



ABN: 55 009 686 435

FINANCIAL STATEMENTS

Half Year ended 31 December 2016

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● **REPORT OF THE DIRECTORS**

Your directors present their report on the consolidated financial statements of the company and its controlled entities for the half-year ended 31 December 2016.

Directors

The following persons held office as directors of Capilano Honey Limited during or since the end of the half-year:

Trevor R Morgan, Chairman
Phillip F McHugh, Deputy Chairman
Benjamin A McKee, Managing Director
Robert N Newey
Simon L Tregoning
Julie A Pascoe (from 10 October 2016)
Brian F O'Donnell (from 9 December 2016)

Principal Activities

The principal activities of the consolidated entity during the half-year were beekeeping and packing of honey for domestic and export sales.

Consolidated Results

The net profit of the consolidated entity for the half-year before income tax was \$7,473,793 (2015 \$7,770,737) and after income tax was \$5,902,901 (2015 \$5,502,504).

Review of Operations

Capilano's profitability continues to be driven by our local and international retail markets, but was effected by an increased marketing spend to launch the world's first prebiotic honey. Domestic market share has remained constant. The export market had a decline due to lower sales in the bulk industrial segment, but recorded an increase in margin for overall export sales.

Refer to the Half Year Report to Shareholders for more information.

Significant Changes in the State of Affairs

On 29 July 2016, Capilano's Manuka beekeeping assets were sold to Medibee Apiaries Pty Ltd and a 50/50 Joint Venture was formed. On 7 July 2016, Capilano Honey Limited acquired 50% of the share capital in Western Honey Supplies Pty Ltd to form a 50/50 Joint Venture.

Auditor's Independence Declaration

The Auditor's Independence Declaration has been received and can be found on page 2 of this financial report.

Signed at Brisbane this 3rd day of February 2017, in accordance with a resolution of the directors.



T R Morgan
Chairman



B McKee
Managing Director

● AUDITOR'S INDEPENDENCE DECLARATION



The Directors
Capilano Honey Limited
399 Archerfield Road
RICHLANDS QLD 4077

Auditor's Independence Declaration

As lead auditor for the review of Capilano Honey Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Capilano Honey Limited and the entities it controlled during the period.

William Buck

William Buck (Qld)
ABN 11 603 627 400

J Latif

J Latif
A member of the firm

Brisbane 3 February 2017

CHARTERED ACCOUNTANTS & ADVISORS

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of Capilano Honey Limited



Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Capilano Honey Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Capilano Honey Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

William Buck

William Buck (Qld)
ABN 11 603 627 400

J Latif
A Member of the Firm

Brisbane 3 February 2017

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◆ DIRECTORS' DECLARATION

The directors of the company declare that:

- (a) the financial statements and notes, as set out on pages 5 to 11:
 - (i) comply with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001*; and
- (b) the company will be able to pay its debts as and when they become due and payable.

Signed at Brisbane this 3rd day of February 2017, in accordance with a resolution of the directors.



T R Morgan
Chairman



B McKee
Managing Director

◆ **CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the half-year ended 31 December 2016

	Note	31 December 2016 \$	31 December 2015 \$
Revenue		66,522,074	67,099,006
Gain on disposal of Manuka beekeeping assets	5	2,073,703	-
Other income		36,861	203,955
Share of losses of joint ventures accounted for using the equity method	5	(89,392)	-
Finance costs		(256,440)	(369,129)
Other expenses		(60,813,013)	(59,163,095)
Profit before income tax		7,473,793	7,770,737
Income tax expense		(1,570,892)	(2,268,233)
Net profit attributable to members of Capilano Honey Limited		5,902,901	5,502,504
Other comprehensive income		-	-
Total comprehensive income for the period attributable to members of Capilano Honey Limited		5,902,901	5,502,504
Basic earnings per share (cents)	7	62.4	64.0
Diluted earnings per share (cents)	7	62.2	64.0

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	31 December 2016 \$	30 June 2016 \$
CURRENT ASSETS			
Cash and cash equivalents		664,361	8,695,629
Trade and other receivables		23,585,405	22,850,501
Inventories		38,366,624	38,792,713
Income tax refundable		265,163	-
Other current assets		1,401,790	176,395
		64,283,343	70,515,238
Non-current assets classified as held for sales		-	7,425,442
TOTAL CURRENT ASSETS		64,283,343	77,940,680
NON-CURRENT ASSETS			
Property, plant and equipment		21,674,940	21,499,578
Intangibles		214,275	-
Investments accounted for using the equity method	5	2,482,243	109,397
Trade and other receivables		2,000,000	-
Deferred tax assets		-	185,565
TOTAL NON-CURRENT ASSETS		26,371,458	21,794,540
TOTAL ASSETS		90,654,801	99,735,220
CURRENT LIABILITIES			
Trade and other payables		15,814,781	20,671,941
Short term borrowings		5,994,263	8,120,105
Provision for dividend		245	3,783,238
Income tax payable		-	836,226
TOTAL CURRENT LIABILITIES		21,809,289	33,411,510
NON-CURRENT LIABILITIES			
Long term borrowings		6,997,500	10,201,648
Long term provisions		161,904	357,940
Deferred tax liabilities		73,760	-
TOTAL NON-CURRENT LIABILITIES		7,233,164	10,559,588
TOTAL LIABILITIES		29,042,453	43,971,098
NET ASSETS		61,612,348	55,764,122
EQUITY			
Issued capital		24,532,157	24,586,832
Reserves		4,042,851	4,042,851
Retained earnings		33,037,340	27,134,439
TOTAL EQUITY		61,612,348	55,764,122

The above statement of financial position should be read in conjunction with the accompanying notes.

◆ CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2016

	Issued capital		Reserves	Retained earnings	Total equity
	Ordinary	Foundation	Asset Revaluation		
	\$	\$	\$	\$	\$
Balance at 1 July 2016	24,586,831	1	4,042,851	27,134,439	55,764,122
Total comprehensive income for the period	-	-	-	5,902,901	5,902,901
Prior year share issue costs	(54,675)	-	-	-	(54,675)
Balance at 31 December 2016	24,532,156	1	4,042,851	33,037,340	61,612,348
Balance at 1 July 2015	8,228,220	1	4,042,851	21,433,968	33,705,040
Total comprehensive income for the period	-	-	-	5,502,504	5,502,504
Balance at 31 December 2015	8,228,220	1	4,042,851	26,936,472	39,207,544

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2016

	Note	Inflows (Outflows)	
		31 December 2016 \$	31 December 2015 \$
<i>Cash flows from operating activities</i>			
Receipts from customers		64,229,461	68,546,106
Payments to suppliers and employees		(66,021,643)	(71,242,671)
Interest received		40	4
Net goods and services tax recovered		1,567,678	1,299,529
Income tax paid		(2,389,525)	(3,487,682)
Interest paid		(160,695)	(249,100)
Net cash used in operating activities		(2,774,684)	(5,133,814)
<i>Cash flows from investing activities</i>			
Acquisition of Controlled Entity		-	(5,279,502)
Investment in joint ventures		(2,462,238)	-
Payment for intangibles		(214,275)	-
Payment for property, plant and equipment		(1,004,371)	(1,960,223)
Proceeds from sale of Manuka beekeeping assets		7,588,116	-
Proceeds from sale of property, plant and equipment		27,273	-
Net cash provided by (used in) investing activities		3,934,505	(7,239,725)
<i>Cash flows from financing activities</i>			
Payment of dividend		(3,782,993)	(3,223,922)
Payment for cost of share issued		(78,106)	-
(Repayment) increase of borrowings		(5,329,990)	14,411,037
Net cash (used in) provided by financing activities		(9,191,089)	11,187,115
Net decrease in cash and cash equivalents held		(8,031,268)	(1,186,424)
Cash and cash equivalents at the beginning of the financial period		8,695,629	739,874
Cash and cash equivalents at the end of the financial period		664,361	(446,550)

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

1. BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with requirements of the *Corporations Acts 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting.

Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34 Interim Financial Reporting.

The interim financial statements are intended to provide users with an update on the latest financial statements of Capilano Honey Limited and its controlled entities (the consolidated entity). As such it does not contain information that represents relatively insignificant changes occurring during the half-year within the consolidated entity. It is therefore recommended that these financial statements be read in conjunction with the annual financial statements of the consolidated entity for the year ended 30 June 2016, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in the interim financial statements as were applied in the most recent annual financial statements.

The consolidated entity has adopted all of the new and revised pronouncements which became mandatory for annual reporting periods beginning on or after 1 July 2016. In adopting these new and revised pronouncements, the consolidated entity has determined that there has been no impact to the consolidated entity's reported position or performance.

2. EVENTS SUBSEQUENT TO THE END OF THE INTERIM PERIOD

There is at the date of this report no matter or circumstance which has arisen since 31 December 2016 that has significantly affected or may significantly affect:-

- i) the operations of the consolidated entity;
- ii) the results of those operations; or
- iii) the state of affairs of the consolidated entity in future financial years.

3. ISSUED CAPITAL AND SHARE OPTIONS

There have been no shares issued since the last annual reporting date.

At the Annual General Meeting on 18 November 2016, approval was obtained for a Long Term Incentive Plan and the issue of 30,000 options to Dr Ben McKee (Managing Director). The vesting of the options granted to Dr McKee will be subject to performance conditions based on the Company's relative total shareholder return (TSR) performance and average compound annual growth in the Company's earnings per Share (EPS) during the Performance Period (being the period from 1 July 2016 to 30 June 2019). The options have an exercise price of \$21.00 per share and lapse on 30 June 2024. The value of the options issued were \$212,100.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

4. OPERATING SEGMENTS (a) Segment Performance	31 December 2016		
	Domestic \$	Export \$	Consolidated \$
Sales revenue	55,503,862	11,018,212	66,522,074
Other income	2,110,524	-	2,110,524
Total segment revenue	57,614,386	11,018,212	68,632,598
Unallocated interest received			40
Total revenue			68,632,638
Other expenses	(9,362)	(37,477)	(46,839)
Unallocated expenses			(61,112,006)
Profit before income tax			7,473,793

	31 December 2015		
	Domestic \$	Export \$	Consolidated \$
Sales revenue	52,900,901	14,198,105	67,099,006
Other revenue	52,885	151,066	203,951
Total segment revenue	52,953,786	14,349,171	67,302,957
Unallocated interest received			4
Total revenue			67,302,961
Unallocated expenses			(59,532,224)
Profit before income tax			7,770,737

(b) Segment Assets	Domestic \$	Export \$	Unallocated \$	Consolidated \$
30 June 2016	18,409,282	5,665,465	75,660,473	99,735,220
31 December 2016	18,975,845	4,770,314	66,908,642	90,654,801
Change in total assets	566,563	(895,151)	(8,751,831)	(9,080,419)

(c) Segment Liabilities	Domestic \$	Export \$	Unallocated \$	Consolidated \$
30 June 2016	5,334,202	2,214,408	36,422,488	43,971,098
31 December 2016	5,685,136	-	23,357,317	29,042,453
Change in total liabilities	350,934	(2,214,408)	(13,065,171)	(14,928,645)

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

5. INVESTMENT AND TRANSACTIONS WITH JOINT VENTURE ENTITIES

Medibee Apiaries Pty Ltd

Medibee Apiaries Pty Ltd is a 50/50 Joint Venture with global natural health products company Comvita Limited, formed to operate a number of Leptospermum honey producing apiaries in Australia to deliver premium honey for a range of medical and natural health products.

On 29 July 2016, Capilano's Manuka beekeeping assets were sold to Medibee Apiaries Pty Ltd for \$9,225,000 resulting in a gain on disposal of \$2,073,703.

There were no profits or losses accounted for under the equity method recognised during the period in relation to the Medibee Joint Venture.

Capilano Honey Limited and Comvita Limited have provided a guarantee and indemnity (limited to \$10,000,000 each) as a security for a \$20,160,000 bank facility provided to Medibee Apiaries Pty Ltd.

Western Honey Supplies Pty Ltd

On 7 July 2016, Capilano Honey Limited acquired 50% of the share capital in Western Honey Supplies Pty Ltd for a cash consideration of \$2.5 million and established a 50/50 Joint Venture with Western Australia honey producer, Spurge Apiaries, to provide geographic diversity, secure supply and grow production.

On 26 August 2016, Capilano Honey Limited sold 77 apiary site licenses to Western Honey Supplies Pty Ltd for \$363,116.

Losses accounted for under the equity method in relation to the Western Honey Joint Venture amounted to \$89,392.

Capilano Honey Limited has provided an unlimited guarantee and indemnity as security for a \$2,055,000 bank facility provided to Western Honey Supplies Pty Ltd.

6. FAIR VALUE

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements are a reasonable approximation of their fair value.

7. EARNINGS PER SHARE (EPS)

	31 December 2016 \$	31 December 2015 \$
Earnings used in the calculation of basic and diluted EPS	5,902,901	5,502,504
Weighted average number of shares outstanding during the period used in the calculation of basic and diluted EPS:		
Basic *	9,457,481	8,597,121
Diluted	9,487,481	8,597,121

* 860,360 shares were issued in June 2016

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Capilano Group of Companies	Capilano Honey Limited
	Capilano Apiaries Pty Ltd
	Honey Corporation of Australia Pty Ltd
	Kirksbees Honey Pty Ltd
Joint Ventures	Medibee Apiaries Pty Ltd
	Western Honey Supplies Pty Ltd
Bankers	HSBC Bank Australia Limited
Auditors	William Buck (Qld)
Share Register	Link Market Services

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