



ABN: 55 009 686 435



HALF YEAR REPORT TO SHAREHOLDERS

for the six months ended 31 December 2016



Dear Shareholder

CAPILANO'S HALF-YEAR PERFORMANCE

For the six months to 31 December 2016, we report a statutory net profit before tax (NPBT) of \$7.47m, which compares to \$7.77m for the same period last year, a decrease of 3.8%.

The profit for this half was impacted by a capital gain of \$2.07m from the sale of beekeeping assets to our newly established joint-venture with Comvita, Medibee Apiaries Pty Ltd. A revaluation of honey stock, as required by our standard costing accounting policy, resulted in a \$1.33m downward adjustment due to a honey price reduction in December 2016, which compares to a \$1.42m gain last financial year. A significant research and marketing investment to launch Beotic[®] saw an additional \$1.32m spent compared to the corresponding period of minimal activity last financial year. This investment was undertaken to protect intellectual property and to build consumer awareness of the benefits of consuming Beotic[®] prebiotic honey.

Revenue has decreased by 0.86% to \$66.52m, primarily a result of moving to net pricing with a leading retailer in August 2016, which reduced revenue and accompanying rebates by \$1.44m. In addition, we have exited some low margin international industrial business.

Capilano Honey Limited Group - 6 months to 31 December	FY16 Half Year (\$m)	Current Half Year (\$m)
Revenue	\$67.10	\$66.52
Adjusted rebates	-	\$1.44
Adjusted comparable revenue	\$67.10	\$67.96



Interest bearing net debt has decreased to \$12.3m from \$20.2m for the corresponding period last financial year. This reduction is primarily due to the capital raising undertaken at the start of this financial year to support the greater working capital requirements of the company. Inventory value for the period has increased from \$32.6m (December 2015) to \$38.3m (December 2016), with stock at 4,984 tonnes up from 4,288 tonnes for the same time last year. Inventory of premium Australian honey has increased by 739 tonnes, decreasing the requirement for imports which have reduced.

The average cost of Australian honey for the six months to 31 December has risen slightly to \$5.68/kg compared with \$5.64/kg for the same period last year.

Capilano Honey Limited Group - 6 months to 31 December	FY16 Half Year(\$m)	Current Half Year(\$m)
Revenue	\$67.1	\$66.5
Earnings Before Interest and Tax (EBIT)	\$8.02	\$7.63
Net Operating Profit Before Tax (NPBT)	\$7.77	\$7.47
Average Honey Price / Kg	\$5.64	\$5.68
Current Ratio	1.66	2.95
Debt Ratio (Total Liabilities/Total Assets)	52%	32%
Gearing Ratio (Net Interest Bearing Debt/Equity)	52%	20%
Interest Cover	35.5	52.4
Net Assets	\$39.2	\$61.6
Earnings Per Share (EPS)	\$0.64	\$0.62
Net Assets Backing/Share	\$4.56	\$6.51



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Domestic market share of branded retail products has been maintained, which is pleasing to see as we participate in a more normalised market of improved honey supply and increased competition.

The Premier of Queensland launched our innovative prebiotic honey, Beeotic[®], in late September 2016. The result of years of scientific research, Beeotic[®] is the world's first clinically tested prebiotic honey, offering consumers a newly identified health and wellness benefit from select Australian honeys. Exclusive to Capilano, Beeotic[®] is a regulated complementary medicine that requires TGA-licenced manufacture. Now widely available domestically, we have recently commenced exporting Beeotic[®] to parts of Asia and are seeking regulatory approvals in a number of foreign countries, each with varying structures and requirements that need to be met. The company is pleased with initial market acceptance of Beeotic[®].

This financial year we started two primary production joint-ventures, one a Manuka focussed operation in northern New South Wales and the other based in highly productive regions of Western Australia. In both cases we have organically grown beehive numbers to minimise disease risk, which requires splitting existing hives and initially reducing honey production. This work has increased hive numbers that will improve our production performance in coming seasons.

As we pursue growth, export of premium retail products is a prevailing focus. All Capilano branded products sold domestically and exported to over 30 countries worldwide are packed with 100% Australian honey in every market, without exception. Capilano has always taken a very considered approach to achieving distribution and sales into China. Having visibility of distribution so we can best manage the sales into this market to deliver sustainability, control and growth potential has been our priority. Despite the complications of exporting products to China, our exports to China continue to grow with an uplift of 87% this half year.

Capilano's business continues to concentrate on the core strategies of meeting our consumers' expectations, providing choice, leading innovation and delivering consistent premium quality in both flavour and packaging.

Yours sincerely

Ben McKee
Managing Director

