice and Australia Garden Canola Oil for distribution through China (as announced to the ASX on 10 December 2018)
 - (e) announced on 17 January 2019 that its Mill Park processing facility “*will be upgraded allowing for improved financial metrics, increased volume and product diversification to satisfy high demand from Chinese customers*”
 - (f) announced on 13 February 2019 that it had shipped its first order for Fruit Farm Orange Juice to China.

- 21 FOD management have advised that the developments in the preceding paragraph were a direct result of Mr Li and Careline’s connections in China. Further, in the Notice of Meeting, FOD has stated that:

“FOD notes that ... none of these developments would have been possible in such a short timeframe without the funding and input from Mr Li and Careline, and these developments are examples of the value that the Board expects Mr Li and Careline will continue to be able to deliver should Resolutions 1 and 2 be passed. FOD notes that prior to the Careline transaction, it had been attempting to break into the Chinese market for the last 3 years and that such attempts were unsuccessful and expensive exercises in the absence of the right contacts.”

- 22 For the purposes of this report, we have accepted the above representations. However, it should be noted that Lonergan Edwards & Associates Limited (LEA) has been unable to verify these representations.

Scope

- 23 As Careline will acquire a relevant interest of more than 20% in FOD as a result of the Proposal, there is a regulatory requirement for FOD to commission an independent expert’s report (IER). Consequently, the Directors of FOD have requested LEA to prepare an IER stating whether, in LEA’s opinion, the Proposal to FOD is fair and reasonable to the shareholders of FOD not associated with Careline.

24 LEA is independent of FOD and Careline and has no involvement with or interest in the outcome of the Proposal other than the preparation of this report.

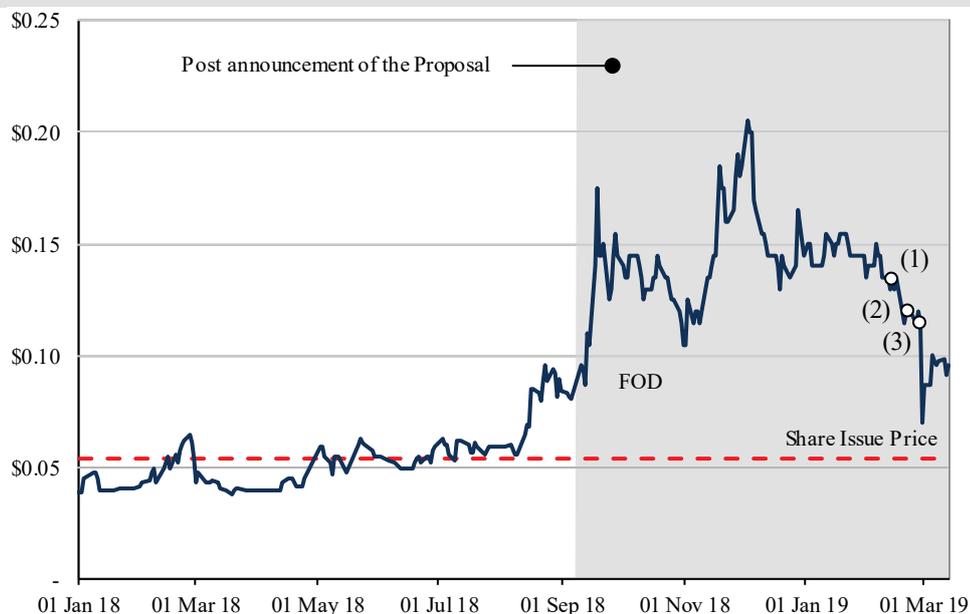
Summary of opinion

25 LEA has concluded that the Share Issue Proposal is neither fair nor reasonable. We have principally formed this view because, in our opinion:

- (a) the proposed issue price of FOD shares of 5.4 cents per share to Careline is too low; and
- (b) the Performance Share Proposal is too generous to Careline and/or its nominees.

26 However, LEA acknowledges that the FOD share price has increased very substantially since the announcement of the Proposal, albeit we note this has decreased in the more recent period following FOD's release of its results for the half year to 31 December 2018:

FOD – share trading



Note:

- 1 FOD obtained a China Inspection and Quarantine Certificate for FOD's Fruit Farm Orange Juice as announced on 2 November 2018.
- 2 FOD signed a memorandum of understanding with Sinopec as announced on 12 November 2018.
- 3 FOD released its results for the half year to 31 December 2018 on 28 February 2019.

27 This share price performance has provided a windfall profit for Careline (if the Proposal is approved) and FOD shareholders. FOD shareholders should therefore be aware that the FOD share price is likely to fall substantially if the Proposal is not approved⁷.

28 Further detail regarding our conclusions is set out below.

⁷ Given the substantial increase in the FOD share price, some decline (at least in the short term) should be expected even if the Proposal is approved.

Assessment of fairness

- 29 Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) requires that the fairness of the Proposal be assessed by comparing:
- the controlling interest value of FOD shares prior to implementation of the Proposal
 - with the portfolio value of FOD shares following implementation of the Proposal (being the deemed “consideration” delivered to FOD shareholders).
- 30 In order for the Share Issue Proposal to be “fair” under RG 111, the portfolio value of FOD shares following implementation of the Proposal must be greater than or equal to the controlling interest value of FOD shares prior to implementation of the Proposal. This recognises that effective control of FOD will pass to Careline if the Share Issue is completed.

Share trading prior to the announcement of the Share Issue Proposal

- 31 The trading range and volume weighted average price (VWAP) of FOD shares prior to the announcement of the Share Issue is set out below:

FOD – VWAP					
Period to 9 Sep 18	High \$	Low \$	VWAP \$	Value \$000	Volume 000
1 month	0.105	0.063	0.090	1,963	21,701
3 months	0.105	0.050	0.085	2,183	25,645
6 months	0.105	0.038	0.063	3,107	48,934
12 months	0.105	0.038	0.061	3,570	58,585

Source: Bloomberg.

- 32 The Share Issue Price of 5.4 cents per share is therefore less than the VWAP prior to the announcement of the Share Issue Proposal:

Share Issue Price in comparison to VWAP		
	Cents per share	Implied premium / (discount) ⁽¹⁾ %
Lowest price from 10 Sep 2017	3.8	42.1
Highest price from 10 Sep 2017	10.5	(48.6)
1 month VWAP to 9 Sep 2018	9.0	(40.3)
3 months VWAP to 9 Sep 2018	8.5	(36.6)
6 months VWAP to 9 Sep 2018	6.3	(14.9)
12 months VWAP to 9 Sep 2018	6.1	(11.4)

Note:

1 Based on Share Issue Price of 5.4 cents per share.

- 33 Notwithstanding that FOD shares are relatively illiquid (refer paragraph 31 above), the table above demonstrates that the Share Issue Price represents a discount, and in most cases, a considerable discount, to the VWAP for FOD during these periods. The Adjusted Share Issue

Price of 3.6 cents per share (refer paragraph 13) represents an even greater discount to the VWAP for FOD during these periods.

- 34 Empirical evidence on takeovers and other change of control transactions indicates that the average premium paid for control above the listed market price of the target company's shares generally ranges between 30% and 35% (assuming no speculation of corporate activity). The value of FOD shares on a 100% controlling interest basis would normally therefore significantly exceed the listed market price.

Off market trades

- 35 LEA also notes that during the period 24 August 2018 to 10 September 2018, Victorian Clean Technology Fund Pty Ltd (VCTF) sold 2 million shares at an average price of 9.52 cents per share⁸. In addition, on 10 September 2018, the same day as the announcement of the Share Issue Proposal, VCTF sold a further 40 million shares (some 9.67% of the issued equity) at an average price of 5.4 cents per share. Neither of these transactions represented a sale of a controlling interest. Consistent with the above, the controlling interest value of FOD shares would normally significantly exceed the price at which these minority interest parcels of shares traded.

Implied EBITDA multiples

- 36 We set out below the EBITDA⁹ multiples for FOD and its industry peer group (as identified by FOD in its investor presentations¹⁰):

Listed company multiples					
	Most recent full year	Enterprise value ⁽¹⁾⁽²⁾ (\$m)	Market cap ⁽²⁾ (\$m)	FY18 EBITDA multiple x	FY19 EBITDA Multiple x
FOD	30 Jun 18	35	27	10.3	na
A2 Milk Co	30 Jun 18	9,563	10,112	34.9	24.5
Bega Cheese	30 Jun 18	1,453	985	11.2	11.8
Freedom Foods Group	30 Jun 18	1,354	1,190	34.6	22.9
Bellamy's Australia	30 Jun 18	1,039	1,134	13.3	19.0
Bubs Australia	30 Jun 18	308	323	nm	nm
Wattle Health Australia	30 Jun 18	124	170	nm	na
Farm Pride Foods	30 Jun 18	51	38	9.5	na
Keytone Dairy Corp	31 Mar 18	47	59	nm	na
Median (excluding FOD)				20.7	19.5

⁸ Source: Form 604 dated 12 September 2018. A total consideration of \$190,429 for the sale of 2 million shares.

⁹ Earnings before interest, tax, depreciation and amortisation (EBITDA).

¹⁰ We have also added Bega Cheese and Farm Pride Foods.

Note:

- 1 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and buybacks, excludes surplus assets, and adjusts for the cash effect of special dividends.
- 2 Calculated as at 13 March 18, with the exception of FOD. FOD is based on the Share Issue Price of 5.4 cents per share, the current shares on issue as at 13 March 2019 which includes the 65.0 million shares issued to Careline under Tranche 1 and Tranche 2 (as these cannot be reversed) and net debt as at 31 December 2018.

nm – not meaningful, na – not available.

Source: Bloomberg, latest full year statutory accounts, interim accounts, company announcements and LEA analysis.

- 37 The EBITDA multiples for the above listed companies (with the exception of FOD¹¹) are based on their listed market price, and therefore exclude a premium for control. Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBITDA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company.
- 38 However, in our view, none of the above listed companies are directly comparable to FOD. In particular, A2 Milk, Freedom Foods Group, Bega Cheese and Bellamy's are substantially larger than FOD and have well known brands. Further, the implied EBITDA multiples above vary significantly depending on, inter-alia, each company's expected earnings growth rates and risk profiles (which may not be comparable to FOD). Accordingly, in our opinion, no reliable conclusions can be drawn from the above EBITDA multiple comparisons.

Post announcement share trading

- 39 Following the announcement of the Proposal, we note that the FOD share price has increased significantly, as indicated in paragraph 26 above.
- 40 The trading range and VWAP of FOD shares subsequent to the announcement of the Share Issue Proposal is set out below:

FOD – VWAP					
Period to 9 Apr 19	High	Low	VWAP	Value	Volume
	\$	\$	\$	\$000	000
1 month	0.11	0.09	0.091	7,481	82,598
3 months	0.17	0.07	0.102	25,137	246,162
Post 10 Sep 2018	0.21	0.07	0.133	113,582	855,985

Source: Bloomberg.

- 41 The VWAP during the period from 10 September 2018 to 9 April 2019 of 13.3 cents per share represents a premium of approximately 146% to the Share Issue Price. Whilst this share price reaction reflects, inter-alia, investors' positive reaction to the Proposal and/or the subsequent

¹¹ FOD's EBITDA multiple is based on the Share Issue Price of 5.4 cents per share.

announcements¹², given the magnitude of this share price increase, in our view, it also indicates that the Share Issue Price is too low.

Conclusion on fairness

- 42 Based on the above it is clear that the 100% controlling interest value of FOD shares prior to the announcement of the Proposal materially exceeded the Share Issue Price of 5.4 cents per share.
- 43 In such circumstances, the issue of new shares at 5.4 cents per share in cash is dilutionary in value terms. Whilst the post transaction value should also reflect the “intangible” benefits associated with the market’s anticipation of the benefits of the commercial relationship with Careline and Mr Li, this “intangible” value is inherently uncertain and cannot be reliably quantified.
- 44 Due to the low Share Issue Price, we have therefore concluded that the Share Issue is not fair to FOD shareholders.

Assessment of reasonableness

- 45 Under RG 111 the Proposal is reasonable if it is fair. The Proposal may also be reasonable if, despite being “not fair”, there are sufficient reasons for securityholders to approve the Proposal in the absence of a superior proposal.
- 46 In assessing whether the Proposal is reasonable we have had regard, in particular, to the advantages and disadvantages of the Proposal from the perspective of the non-associated shareholders of FOD. These matters are summarised below.

Advantages

Access to capital

- 47 The Share Issue Proposal provides FOD with access to \$20.25 million in new equity capital.
- 48 We note that FOD had a net current asset deficiency of some \$7.6 million as at 31 December 2018, comprising the following:

FOD – net current asset deficiency as at 31 December 2018	
	\$000
Cash and cash equivalents	1,734
Trade and other receivables	3,140
Inventories	2,983
Other current assets	427
Total current assets	<u>8,285</u>
Trade and other payables	(5,629)
Provisions	(906)
Borrowings	(9,355)
Total current liabilities	<u>(15,890)</u>
Net current asset deficiency	<u>(7,605)</u>

Source: FOD Interim Report to 31 December 2018.

¹² Refer paragraph 20.

49 In relation to the above net current asset deficiency, we note:

- (a) FOD made its final payment with respect of a deferred consideration liability of \$7.1 million on 21 December 2018. Settlement of this liability was met through cash flow from operations and drawing on a working capital facility from Greensill Capital UK Limited. The working capital and term loan facility is a \$10 million facility originated on 30 April 2018 with an 18 month term¹³
- (b) notwithstanding the net current asset deficiency noted above, FOD has net assets of some \$20.3 million, and net tangible assets of some \$11.0 million¹⁴. As at 31 December 2018, FOD had a gearing ratio of 27%, calculated as follows:

Food Revolution Group – gearing as at 31 Dec 18	
	\$000
Total financial debt	9,355
Less: Cash and cash equivalents	(1,734)
Net debt	<u>7,621</u>
Total equity – book value	<u>20,289</u>
Total capital	<u><u>27,910</u></u>
Gearing ratio (net debt / net debt + book value of equity)	27%

Source: FOD Interim Report 31 December 2018.

50 Whilst the Proposal, if approved, will provide FOD with some \$20 million in equity capital (of which \$3.51 million has already been received¹⁵), as stated above, in our opinion, the Share Issue Price is very low in comparison with the share price prior to the announcement of the Proposal. Further, we note that FOD shareholders are not being given the right to acquire further shares at the same Share Issue Price.

Increase in listed market price

51 As stated above (paragraph 26), the FOD share price has increased substantially since the announcement of the Proposal. This has provided FOD shareholders with the opportunity to realise significant capital gains. Whilst some of this share price gain could be due to the subsequent announcements referred to in paragraph 20, in our opinion it is reasonable to assume that the share price would decline significantly if the Proposal did not proceed.

Access to new markets

52 The Performance Share Proposal seeks to provide FOD with access to distribution channels in China.

53 Shareholders in FOD should note, however, that the Performance Share Proposal provides no guarantee of success other than a minimum \$20 million per annum in invoiced revenues for

¹³ Classified as a current liability as at 31 December 2018 as the drawdowns can be rolled over and redrawn for periods of up to 120 days. (Source: FOD Annual Report 2018.)

¹⁴ Source: FOD Interim Report 31 December 2018.

¹⁵ Pursuant to the Tranche 1 and Tranche 2 share issue.

the period commencing on 1 July 2021 and ending on the later of the end of the term¹⁶ or 30 June 2024¹⁷.

Disadvantages

Discount to traded price

54 As discussed above, the Share Issue Price represents a considerable discount to the traded price of FOD shares both prior to and subsequent to the announcement of the Share Issue Proposal. The Adjusted Share Issue Price represents an even greater discount.

Windfall gain

55 Due to the significant increase in the FOD share price post 10 September 2018, the Share Issue Proposal provides a large windfall profit to Careline and/or its nominees. The table below sets out the unrealised gain in the value of the shares to be issued to Careline and/or its nominees based on the one and three month VWAP to 9 April 2019 and the VWAP for the period from 10 September 2018 to 9 April 2019:

Windfall profit – Share Issue Proposal			
	1 month	3 months	Post 10 Sep 18
VWAP (to 9 Apr 19)	\$0.091	\$0.102	\$0.133
Less Share Issue Price	\$0.054	\$0.054	\$0.054
Difference	\$0.037	\$0.048	\$0.079
Shares to be issued pursuant to Share Issue Proposal (million)	375	375	375
Windfall profit – Careline and/or nominees (\$m)	13.9	18.0	29.6

56 In addition to the above, the Performance Share Proposal also provides Careline and/or its nominees a large windfall profit (assuming that the performance targets are met) based on the VWAPs above:

Windfall profit – Performance Share Proposal			
	1 month	3 months	Post 10 Sep 18
VWAP (to 9 Apr 19)	\$0.091	\$0.102	\$0.133
Shares to be issued pursuant to Performance Share Proposal (m)	190	190	190
Windfall profit – Careline and/or nominees (\$m)	17.3	19.4	25.3

¹⁶ The Distribution Deed continues until 30 June 2024, unless it is terminated earlier (Initial Term). After 30 June 2024, the Distribution Deed will continue for successive 12 month periods unless it is terminated (Subsequent Term). Either party may terminate the Distribution Deed during a Subsequent Term by giving the other party at least 12 months' notice in writing. The Initial Term and Subsequent Term are together known as the Term of the Distribution Deed. Source: Clause 2 of the Distribution Deed.

¹⁷ A pro rata adjustment will be made for any partial year of the performance period. Source: Clause 8.1 of the Distribution Deed.

Introduced Revenue can include revenue from acquisitions

57 The definition of Introduced Revenue includes “revenue received from business acquisitions introduced to the Company by Li, Careline and/or its Nominees”. Careline and/or its nominees could therefore meet the performance hurdles attaching to the Performance Shares by making acquisitions which FOD also has to pay for.

Introduced Revenue does not need to be recurring revenue

58 The Introduced Revenue targets set out at paragraph 11 above can be met through “one-off” sales – there is no requirement that the Introduced Revenue targets be met through recurring revenue.

No nexus between issue and profitability

59 The Share Subscription Deed can result in the issue of a considerable proportion of the equity in FOD to Careline in the event that Introduced Revenue increases but does not result in a proportional, or any, increase in profits. This risk exists notwithstanding the minimum invoiced revenue commitment of \$20 million per annum for the period commencing on 1 July 2021 and ending on the later of the end of the Term or 30 June 2024 (refer paragraph 53).

Financial reward through both distribution profit and the issue of equity

60 Further to the above two points, whilst the issue of Performance Shares should incentivise Careline to achieve the performance milestones, it is not normally the case that distributors are issued with significant equity interests in the company for which they are undertaking distribution services (particularly where the distributor would also expect to make a profit from on-selling the products distributed). In this regard, we note that:

- (a) the recent appointment of Health More and Sinopec¹⁸ as distributors did not involve any issue of Performance Shares
- (b) Careline would reasonably expect to make a profit from on-selling the FOD products distributed
- (c) should the Distribution Deed with Careline prove successful for FOD in terms of increased profitable sales, Careline would further benefit through its equity interests already obtained¹⁹ and subject to shareholder approval
- (d) there is no suggestion that the fees that will be charged for distribution services are “below market” rates warranting an additional issue of equity.

Unknown financial capacity of Careline

61 Notwithstanding Careline’s commitment to minimum invoiced sales during the period July 2021 to June 2024, and notwithstanding that, at present, an invoiced revenue commitment of \$20 million per annum is material to FOD’s existing revenues of ca. \$33 million per annum, the financial capacity of Careline to honour this commitment is unknown²⁰.

¹⁸ On 12 November 2018, FOD announced that it had signed a memorandum of understanding with Sinopec.

¹⁹ Specifically, Tranches 1 and 2.

²⁰ FOD management have advised that Careline is not prepared to release its financial statements to LEA.

Impact on control

62 If the Proposal is approved there will be an impact on the voting power and ownership of FOD. Careline will increase its relevant interest in FOD to 46.1% if the Proposal is approved (based on the shares to be issued under the Share Issue Proposal), which may increase to 56.3% if the conditions of the Performance Share Proposal are met, calculated as follows:

Careline – relevant interest			
	FOD shares		Shares held by Careline
	on issue	(m)	
Existing shares on issue ⁽¹⁾	437.9	-	-
Share Issue Proposal ⁽²⁾	375.0	375.0	
Shares on issue post Share Issue Proposal	812.9	375.0	46.1
Performance Share Proposal	190.0	190.0	
Shares on issue post Share Issue Proposal and all conditions met under the Performance Share Proposal	1,002.9	565.0	56.3

Note:

- 1 Based on 502.9 million existing shares on issue less 65.0 million shares already issued to Careline.
- 2 As noted above, the shares under the first two tranches of the Share Issue Proposal (totalling 65 million shares) have already being issued, giving Careline and/or its nominees a 13% interest in FOD.

63 Therefore if the Proposal is approved Careline will have a significant, and effectively a controlling, voting interest in FOD. No cash premium for control was received for this controlling interest. Indeed, the shares were issued at a significant discount to the VWAP of FOD prior to the announcement of the Proposal.

64 In addition, after the Tranche 2 shares were issued, Mr Li, the founder of Careline, was appointed as Chairman of FOD and Careline has the right to appoint two additional directors. This will result in Careline’s nominees and Mr Li holding 50% of all FOD Board positions.

Dilution of existing shareholder interests

65 If the Proposal is approved the interests of non-associated FOD shareholders will be diluted as they will collectively hold only 53.9% of FOD shares after the Share Issue Proposal shares are issued, and will collectively hold only 43.7% of FOD shares if the full amount of shares under the Performance Share Proposal are issued to Careline.

Likelihood of receiving a future takeover offer

66 If the Proposal is approved the likelihood of receiving a takeover offer in future from another party is diminished as any potential bidder would need to persuade Careline to accept its offer in order to obtain control of FOD²¹.

The likelihood of an alternative funding proposal

67 We have been advised by the Directors of FOD that no formal alternative proposals have been received subsequent to the announcement of the Proposal.

²¹ However, should Careline decide to sell or receive an attractive offer for its interest, it is possible that the non-associated FOD shareholders will have the opportunity to participate in any takeover premium being offered.

68 Furthermore, in our opinion, it is uncertain as to whether any superior proposal is likely to be made prior to the shareholder meeting to approve the Proposal.

Implications if the Proposal is not approved

- 69 If the Proposal is not approved, FOD will not receive the full \$20 million in new equity capital pursuant to the Share Issue Proposal. FOD will therefore need to obtain alternative funding in order to remedy the net current asset deficiency referred to in paragraph 48 above. The Distribution Deed with Careline may also be adversely impacted if Careline no longer has the Performance Share incentive.
- 70 Further, as noted above, the FOD share price has increased very substantially since the announcement of the Proposal. This share price performance has provided a windfall profit for Careline (if the Proposal is approved) and FOD shareholders. FOD shareholders should therefore be aware that the FOD share price is likely to fall substantially if the Proposal is not approved²².

Conclusion

- 71 Based on the above, in our opinion, the Share Issue Price is too low and the Performance Share Proposal is too generous to Careline and/or its nominees. Accordingly, in our opinion, the Proposal is neither fair nor reasonable to the shareholders of FOD.

General

- 72 In preparing this report we have considered the interests of FOD shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 73 The ultimate decision whether to approve the Proposal should be based on each FOD shareholder's assessment of their own circumstances. If FOD shareholders are in doubt about the action they should take in relation to the Proposal or matters dealt with in this report, FOD shareholders should seek independent professional advice. For our full opinion on the Proposal and the reasoning behind our opinion, we recommend that FOD shareholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Grant Kepler
Authorised Representative

²² Given the substantial increase in the FOD share price, some decline (at least in the short term) should be expected even if the Proposal is approved.

Appendices

- A Financial Services Guide**
- B Qualifications, declarations and consents**
- C Conditions**
- D Profile of FOD**
- E Glossary**

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm that provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Explanatory Memorandum to be sent to FOD shareholders in connection with the Proposal.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$60,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Edwards and Mr Grant Kepler, who are each authorised representatives of LEA. Mr Edwards and Mr Kepler have over 25 years and 24 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Directors of FOD to accompany the Explanatory Memorandum to be sent to FOD shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposal is fair and reasonable to FOD shareholders not associated with Careline.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Kepler have any interest in the outcome of the Proposal. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with FOD or Careline prior to the preparation of this report.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, FOD agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of FOD which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in FOD's Explanatory Memorandum.

Limitations and reliance on information

- 8 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 9 Our report is also based upon financial and other information provided by FOD and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that

Appendix B

the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

- 10 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Proposal from the perspective of FOD securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 11 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.
- 12 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 13 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 14 In forming our opinion, we have also assumed that:
 - (a) the information set out in the Explanatory Memorandum is complete, accurate and fairly presented in all material respects
 - (b) if the Proposal becomes legally effective, it will be implemented in accordance with the terms set out in this report and the Notice of Meeting.

Appendix C

Conditions

- 1 The Share Issue Proposal and the Performance Share Proposal are subject to the following conditions:
 - (a) Share Issue Proposal:
 - (i) Tranche 1 – Careline’s obligation to subscribe for the Shares is conditional upon FOD having first obtained the prior written consent of the provider of a financing facility to FOD²³
 - (ii) Tranches 2 to 5 – Careline’s obligation to subscribe for the shares the subject of Tranches 2, 3, 4 and 5 is conditional upon FOD having first obtained the prior written consent of the relevant counterparty to the Woolworths Agreement, by no later than 31 October 2018
 - (iii) Tranches 3, 4 and 5 – Careline’s obligation to subscribe for the shares the subject of Tranches 3, 4 and 5 is conditional upon FOD having first obtained all relevant regulatory and shareholder approvals
 - (b) Performance Share Proposal – in relation to Tranches 6 to 9, the issue of shares is conditional upon:
 - (i) the approvals referenced at sub-paragraph (a) above having been obtained
 - (ii) Careline subscribing for, and being issued, the shares the subject of Tranches 1 to 5
 - (iii) FOD and Careline entering into and remaining parties to the Distribution Deed.
- 2 More detail on the above conditions is set out in the Explanatory Memorandum.

²³ The “Greensill Facility”. Clause 2.1(a) of the Share Subscription Deed.

Appendix D

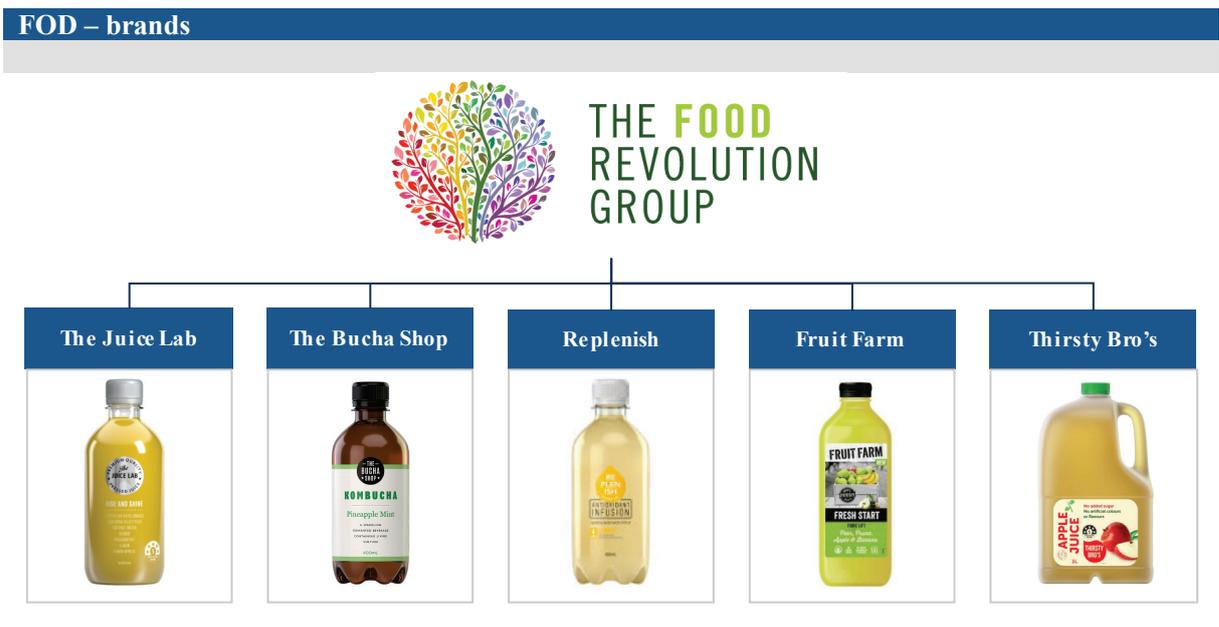
Profile of FOD

Overview

- 1 FOD is an Australian based food processing company that uses a combination of conventional juice processing equipment and custom developed equipment and processes to manufacture a range of high quality juices, fibres, infused fruits and fruit waters that are sold to customers throughout Australia and overseas. The company operates state of the art fruit and vegetable processing facilities in Victoria and uses a range of processing technologies, including CCE technology which was developed in conjunction with Australia’s CSIRO to extract juice fibre and essences from fruit and vegetables.

Current operations

- 2 FOD is headquartered in Mill Park, Victoria and employs approximately 85 staff. The Company produces and sells a range of high quality juices, fibres, infused fruits and fruit waters and also sells ingredients to other food producers. FOD’s products are available at Coles and other leading retailers. A diagrammatic overview of FOD’s five brands is set out below:



Appendix D

Financial performance

3 The financial performance of FOD for the four years ended 30 June 2018 (FY18) and six months to 31 December 2018 (1HY19), is set out below:

FOD – statement of financial performance⁽¹⁾					
	FY15	FY16	FY17	FY18	1HY19
	Audited	Audited	Audited	Audited	Reviewed
	\$000	\$000	\$000	\$000	\$000
Net revenue	17,007	19,736	31,662	33,125	15,053
Cost of sales	(9,856)	(11,338)	(16,470)	(19,918)	(10,463)
Gross profit	7,151	8,398	15,192	13,207	4,590
Research and development funding	4,104	3,606	1,829	1,932	-
Rent income	-	-	649	1,202	606
Operating expenses	(7,615)	(11,861)	(13,612)	(11,761)	(5,776)
Underlying EBITDA	3,640	143	4,058	4,580	(581)
Depreciation and amortisation	(1,570)	(1,503)	(2,045)	(1,598)	(985)
Underlying EBIT⁽²⁾ / (loss)	2,071	(1,360)	2,013	2,982	(1,565)
Net finance expense	(1,463)	(1,494)	(594)	(627)	(617)
Non-recurring items ⁽³⁾	(3,000)	(2,267)	(424)	(1,293)	(2,159)
Profit / (loss) before tax from continuing operations	(2,393)	(5,121)	995	1,062	(4,341)
<i>Revenue growth</i>	<i>na</i>	<i>16.0%</i>	<i>60.4%</i>	<i>4.6%</i>	<i>(12.0%)</i>
<i>Gross profit margin</i>	<i>42.0%</i>	<i>42.6%</i>	<i>48.0%</i>	<i>39.9%</i>	<i>30.5%</i>
<i>Underlying EBITDA margin</i>	<i>21.4%</i>	<i>0.7%</i>	<i>12.8%</i>	<i>13.8%</i>	<i>(3.9%)</i>
Note:					
1	Rounding differences may exist.				
2	Earnings before interest and tax (EBIT).				
3	Non-recurring items comprise:				
		1,026	-	-	-
Insurance proceeds	-		-	-	-
Sundry income	-	-	18	24	-
Underutilisation of labour during transfer to Mill Park	(478)	-	-	-	-
Lease costs of Laverton not used in operating business	(135)	-	-	-	-
Relocation costs	(2,252)	(278)	-	-	-
Transaction costs	(135)	(560)	(74)	(71)	(58)
Share based payments expense	-	(1,026)	-	-	-
Marketing costs for new joint ventures	-	(539)	-	-	-
Impairment expenses	-	(889)	(212)	(1,247)	-
Employee redundancy for LangTech Citrus	-	-	(156)	-	-
Provision for doubtful debts	-	-	-	-	(2,101)
Total	(3,000)	(2,267)	(424)	(1,293)	(2,159)

Appendix D

- 4 Over the period set out above FOD has achieved significant revenue growth which has been attributed to, inter alia:
- the acquisition of Thirsty Brothers Pty Ltd (Thirsty Bros) in February 2016
 - development and launch of a number of new products into the Healthy Food market
 - increased distribution of products through key distributors including Coles, Woolworths and Aldi.

Financial position

- 5 The financial position of FOD as at 31 December 2017 and 30 June 2018 is set out below:

FOD – statement of financial position⁽¹⁾			
	31 Dec 17	30 Jun 18	31 Dec 18
	\$000	\$000	\$000
Debtors and prepayments	9,970	5,165	3,140
Inventories	2,559	2,961	2,983
Creditors, accruals and provisions	(9,830)	(6,047)	(6,535)
Net working capital	2,699	2,079	(412)
Plant and equipment	17,985	17,358	16,922
Other assets	550	368	427
Intangible assets / goodwill	8,378	8,869	9,281
Deferred tax asset (net)	(2,341)	576	1,744
Provisions (non-current)	(121)	(133)	(52)
Total funds employed	27,151	29,117	27,910
Cash and cash equivalents	889	1,856	1,734
Interest bearing liabilities	(2,982)	(3,849)	(9,355)
Deferred consideration liabilities	(6,998)	(7,142)	-
Net cash / (borrowings)	(9,091)	(9,134)	(7,621)
Net assets attributable to FOD shareholders	18,060	19,983	20,289

Note:

- 1 Rounding differences may exist.

Plant and equipment

- 6 The carrying value of FOD's plant and equipment is as follows:

FOD – plant & equipment⁽¹⁾			
	31 Dec 17	30 Jun 18	31 Dec 18
	\$000	\$000	\$000
Plant and equipment	17,869	17,248	16,827
Office equipment	117	111	95
Plant and equipment	17,985	17,358	16,922

Note:

- 1 Rounding differences may exist.

Appendix D

- 7 Plant and equipment is carried at fair value less accumulated depreciation and impairment. The majority of FOD's plant and equipment relates to its processing facilities in Victoria.

Intangible assets

- 8 The majority of FOD's intangible assets relate to brands that were recognised on the acquisition of Thirsty Bros in 2016 as set out in the table below:

FOD – intangible assets⁽¹⁾			
	31 Dec 17	30 Jun 18	31 Dec 18
	\$000	\$000	\$000
Brands	6,915	6,915	6,915
Goodwill	702	702	702
Product development costs	682	1,193	1,590
Intellectual property	78	57	72
Formation expenses	1	1	1
Intangible assets	8,378	8,869	9,281

Note:

- 1 Rounding differences may exist.

Net debt

- 9 A summary of FOD's net debt position is set out below:

FOD – net debt⁽¹⁾			
	31 Dec 17	30 Jun 18	31 Dec 18
	\$000	\$000	\$000
Cash	889	1,856	1,734
Borrowings	(2,982)	(3,849)	(9,355)
Deferred consideration	(6,998)	(7,142)	-
Net cash / (debt)	(9,091)	(9,134)	(7,621)

Note:

- 1 Rounding differences may exist.

- 10 FOD's borrowings relate to its facility with Greensill Capital UK Limited. The interest rate on the facility is 6.75% per annum and the term expires on 31 October 2019. Deferred consideration relates to a payment schedule with Golden Circle / Heinz to fund the purchase of juicing assets at Laverton and bottling assets at Mill Park. The final payment of \$6.6 million (plus accrued interest) was made on 21 December 2018.

Share capital and performance

- 11 As at 13 March 2019, FOD had 502.9 million fully paid ordinary shares on issue which included 65.0²⁴ million ordinary shares issued to Careline.

²⁴ Includes 18.5 million ordinary shares issues under Tranche 1 on 26 September 2018 and 46.5 million shares issued under Tranche 2 on 1 November 2018.

Appendix D

Substantial shareholders

- 12 As at 13 March 2019 there were six substantial shareholders in FOD (i.e. shareholders with an interest in FOD more than 5%) who held 56.5% of the ordinary shares on issue. The substantial shareholders of FOD (based upon the 2018 annual report, the Company's register of shareholders and substantial shareholder notices released to the ASX) were as follows:

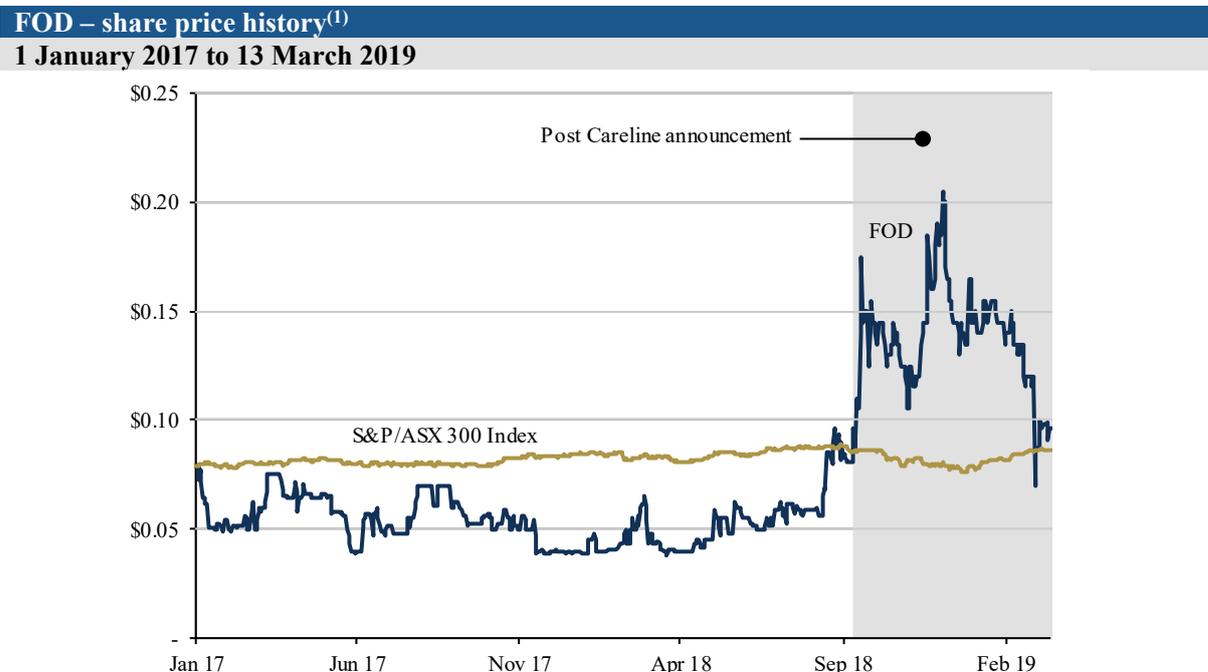
FOD – substantial shareholders ⁽¹⁾		
	Shares held	
	Millions	% interest
Careline	65.0	12.9
Shenzhen Youngcheng Biotechnology Co Limited	55.0	10.9
Fanucci Pty Ltd	50.7	10.1
Matthew Bailey and Food Innovators Pty Ltd	47.4	9.4
Bill Nikolovski	36.0	7.2
HSBC Custody Nominees	30.2	6.0
	284.3	56.5

Note:

- 1 Rounding differences may exist.

Share price performance

- 13 The following chart illustrates the movement in the share price of FOD from 1 January 2017 to 13 March 2019:



Note:

- 1 Based on closing prices. The S&P / ASX 300 Index has been rebased to FOD's last traded price on 1 January 2017, being \$0.08.
Source: Bloomberg.

Appendix D

Liquidity in FOD shares

- 14 The liquidity in FOD shares based on trading on the ASX over the 12 month period prior to the announcement of the distribution agreement with Careline on 10 September 2018 is set out below:

FOD – liquidity in shares						
Period	Start date	End date	No of shares	WANOS ⁽¹⁾	Implied level of liquidity	
			traded	outstanding	Period ⁽²⁾	Annual ⁽³⁾
			000	000	%	%
1 month	10 Aug 18	9 Sep 18	21,701	434,065	5.0	60.0
3 months	10 Jun 18	9 Sep 18	25,645	434,065	5.9	23.6
6 months	10 Mar 18	9 Sep 18	48,934	434,065	11.3	22.5
1 year	10 Sep 17	9 Sep 18	58,585	434,065	13.5	13.5

Note:

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

- 15 As set out in the table above, liquidity in FOD shares increased in the recent periods leading up to the announcement of the distribution agreement with Careline. In addition, liquidity in FOD shares has increased significantly post the announcement, with implied liquidity of FOD shares (on an annualised basis) from 10 September 2018 to 13 March 2019 of 318.7%.

Glossary

Term	Meaning
1HY19	Financial half year ending 31 December 2018
Adjusted Share Issue Price	3.6 cents per share
AFCA	Australian Financial Complaints Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Careline	Careline Australia Pty Limited
CCE	Current Counter Extraction
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Distribution Deed	Proposed distribution deed between FOD and Careline announced on 10 September 2018
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax depreciation and amortisation
FOD	The Food Revolution Group Limited
FSG	Financial Services Guide
FY	Financial year
IER	Independent expert's report
Initial Term	Initial term of the Distribution Deed ending on 30 June 2024
Introduced Revenue	As described in paragraphs 9 and 10
LEA	Lonergan Edwards & Associates Limited
Mr Li	Mr Norman Li
Performance Share Proposal	The issue of 190 million performance shares in FOD to Careline and/or its nominees
Performance Shares	190 million performance shares in FOD
Proposal	The proposal described in paragraphs 1 and 2
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
Share Issue Price	5.4 cents per FOD share
Share Issue Proposal	The issue of 375 million FOD shares to Careline and/or its nominees at 5.4 cents per share
Share Subscription Deed	Share Subscription Deed between FOD and Careline
Sinopec	China Petroleum and Chemical Corporation
Subsequent Term	Subsequent 12 month terms of the Distribution Deed after 30 June 2024
Term	The Initial Term and the Subsequent Term of the Distribution Deed
Thirsty Bros	Thirsty Brothers Pty Ltd
VCTF	Victorian Clean Technology Fund Pty Ltd
VWAP	Volume weighted average trading price
WANOS	Weighted average number of shares outstanding

Annexure B – ASX Waiver Terms

ASX has granted a waiver from Listing Rule 10.13.3 to the extent necessary to permit the Company to seek approval from its shareholders for and then to issue of up to a maximum of 210 million fully paid ordinary shares (“**Shares**”) in two tranches (“**Subscription Shares**”) to Careline Australia Pty Ltd (“Careline”) and/or its nominees, and not to be required to issue or state in the notice (“**Notice**”) of the extraordinary general meeting of the Company that such Subscription Shares will be issued within 1 month of the extraordinary general meeting held to approve the issue of the Subscription Shares, subject to the following conditions:

- (a) The Notice states the date by which each tranche of the Subscription Shares will be issued by being, 5 September 2019 for Tranche 4 and 5 March 2020 for Tranche 5 in the Notice and each tranche of Subscription Shares are issued no later than those dates.
- (b) The Notice sets out that the Subscription Shares will be fully paid ordinary shares in the capital of the Company ranking equally in all respects with the Company’s existing Shares on issue.
- (c) The Notice includes details as to the dilution of shareholders resulting from the issue of the Subscription Shares.
- (d) The Company’s annual report for any period during which the Subscription Shares are issued to Careline, Dr Li and/or their nominees, discloses details of the number of Subscription Shares that were issued to them, including the percentage of the Company’s issued capital represented by those Subscription Shares.
- (e) The terms of the waiver are stated in the Notice.

Annexure C – Letter agreement between FOD and Careline



THE FOOD
REVOLUTION
GROUP

05 April 2019

Mr Norman Li
Careline Australia Pty Ltd
3 Lagonda Avenue
KILLARA NSW 2071

Dear Mr Li

Concept of Introduced Revenue in the share subscription deed

We refer to the share subscription deed between The Food Revolution Group Limited (**FOD**), Careline Australia Pty Ltd (**Careline**) and you, dated 5 September 2018, which was amended on 7 March 2019 (**SSD**).

Under the SSD, Introduced Revenue is defined as:

the Company's revenue from ordinary activities (determined in accordance with applicable Accounting Standards, and as reviewed and confirmed by the Company's auditor) that is earned and received by the Company from sales to Careline and/ or its Nominees, or alternatively is revenue from sales earned and received by the Company arising from business opportunities and new customers that have been introduced to the Company by Li, Careline and or its Nominees (and for the avoidance of doubt such sales include revenue received from business acquisitions introduced to the Company by Li, Careline and/ or its Nominees).

Further to our previous discussions, FOD confirms that it understands that Introduced Revenue will include:

- Sales to customers (in China, Australia, and any other territory) that have been introduced to FOD by Careline (and who were not, as at 5 September 2018, an existing customer of FOD).
- Sales to entities that have previously been customers of FOD, but who (as at 5 September 2018) were not a current customer of FOD, where Careline convinces that entity to resume its business with FOD. For example, where no sales have been made to a customer for the 12 months prior to the date of this letter, and that customer makes an order from FOD that can reasonably be attributed to Careline, then this will be included in Introduced Revenue.
- Sales to customers of FOD of new product lines that have been developed by Careline, for and in conjunction with FOD.
- Sales to customers of FOD in a new geographic market, where FOD had not previously sold any product to a customer in that market, and the introduction to the customer in that geographic market can reasonably be attributed to Careline (for example, where a customer of FOD has a presence in both China and Australia, and has previously only placed orders for its Australian stores. If that customer then places an order for its Chinese stores, and such an order can reasonably be attributed to Careline, then that sale will be included as Introduced Revenue).

However, Introduced Revenue will not include:

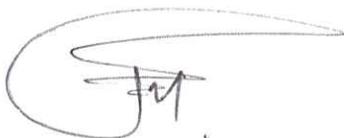
- Sales to customers of FOD (who were customers of FOD as at 5 September 2018) of products currently produced by FOD.
- Sales to customers of FOD (who were customers of FOD as at 5 September 2018) of new products developed by FOD in its ordinary course of business, without assistance from Careline.
- Sales to new customers of FOD that have not been introduced to FOD by Careline (whether in Australia, China or otherwise).

FOD notes that FOD intends to continue to grow and develop a market for its products in parallel with Careline's efforts as a distributor, and the concept of Introduced Revenue and the related performance measures captured in the SSD have been drafted accordingly to take this into account.

In this letter, the term, Careline refers to Careline, you personally, and Careline's "Nominees" as that term is defined in the SSD, being either or both of Pacific International Fund Management Pty Ltd as the trustee for the Pi Trust and Y & L Investments Pty Ltd as the trustee for the Y&L Family Superannuation Fund.

Please confirm on behalf of yourself and Careline that this letter reflects your and Careline's understanding of Introduced Revenue, by signing and returning a copy of this letter to FOD.

Yours sincerely



John Florey
Managing Director

I, Tao (Norman) Li, confirm that the contents of this letter reflect my, and Careline's, understanding of the meaning of Introduced Revenue, as defined in the SSD.

Signed by Norman Li for himself and on behalf of **Careline Australia Pty Ltd**:

.....
Signature of Mr Norman Li

Date: 8 APRIL 2019