



BUDERIM GROUP LIMITED

HALF YEAR REPORT - 31 DECEMBER 2018

Dear Shareholders,

I am pleased to report a half year Net Profit After Tax of \$0.755 million, a significant improvement compared to the Net Loss After Tax of \$(2.960) million for the same period last year. Net Profit Before Tax from continuing operations was \$0.999 million.

During the current period the Group:-

- Commenced a strategic review of the Ginger Division.
- Decided to cease operations at the Morwell, Victoria bottling factory.
- Placed orders for equipment required to prepare the company-owned orchard floor for mechanical harvesting trials.
- Increased macadamia inventory through additional sourcing to support sales growth.

The results are summarised in the tables below.

BUDERIM GROUP	H1 2018 \$'000's	H1 2017 \$'000's
Revenue from Continuing Operations	33,504	25,690
EBIT from Continuing Operations	2,563	(1,417)
Net Profit/(Loss) Before Tax From Continuing Operations	999	(2,773)
Profit/(Loss) from Discontinued Operations	113	(387)
Net Profit/(Loss) After Tax for the Half-Year	755	(2,960)
Earnings per Share (cents)	0.88	(3.96)
Shares on Issue	86,021,860	74,801,618

BALANCE SHEET	31/12/18 \$'000's	30/06/18 \$'000's
Current Ratio	1.94	1.91
Debt Ratio (Total Liabilities /Total Assets)	52.5%	52.7%
Net Tangible Assets	36,192	34,402
Net Tangible Asset Backing/Share	\$ 0.42	\$ 0.40

The turnaround has been contributed by all segments.

CONTINUING OPERATIONS	H1 2018 \$'000's	H1 2017 \$'000's
Business segments		
Ginger operations (adjusted for inter-segment transfer)	822	(387)
Macadamia operations (adjusted for inter-segment transfer)	843	(1,951)
Tourism operations	461	236
Total	2,126	(2,102)
Corporate overhead expenses	(1,127)	(701)
Share of profit of joint controlled entities and associates	-	30
Net Profit / (Loss) Before Tax From Continuing Operations	999	(2,773)

The underlying **Ginger segment** result, excluding the inter-segment revenue and Morwell write-downs and convertible note items outlined below, was a profit of \$1.224 million a significant improvement compared to the loss for the same period last year of \$1.283 million.

The performance of the **Ginger segment** reflects:-

- A \$1.151 million non-cash finance cost associated with the convertible notes issued in February 2016.
- A favourable fair value adjustment of \$1.692 million relating to the derivative component of the Convertible Notes.
- Non-cash impairments and provisions in relation to the mothballing of the Morwell factory totalling \$0.943 million.

Despite a 4.6 percent drop in sales of goods to external customers, the turnaround in first half profitability has resulted from initiatives to rationalise non-performing products, reduce the frequency and depth of promotional discounting of mature retail products, improve manufacturing efficiencies and reduce costs. We have continued marketing activities with a focus on consumer sampling and trial with activations. In emerging export markets such as China we have continued our trials and testing in both offline and online channels.

A review of the Ginger Division is continuing as disclosed at the Annual General Meeting. The Board will consider all options to add shareholder value when the review is finally completed.

A decision was made to discontinue ginger product operations at Morwell and to seek to dispose of the assets. This decision was made following a drop in anticipated production for the site as a result of product rationalisation initiatives and de-listings of some cordial products and higher costs associated with the regional location. As an acceptable sale transaction has not been achieved to date a decision was made to cease operations and mothball the site in order to minimise ongoing costs.

The **Macadamia segment** result excluding the inter-segment charge was a profit of \$0.843 million compared to the loss for same period last year of \$1.951 million. The result reflects:-

- a favourable net biological asset valuation impact of \$1.078 million resulting from seasonal factors combined with increased macadamia farm-gate prices.
- a \$0.347 million profit on sale of 15.27 acres of surplus land in Hawaii.

The improved performance of the macadamia segment has been contributed to by an 83.5 percent lift in sales of goods to external customers flowing from the acquisition of the Royal Hawaiian Orchards branded retail business in March 2018, together with sales price increases and gross margin improvement initiatives. Additionally a higher nut-in-shell intake from independent growers combined with continued favourable growing conditions in the orchard have resulted in improved kernel production volumes and efficiencies at the MacFarms factory.

Following arrival of the equipment necessary to prepare the company owned orchard floor for mechanical harvesting we will commence trials and assess the feasibility, cost/benefits and likely timeframes to convert a portion of the orchard to mechanical harvesting.

Macadamia inventory on hand has been increased through additional kernel purchases to ensure sufficient inventory is available to meet forecasted sales. This increase in inventory impacted working capital and net debt levels.

We will launch an organic range of Royal Hawaiian Orchards macadamias in March and follow with a MacFarms brand refresh launch in June 2019. Demand for macadamias remains high and we have increased our distribution to circa 41,000 outlets across the US capitalising on our market leading position and consumer demand for healthier snacking options.

The improved Tourism segment profit of \$0.461 million resulted from higher revenues driven by a combination of an increase in visitor numbers and a higher spend per visitor at The Ginger Factory, additional profit contribution following the acquisition of the remaining 50% shares of the Ginger Head Quarters joint-venture in September 2017 and a reduction in operational overheads.

The Ginger Factory Tourist Park provides a unique sales and marketing platform to showcase our Buderim Ginger products to over 300,000 visitors annually in a wonderful sub-tropical setting on the Sunshine Coast. As part of the Ginger Division review consideration is being given to options to expand the park's utilisation and increase revenue streams. We remain focussed on promoting the park to international guests whilst ensuring we continue to serve our loyal local guests.

I would like to thank our team for their hard work and commitment to delivering these results, and to thank our suppliers and customers for their support, and you our shareholders for your continuing support as we transform our Group.

Yours faithfully

A handwritten signature in black ink, appearing to read 'A Bond', written in a cursive style.

Andrew Bond

Chief Executive Officer