

BUSINESS UPDATE for the period 1 July 2017 to 30 September 2017 – Quarter 2, 2018

Commentary:

AUCKLAND, New Zealand, 30 October 2017 - The Board of Oceania Natural (NXT: ONL) announces the quarterly performance of the business to 30 September 2017, compared to its Key Operating Milestone (KOM) targets.

The Board will continue to closely monitor the Company's performance against its KOM targets and will advise the market if any restatement is required at the appropriate time.

Total Sales

Sales for the quarter were \$210k, the bulk of which was generated from the sales of Noni juice, water and other ONL products.

Overview/Summary:

Product range

The quarter was marked by repositioning the company from a focus on honey products to include other products for customers based in ONL's target markets. These customers have a strong appetite for products such as Noni Juice and water (refer below). There continues to be a healthy demand for Noni juice. This quarter, ONL met with one of the largest food technology research institutes in China, located in Wuxi, to expand ONL's research efforts into the benefits of Noni fruit. The price of competitor's Manuka honey products continues to remain depressed in China. Together with low demand, ONL has not pursued sales of Manuka honey into the Chinese market for this past quarter.

Demand from Japan and Singapore

Following the successful completion of trial shipment to Japan, ONL has secured agreements with existing partners to expand entry into this market. The company has also continued to fulfill consistent orders to Singapore.

Water

This quarter, ONL confirmed that it would further invest in its sales of bottled and boxed water products. ONL began trial shipments of water in December 2016 into China, as part of its strategy to expand its product range in its largest market, and in response to the massive demand for "clean water". Following the completion of these trial shipments, ONL recognised that it would be advantageous, to ensure customer loyalty for bottled and boxed water, it needed to own a resource consent allowing the taking of water. ONL recently completed the purchase of a water packing plant and a resource consent to ensure supply. ONL is currently





in discussions with the plant's tenant and local brand owners of bottled water concerning future partnerships and operations, and will update the market accordingly once these discussions are complete. The plant currently employs staff from nearby small communities and ONL expects to be able to continue to offer and expand jobs to people in the area.

New Zealand Sales

Were \$117k, for the quarter and were \$72k for Q1. ONL has made progress with a local distributor for Noni juice and ONL products are offered locally through online platforms. Manuka honey sales to local retail outlets continue to grow, while off a low base.

Overseas Sales

Were \$93k for the quarter and include direct channels and online sales. During the quarter, the ONL Wuxi team have introduced new distributors looking to sell ONL water once their existing inventories are sold. These distributors will then use ONL as their new supplier. Volumes are expected to grow consistently over the coming 6 months, and it is then expected that these distributors will be selling ONL product. ONL will then be in a position to meet the demand having invested in the operating plant, and associated resource consent to ensure that targeted volumes are able to be supplied to market.

Gross margin

Second quarter margin was 22%. Due to the potential product mix changes forecast for the remainder of FY18, ONL will monitor the margin KOM as the potential product mix will impact margins given not all products earn the same margin. For example, ONL is targeting to increase its FMCG products and margins within this channel are lower than other channels.

Outlook

The demand for ONL products, particularly Noni juice and water continues to build due to the investment in a physical presence in China, via ONL Wuxi, through exploring distributor networks and new channels to market in new regions. ONL will continue to focus on expanding its footprint in China through ONL Wuxi, as Chinese regulators favour business operators with a physical presence in their market.

ONL's Chinese based distributors and customers remain uncertain about the grading of Manuka honey and as such, the future sales of Manuka honey to distributors within China remains under review.

In response to the enduring price depression of competitor honey products in China, ONL will continue to focus on expanding its non-honey product range to include those products that are in high demand and allow ONL to be competitive in this market.



These non-honey include Noni juice, as sales continue to grow for this product. ONL will continue to explore its future potential through research efforts and supplier partnerships. Further, the board will continue looking at options to increase the production and distribution capacity both within New Zealand and offshore.

Performance against Key Operating Milestones:

Key Operating Milestone ("KOM")	Q1 FY18	Q2 FY18	Full Year FY17 Targets
1 - Total Revenue (\$'000)	\$123	\$210	\$2,780
2 – New Zealand Sales (\$'000)	\$72	\$117	\$376
3 – Overseas Sales (\$'000)	\$51	\$93	\$2,404
4 – Gross Margin Percentage	24.0%	22.0%	22.0%

KOM Calculations

Total Revenue (\$000)

ONL is primarily a food and beverage company selling a range products into the domestic and export markets. These products include a range of honey products, Noni juice, natural product dietary supplements as well as a small range of cosmetics under the Labella brand.

ONL has key investments, relationships and distribution agreements in place that will drive its revenue growth through the sale of these products. ONL is also working on a number of strategic initiatives to increase both New Zealand and export revenues.

A combination of existing products, with those in the product development pipeline, will result in ONL enjoying increasing demand through the expansion of the Rich Garden and Pacific Natural product range in China.

The revenue projections made in the KOMs are in New Zealand dollars and will fluctuate depending on currency movements of the New Zealand dollar exchange rate against the currencies where the products are sold.



New Zealand Sales (\$000)

New Zealand channels for sales include:

- Online sales through various websites offering the products; and
- Local resellers based in New Zealand.

ONL's strategy is to increase its New Zealand sales through online channels and have ONL branded products available in more retail outlets.

Overseas Sales (\$000)

Overseas Sales represent all export sales from New Zealand to foreign customers. All transfers to ONL overseas entities are not recorded as sales until they are on-sold to third party customers in the respective markets. Numerous sales channels are used, and are supported by marketing within China managed by Oceania Natural Wuxi Limited. ONL continues to work with various distributors in order to increase revenues in foreign markets. Forecast exchange rate used for sales targets in China are converted to NZD/CNY 1:0.20.

'Gross Margin' Expressed as a percentage.

Expressed as a percentage, the Gross Margin represents the percentage of total revenue that the ONL group obtains from the products sold, less the direct costs associated with producing the goods sold (COGS), divided by the total revenue. Inventory adjustments and valuation adjustments are not included in this Gross Margin calculation. Growing Gross Margin allows ONL to invest in other business supporting activities, such as marketing, expanding into new markets, and investing in new business opportunities.

It is calculated as follows:

$$\text{Gross Margin \%} = \frac{\text{Total Group Revenue (less) COGS}}{\text{Total Group Revenue}}$$

Future Events:

Event	Date
Half Year Preliminary Result Due	30 November 2017
Interim Report Due	31 December 2017
3 rd Quarter business Update Due	31 January 2018

ENDS



**Authority for this announcement**

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Oceania Natural Limited's shares can be traded on the NXT Market. Oceania Natural Limited is required to disclose information under the NXT Market Rules. Information about the NXT Market and Oceania Natural is available here www.nxt.co.nz or from the company's website at www.onlgroup.co.nz

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About Oceania Natural Ltd

Oceania Natural (ONL) produces and distributes healthy, high quality food and beverage products derived from natural food ingredients, including New Zealand Manuka honey as well as Noni fruit sourced from the Cook Islands. More than 80% of the company's sales are generated from exports, predominantly to China, where ONL has a subsidiary company and an established network of distributors marketing its products under its "Rich Garden" and "Pacific Natural" brands. The company also sells direct from its websites and through several popular online trading platforms in China including TMall, WeChat and Alibaba. See www.onlgroup.co.nz and www.richgarden.co.nz

