



BUDERIM GROUP LIMITED

HALF YEAR REPORT - 31 DECEMBER 2015

Dear Shareholders,

Our half year result is a disappointing Net Loss before Tax of \$(1.256) million compared with \$3.651 million profit last year which included the one off *fair value adjustment (FVA) of \$3.612 million in relation to the purchase of the Kapua macadamia orchard. Four key events contributed to this result, which was unfavourable to last year by \$1.295 million on a 'before tax' basis and excluding the fair value adjustment.

1. Loss of manufacturing recoveries due to maintenance shutdown of Hawaiian macadamia factory \$409k
2. Loss of manufacturing recoveries due to maintenance shutdown of Yandina Ginger factory \$355k
3. A product recall on original ginger marmalade \$100k
4. A provision in respect of stock variances at a 3rd party co-packer in the USA \$285k

The MacFarms shutdown was scheduled for a shorter period and at a different time for installation and commissioning of an electronic colour sorter to improve the on-site grading of macadamia kernel. The sorter will enable greater kernel recovery on-site going forward. The Yandina shutdown was also scheduled for a different period but actually occurred in December for two weeks maintenance.

When a plant is not running no recovery of overhead occurs.

The product recall in the marmalade product relates to activities of a co-packer and will form part of an insurance claim. The provision in relation to stock variances also occurred at a contract packer and its cause is being investigated. A provision for potential write-off was taken up to be conservative.

BUDERIM GROUP	H1 2015	H1 2014
	\$000's	\$000's
Revenue	40,651	35,886
FVA (Fair Value Adjustment – Kapua Orchard)	-	3,612
EBIT (includes FVA)	(751)	4,066
NPBT	(1,256)	3,651
Current ratio (times)	1.10	2.99
Debt Ratio (Total Liabilities/Total Assets)	47.6%	43.3%
Net Assets	43,118	44,813
Net Asset Backing/Share	\$0.93	\$0.97
Earnings per Share	(1.21) cents	5.15 cents
Shares on Issue	43,363,090	43,363,090

In addition, we have an 'emphasis of matter' to draw your attention to our ability to meet banking covenants albeit we have received waivers from the bank in respect of them. The company's results have been volatile over a period of years and we are implementing changes to restore profitability.

Working capital has moved in 6 months from \$24,748k at 30 June 2015 to \$26,692k at 31 December 2015. In this business we are conscious of the length of the payment cycle between purchasing raw materials, conversion to finished goods and receiving the cash from their sale. Our cash flow was negatively affected by a build-up in macadamia stock in both MacFarms and Agrimac. We have since sold the majority of our Agrimac inventory and are making headway in selling the MacFarms 2016 crop, anticipated at approximately 6,000 tonnes of nut in shell.

OUR OPERATIONS

Last year we said that our new products must cover the loss of contribution caused by the delisting of products in recent years that previously made a major contribution to the bottom line, and noted the significant challenge in getting distribution for new products in what is a highly competitive market. The range of non-alcoholic ginger beer products were developed and are gradually obtaining distribution after listing in IGA's and route channels. We don't have big promotional budgets to launch these products and depend on the quality of the product and our digital media program to win new customers. The SnackPack is another example of a new product based on old inputs, where a 40g naked or chocolate coated ginger is now available in pharmacy channel.

'MacaBella', a chocolate macadamia spread was launched into national supermarkets in March 2015. 'MacaBella' was created to add value to our macadamia raw material using premium Belgian chocolate.

We are pleased to announce that our Ginger Beer & Pear and our Macabella won Product of the Year in their categories in the face of such luminaries as Coles, Woolworths and Aldi who took out the lion's share of awards. That is captured in the attached flyer.



In addition, a range of alcoholic ginger beers was developed and has been listed in Coles First Choice and Vintage Cellars in March 2016. Demand is growing for more customized, unique, ready-to-drink (RTD) options. With many younger Australians, RTD consumption is increasing year-on-year. Some may have noticed the cider and craft beer explosion in sales and demand. Consumer trends for new alcoholic beverage demand unique and specialty products with quality ingredients and processing methods, or interesting flavourings or flavour combinations. Ginger +plus provides

this and while we are good at ginger, we partnered with an experienced team for the alcoholic drink development.



We have also strengthened our sales team with some specialist knowledge and will now work to increase our distribution of a drink that is proving to be very popular.

Segment performance is shown below.

	H1 2015	H1 2014
GINGER SEGMENT	\$000's	\$000's
Revenue	15,606	15,302
Segment Result	(834)	92
MACADAMIA SEGMENT		
Revenue	25,824	25,254
Segment Result	(139)	3,949
TOURISM SEGMENT		
Revenue	2,378	2,195
Segment Result	294	204

The ginger segment was affected by the aforementioned factory maintenance closure and a product recall. In addition there were some delistings, being Glace Ginger and Ginger, Lemon Lime & Marmalade in Coles. The macadamia segment was affected by a maintenance closure also, but macadamia sales delayed until the second half has a bigger impact.

In Australia we continue to compete for a share of the macadamia crop, which has the dual challenge of a) very high grower prices and b) buyers of nut-in-shell (NIS) for China competing for available supply.

Our tourist offering in the Sunshine Coast has gained increased acceptance with the changes implemented over the past few years. Including the popular children's playground. We are seeing visitor numbers up and while the weaker Australian dollar supports the overseas tourist, we are certainly receiving a lot more local young family visitors.

For personal use only

OUTLOOK

Following development of new products we have been working to expand our distribution.

Locally, we have expanded into the pharmacy channel in September 2015, using our new Snack Pack. Our ginger beer was first ranged in Metcash in August 2015 and in Costco in December 2015. Snack Pack will range in Woolworths in April 2016. The smooth variant of Macabella, 'Velvet', has been ranged in Woolworths nationally in February 2016. The alcoholic ginger beers, Ginger Beer + Vodka and Ginger Beer + Spiced Rum, are to be ranged in the Coles Liquor banners of First Choice and Vintage Cellars in March 2016.

Overseas, a distributor has been appointed in Canada to represent at supermarket level our range of ginger, beverage and macadamia products. Our 'Easy Open' nut in shell has been listed on the west coast and our ginger beer products are to be listed in April 2016. This is to be followed by the Naked and Chocolate ginger products in May 2016.

Our Hawaiian distribution footprint is being changed in March 2016 and will include not only macadamia products but also the ginger range. The territory managed from Hawaii will expand to include Guam and Saipan.

We are working on our European opportunities, through changes to existing relationships where territories have been restricted. We have partnered with a UK distributor and look to a supermarket product listing in June 2016.

In China, we delivered our first container shipment to a Chinese supermarket in February 2016, comprising tree nuts of pistachios, cashews and macadamias under our international MacFarms brand. It has not been a difficult extension to take our nut range beyond macadamias, which was certainly our main focus. Opportunities exist for widening the product range in China into ginger and beverages.

We thank you for your continued support during this time of change.

Yours faithfully



Roger Masters
Chief Executive Officer

For personal use only

In The Loop

ISSUE 8

BUG NEWSLETTER



Awarded Number ONE Beverage Product as voted by thousands



In a recent survey, conducted by Nielsen of 14,300 Australian consumers, **Buderim Ginger Beer & Pear** came out on top in the Beverage category for **Product of the Year**.

As fine purveyors of all things ginger since 1941, **Buderim Ginger Beers** are crafted to deliver a flavour hit like no other. **Made with only the freshest ginger** they get **fresh** with your tastebuds and **put the zing** in everything.



Available in 4 unique flavours



MACABELLA

CHOC'MACADAMIA SPREAD

Awarded Number ONE Spread Product as voted by thousands



In a recent survey, conducted by Nielsen of 14,300 Australian consumers, **Macabella Choc'Macadamia Spread** came out on top in the **Spreads** category for **Product of the Year**.

Macabella Choc'Macadamia Spread is infused with the unique flavour of diced and gently ground macadamias, allowing your taste buds to experience a true delight with one of the worlds finest nuts.



A division of Bunnings Group Limited

AVAILABLE IN THE SPREADS AISLE AT YOUR LOCAL COLES, WOOLWORTHS & SELECTED IGA'S

Macabella Velvet, with it's rich, smooth texture. Available exclusively at your local Woolworths store



For personal use only