



OCEANIA NATURAL LIMITED (NXT: ONL) – NXT Market Announcement

Date: 16 January 2018

2018 ONL Interim Update - Restatement of Key Operating Milestones

The Oceania Natural Limited (ONL) Board advises that, in accordance with the NXT Market Rules and following a review of its Key Operating Milestones (KOMs), it has restated its KOMs for the year ended March 31, 2018.

As previously signalled to the market, the ONL Board in conjunction with its advisors has undertaken a review of its Key Operating Milestones (**KOMs**) and as a result believes they do not meet the **NXT standard** in that taken as a whole, the KOMs no longer represent the most significant factors by which to assess the company's performance.

The Company has therefore determined that after reviewing its trading to date, continued pricing pressure in the Manuka Honey market and taking into account its recent purchase of water related assets and facilities, to revise the KOMs as outlined in the following table:

Key Operating Milestones (KOMs)	Current Full Year FY18 Targets	Restated & New Full Year FY18 Targets
1 - Total Revenue NZ('000)	\$2,780	\$1,350
2 – New Zealand Sales NZ('000)	\$376	\$941
3 – Overseas Sales NZ('000)	\$2,404	\$409
4 – Water Sales % of Total Revenue (New KOM)	n/a	55%
5 – Total Litres of Water Packed (New KOM)	n/a	1,250,000
5 – Gross Margin % (Discontinued KOM)	22%	n/a

The rationale for the restatement of the first 3 KOMs, the addition of the Water Sales Percentage of Total Revenue KOM and Total Litres of Water Packed KOM, and the discontinuation of the Gross Margin % KOM is outlined further in this announcement.

KOM Directors Certificate

In the Directors' opinion, ONL's updated Key Operating Milestones, taken together, address the most significant factors by which the performance of ONL's group's business should be assessed and monitored and will result in understandable reporting for investors and therefore meet the NXT standard.
Dated: 16/01/2018

Name of Director: Walker Zhong

Signature: 

Name of Director: Ross Keeley

Signature: 

Background to the Restatement of the KOMs

- **Total Revenue (Revised Down)**

The KOM target set for FY18 was based on a stabilisation of Manuka Honey prices and demand, and selling water products into China with volume of 200 containers budgeted for the year ended March 31, 2018.

However, while ONL worked with various customers to try and secure water sales, no long-term commitments were entered into as a risk identified by customers was that ONL was having product manufactured to order and was not in control of any resource.

ONL therefore looked for local opportunities to secure volume and resource and this was the driver in purchasing its water bottling plant and manufacturing facilities which were finalised in December. ONL is now looking to work with customers to secure product sales into China through committed supply agreements.

As a result, although water volumes have started to pick up and Noni Juice demand remains strong, with the continued softness in prices and demand for Manuka Honey, the Company believes it will not now achieve its current KOM forecast and consequently has revised downwards its Total Revenue target.

Commentary on Revenue KOM:

ONL is primarily a food and beverage company selling a range of products into the domestic and export markets. With the acquisition of a water resource and manufacturing facility in December 2017, the Company's key focus now includes a range of spring and mineral water products, Noni juice and other products including Manuka Honey.

ONL has key investments, relationships and existing distribution agreements in place that will be used to drive its revenue growth through the sale of water, Noni Juice and other products. ONL also continues to work on strategic initiatives to increase both New Zealand and export revenues.

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, particularly the Chinese Yuan.

- **New Zealand Sales (Revised Up)**

Having completed the acquisition of the ownership and operation of a water bottling facility in December 2017, ONL has secured a brand and range of water products that are currently sold throughout retail stores in New Zealand and has accordingly revised upward the New Zealand Sales KOM to reflect local water sales that were not included in the original KOM forecast.

This upgrade in New Zealand Sales is based on the inclusion of projected sales from the *Water for Everyone* range of products acquired as part of the December acquisition as well as improved sales of Noni Juice with ONL moving to a direct selling model to customers.

Commentary on New Zealand Sales KOM:

New Zealand revenues are expected to lift strongly, driven by:

- Retail sales of water product through existing leading retail outlets in New Zealand;
- Online sales through various websites offering the water product range;
- Sales of water through New Zealand based local resellers;
- Increased sales of Noni Juice with greater focus as a result of moving to a direct selling model;
- Sales of other products, including Manuka Honey.

ONL's strategy is to increase its New Zealand sales and the range of products offered by focusing on existing online and distribution channels as well as developing new sales channels.

- **Overseas Sales (Revised Down)**

As noted, initial overseas sales targets were set on a stabilisation of Manuka Honey prices and demand, and on selling volume water through China via contracted sales agreements. However, Manuka Honey prices and demand have remained soft and through not owning any manufacturing facility nor water resource, ONL was unable to execute potential opportunities it had identified for volume water sales.

Having purchased the water facility, the initial focus is to grow the local sales channels and invest in the plant to ensure it is capable of increasing the capacity that will be needed to target high volume export sales.

This has resulted in the Overseas Sales KOM being restated downwards.

Commentary on Overseas Sales KOM:

Overseas Sales represent all export sales from New Zealand to overseas customers. All transfers to ONL's 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 overseas markets, with the main focus being on the Chinese market.

ONL is also developing sales channels in other overseas countries in addition to China, including Japan, Singapore and South Korea for its Noni Juice product. Recent sales have been well received and resulted in increased orders for ongoing supply.

The forecast exchange rate used for sales targets in China has been converted to NZD/CNY at 0.20:1.

- **“Water Sales%” of Total Revenue (New KOM)**

The addition of this new KOM has been included to show how ONL's core focus is transitioning from a honey product supplier to a manufacturer and supplier of water products.

This percentage of water sales as part of Total Revenues is expected to increase as the efficiency of the water manufacturing facility are improved and sales of product increases through existing and new channels, both locally and overseas.

The transition to a significant new product range is a change in product focus for the Company and the Water Sales % of Total Revenue KOM will enable investors to monitor the progress and success of this transition. Increasing water sales as a percentage of total revenues will be a lead indicator of the successful transition by ONL into this product range.

Commentary on Water Sales % of Total Revenue KOM:

Expressed as a percentage of total sales, the Water Sales % of Total Revenue represents the percentage of total revenue (both New Zealand and Overseas) that the ONL group obtains from the sale of water products.

There is an existing sales channel for the water products into New Zealand following the recently announced acquisition of the *Water for Everyone* brand. ONL expects to grow water sales both locally and internationally while also looking to enhance production processes to ensure products keep pace with increasing demand and remain competitive in all markets.

- **Total Litres of Water Packed (New KOM):**

The purchase of the water bottling plant and manufacturing facility has seen a change in the sourcing of ONL's water products, from being solely an OEM customer (a customer that has products manufactured for it by other suppliers) to a company that also produces and manufactures its own product.

Water Volume was not a key measure for ONL in the past as it was not a main focus for the business as orders for product were only placed with manufacturers as and when needed for resale by ONL. Having purchased its own water facility and a local water brand, and with its increased focus on water products, targeted sales are now dependant on the ability for water products to be produced and packaged for sale to the market.

The Total Litres of Water Packed KOM is the forecast water volumes in litres that will be packed in order to support the revenue KOM and includes water sourced from ONL's facility as well as other contract manufacturers.

Commentary on Total Litres of Water Packed KOM:

Having secured a water processing facility, ONL is transitioning from a food and beverage focused company that outsourced product to be sold under its own brands, to expanding its business into a vertically integrated seller of its own water products.

ONL water products are expected to grow as a percentage of overall sales and the Total Litres of Water Packed is a key measure to ensure that the manufacturing and bottling facility, combined with outside suppliers, are able to support planned growth in sales.

Total Litres of Water Packed represents the total of all water packed at the Company's Kaiwaka facility for ONL sales and external brands, together with total litres of water packed by other manufacturers and suppliers for ONL sales.

This measure is non-financial and while it indicates the anticipated growth in the litres of water packed in order to meet the revenue KOM targets, it is also used to ensure that the

average selling price per litre packed over the product range is maintained within acceptable levels for the group.

- **Gross margin (Discontinued KOM)**

Given the varying margins of its products, ONL does not believe this is now an appropriate KOM by which to measure the Company's performance and may be misleading for investors.

When the focus of ONL was acquiring key products in wholesale volumes this KOM was very transparent as a measure of business performance. With ONL now having secured the supply of a new key product through purchasing its own water manufacturing facility and with an increased focus on water products, there are far greater variables on margin (for example ONL's own group sales versus volume based external sales).

In addition, ONL's cost and margins are now, with its own source of supply, far more commercially sensitive.

ONL has therefore decided to remove this measure as a KOM.

ENDS

Authority for this announcement

Name of senior manager or director authorised to make this announcement	Wei (Walker) Zhong
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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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