COMVITA

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Comvita Limited and Group

COMVITA INTERIM REPORT

For the six months ended 30 September 2014

Contents

Directors' Declaration

The Directors are pleased to present the interim financial report, incorporating the condensed consolidated interim financial statements of Comvita Limited for the six months ended 30 September 2014.

Directors, from time to time, may transact with the Company directly or indirectly in the normal course of business through transactions completed at arm's length.

There were no other entries in the interest register during the period.

For and on behalf of the Board of Directors:

NEIL CRAIG
11 NOVEMBER 2014

LUKE BUNT
11 NOVEMBER 2014

From the Chairman and Chief Executive

Half year result positions Comvita for full year earnings growth

For the first six months to 30 September 2014 Comvita reported a net after tax loss of $3.3 million on sales of $59.7 million. This is an improvement from the forecast provided to the market on 24 September 2014. This half year result compares to a reported net after tax loss of $0.8 million and sales of $43.4 million for the same period of the prior year.

The half year result reflects the accounting treatment of Comvita's beekeeping operations, a negative impact of the non-cash revaluation of warrants held in Derma Sciences, Inc. (NASDAQ:DSCI), and the one-off costs associated with the acquisition of New Zealand Honey Limited. These items account for $3.4 million of the reported loss of $3.3 million.

Comvita is paying a 4 cents per share fully imputed interim dividend (the same as prior year). This will be paid on 5 December 2014 for those shares registered on 28 November 2014.

For the full year through to the end of March 2015, sales are forecast to be $142.5 million, a 24% increase from $115.3 million in the prior year and the company forecasts net profit after tax (NPAT) of $9.5 million, a 25% increase from $7.6 million in the prior year.

Comvita also announced a 1 for 5 renounceable rights issue to raise up to $24.4 million from existing shareholders.

Year-of-two-halves

Previously the Company has given guidance that the operating profit for the half year was likely to be lower than the prior year, and that the full year will be higher. This is partly due to our year-of-two-halves given the imbalance of sales between the northern hemisphere and southern hemisphere seasons.

Another key contributing factor is that ownership of a very large beekeeping operation has resulted in structural changes to the business. The accounting treatment for beekeeping operations, means that the profit benefit for the wider business, generated from the cost advantages of ownership, can only be recognised after the honey harvest is collected in the period January-March 2015. This has resulted in a negative effect on the NPAT result for the first half of the year.

Strategic initiatives realised

Comvita has completed a three year strategic initiative to increase direct ownership of Manuka honey supply, including the acquisition of New Zealand Honey Limited. That acquisition incorporated a long term honey supply agreement with New Zealand Honey Producers Co-operative Limited. This additional security of supply has enabled Comvita to continue with growth plans in their key Asian markets and in Australia and New Zealand.

Also supporting the supply strategy is the joint venture, Kaimanawa Honey Limited Partnership, with the East Taupo Lands Trust, a registered Māori authority of Ngāti Tūwharetoa, which was announced in November 2014.

Positive outlook for the full year

For the full year through to the end of March 2015, sales are forecast to be $142.5 million, a 24% increase from $115.3 million in the prior year and the company forecasts NPAT of $9.5 million, a 25% increase from $7.6 million in the prior year.

Since providing guidance in September 2014, sales momentum has continued to build surpassing our internal expectations in the key markets. This gives us additional confidence in the projected earnings provided for the full year. We note this projection is sensitive to the outcome of the summer honey harvest, the value of product sales and the value of the warrants that we hold in Derma.

The outlook for the full year is due to a number of factors. Firstly, supply chain issues which have impacted raw materials pricing and availability in the past are largely settled and therefore we are able to grow organically. Secondly, demand in-market for Comvita's products is generally strong, and we still have a number of opportunities to exploit, either in new product offerings or in the entry to new geographic markets. This will lead to further sales growth. Finally, we are confident that our investment in business infrastructure and systems will provide us with the opportunity to realise accelerated earnings growth through operating leverage.

Rights Offer

On 12 November 2014, Comvita announced a 1 for 5 renounceable rights issue to raise up to $24.4 million from existing shareholders, which will strengthen the balance sheet, providing working capital for honey inventory and capacity for value enhancing acquisitions.

New shares issued on 19 December 2014 from the Rights Issue will not qualify for the interim dividend paid on 5 December 2014.

Our continued growth, and particularly our investment over the past five years in apiary business acquisitions, olive leaf production land, and expansion and infrastructure build have largely been funded from operating cash flows, long and short term borrowings and the strategic investment made by Derma of NZD$8.9 million in September 2013. As we grow, and given the seasonal nature of the honey harvest, we also require increased working capital during the New Zealand Spring. This is because we must invest in inventory and beekeeping processes prior to our large northern hemisphere selling period for a significant proportion of our product range.

This capital raising will help address these issues, by allowing for a reduction in bank debt by the full amount of the proceeds received pursuant to the Offer. This will provide further equity to support the businesses investment in honey inventory as well as affording financial capacity to consider acquisitions.

We remain committed as a Board and Management to deliver both steady and growing income and dividends, and sustainable revenue growth.

Neil Craig
CHAIRMAN

Brett Hewlett
CHIEF EXECUTIVE OFFICER

Condensed Consolidated Interim Income Statement

For the 6 months ended 30 September 2014

In thousands of New Zealand dollars

	Note	September 2014 Unaudited	September 2013 Unaudited
Revenue		59,675	43,362
Cost of sales		(33,851)	(19,325)
Gross profit	6	25,824	24,037
Other income		260	348
Selling and marketing expenses		(15,955)	(13,541)
Distribution expenses		(2,755)	(2,578)
Research and development expenses		(1,247)	(1,600)
Administrative expenses		(7,775)	(6,957)
Results from operating activities		(1,648)	(291)
Finance income		656	491
Finance expenses		(2,536)	(840)
Net finance cost	7	(1,880)	(349)
Loss before income tax		(3,528)	(640)
Income tax benefit/(expense)	8	267	(150)
Loss for the period attributable to equity holders of the Company		**(3,261)**	**(790)**
Attributable to:			
Equity holders of the Company		(3,140)	(768)
Non-controlling interest		(121)	(22)
Earnings per share:			
Basic earnings per share (NZ cents)	9	(10.21)	(2.70)
Diluted earnings per share (NZ cents)	9	(10.21)	(2.70)

The notes on pages 10 to 20 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Comprehensive Income

For the 6 months ended 30 September 2014

In thousands of New Zealand dollars

	September 2014 Unaudited	September 2013 Unaudited
Items that are or may be reclassified subsequently to the income statement		
Foreign currency translation differences for foreign operations	3,922	(3,603)
Effective portion of changes in fair value of cash flow hedges	(1,672)	404
Net change in fair value of available-for-sale financial assets	(3,378)	458
Foreign investor tax credits received	75	45
Income tax on income and expense recognised directly in other comprehensive income	(489)	876
Income and expense recognised directly in other comprehensive income	**(1,542)**	**(1,820)**
Loss for the period	(3,261)	(790)
Total comprehensive income for the period attributable to equity holders of the company	**(4,803)**	**(2,610)**
Attributed to:		
Equity holders of the Company	(4,682)	(2,588)
Non-controlling interest	(121)	(22)

The notes on pages 10 to 20 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

For the 6 months ended 30 September 2013
Unaudited

In thousands of New Zealand dollars	Share capital	Foreign currency translation reserve	Hedging reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at 1 April 2013	60,608	131	142	6,111	14,879	81,871	(13)	81,858
Loss after tax for the period	-	-	-	-	(768)	(768)	(22)	(790)
Other comprehensive income (net of tax)								
Foreign investor tax credits received	-	-	-	-	45	45	-	45
Foreign currency translation differences for foreign operations	-	(2,594)	-	-	-	(2,594)	-	(2,594)
Effective portion of changes in fair value of cash flow hedges	-	-	290	-	-	290	-	290
Net change in fair value of available-for-sale financial assets	-	-	-	439	-	439	-	439
Total other comprehensive income for the period	-	(2,594)	290	439	45	(1,820)	-	(1,820)
Total comprehensive income for the period	-	(2,594)	290	439	(723)	(2,588)	(22)	(2,610)
Transactions with owners, recorded directly in equity								
Share based payments	-	-	-	-	111	111	-	111
Issue of ordinary shares								
- private placement	8,862	-	-	-	-	8,862	-	8,862
- executive share scheme	125	-	-	-	-	125	-	125
- staff share scheme	39	-	-	-	-	39	-	39
Dividend paid	-	-	-	-	(2,676)	(2,676)	-	(2,676)
Total transactions with owners	9,026	-	-	-	(2,565)	6,461	-	6,461
Balance at 30 September 2013	**69,634**	**(2,463)**	**432**	**6,550**	**11,591**	**85,744**	**(35)**	**85,709**

The notes on pages 10 to 20 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

For the 6 months ended 30 September 2014
Unaudited

In thousands of New Zealand dollars	Share capital	Foreign currency translation reserve	Hedging reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at 1 April 2014	70,062	(4,531)	551	6,286	19,021	91,389	(192)	91,197
Loss after tax for the period	-	-	-	-	(3,140)	(3,140)	(121)	(3,261)
Other comprehensive income (net of tax)								
Foreign investor tax credits received	-	-	-	-	75	75	-	75
Foreign currency translation differences for foreign operations	-	2,823	-	-	-	2,823	-	2,823
Effective portion of changes in fair value of cash flow hedges	-	-	(1,204)	-	-	(1,204)	-	(1,204)
Net change in fair value of available-for-sale financial assets	-	-	-	(3,236)	-	(3,236)	-	(3,236)
Total other comprehensive income for the period	-	2,823	(1,204)	(3,236)	75	(1,542)	-	(1,542)
Total comprehensive income for the period	-	2,823	(1,204)	(3,236)	(3,065)	(4,682)	(121)	(4,803)
Transactions with owners, recorded directly in equity								
Share based payments	-	-	-	-	108	108	-	108
Issue of ordinary shares								
- issued for business combination (note 17)	2,000	-	-	-	-	2,000	-	2,000
- executive share scheme	678	-	-	-	-	678	-	678
- staff share scheme	36	-	-	-	-	36	-	36
Dividend paid (note 19)	-	-	-	-	(2,635)	(2,635)	-	(2,635)
Total transactions with owners	2,714	-	-	-	(2,527)	187	-	187
Balance at 30 September 2014	**72,776**	**(1,709)**	**(653)**	**3,050**	**13,430**	**86,894**	**(313)**	**86,581**

The notes on pages 10 to 20 are an integral part of these condensed consolidated interim financial statements.

COMVITA

Condensed Consolidated Interim Statement of Financial Position

As at 30 September 2014

In thousands of New Zealand dollars	Note	September 2014 Unaudited	September 2013 Unaudited	March 2014 Audited
Assets				
Property, plant and equipment	10	36,743	26,739	30,563
Intangible assets and goodwill	10	45,236	40,342	40,558
Biological assets		8,366	7,031	7,385
Investment in equity accounted investees		85	73	85
Investments	11	9,287	12,940	12,665
Deferred tax asset		1,293	1,449	768
Total non-current assets		**101,010**	**88,574**	**92,024**
Inventory	12	42,146	33,277	27,156
Tax receivable		821	1,915	254
Trade receivables		19,034	10,472	18,564
Sundry receivables		2,964	3,179	3,798
Derivatives	11	778	2,580	2,832
Cash and cash equivalents	13	7,004	2,675	2,865
Total current assets		**72,747**	**54,098**	**55,469**
Total assets		**173,757**	**142,672**	**147,493**
Equity				
Issued capital		72,776	69,634	70,062
Reserves		688	4,519	2,306
Retained earnings		13,430	11,591	19,021
Non-controlling interest		(313)	(35)	(192)
Total equity		**86,581**	**85,709**	**91,197**
Liabilities				
Employee benefits		314	267	260
Deferred revenue		4,660	5,718	5,190
Loans and borrowings	13	69,100	35,631	28,800
Deferred tax liabilities		-	956	770
Total non-current liabilities		**74,074**	**42,572**	**35,020**
Bank overdraft	13	-	212	-
Loans and borrowings	13	630	1,801	555
Tax payable		275	29	965
Trade and other payables		7,286	8,853	14,849
Derivatives	11	963	-	-
Deferred revenue		1,057	1,057	1,057
Employee benefits		2,891	2,439	3,850
Total current liabilities		**13,102**	**14,391**	**21,276**
Total liabilities		**87,176**	**56,963**	**56,296**
Total equity and liabilities		**173,757**	**142,672**	**147,493**

The notes on pages 10 to 20 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

For the 6 months ended 30 September 2014

In thousands of New Zealand dollars	Note	September 2014 Unaudited	September 2013 Unaudited
Receipts from customers		59,472	49,570
Payments to suppliers and employees		(62,480)	(57,579)
Interest received		14	19
Interest paid		(1,444)	(865)
Taxation paid		(2,890)	(1,779)
Net cash flows from operating activities	14	**(7,328)**	**(10,653)**
Payment for acquisition of business	17	(17,090)	-
Payment for the acquisition of property, plant and equipment	10	(6,105)	(4,116)
Payment for the acquisition of intangibles	10	(3,367)	(1,750)
Payment for the acquisition of biological assets		(192)	(407)
Net cash flows from investing activities		**(26,754)**	**(6,273)**
Proceeds from the issue of shares		714	9,026
Payment of dividend		(2,635)	(2,676)
Drawdown of loans and borrowings		40,375	7,700
Repayment of loans & borrowings		-	(700)
Net cash flows from financing activities		**38,454**	**13,350**
Net increase/(decrease) in cash and cash equivalents		**4,372**	**(3,576)**
Cash and cash equivalents at the beginning of the year		2,865	5,998
Effect of exchange rate fluctuations on cash held		(233)	41
Cash and cash equivalents at the end of the period		**7,004**	**2,463**
Represented as:			
Cash and cash equivalents	13	7,004	2,675
Bank overdraft	13	-	(212)
Total		**7,004**	**2,463**

The notes on pages 10 to 20 are an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

1. REPORTING ENTITY

Comvita Limited (the "Company") is a company domiciled in New Zealand, and registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX"). The Company is an issuer in terms of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

The condensed consolidated interim financial statements of the Company for the six months ended 30 September 2014 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The comparatives are for the six months ended 30 September 2013.

The condensed consolidated interim financial statements were approved by the Board of Directors on 11 November 2014.

2. BASIS OF PREPARATION

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") NZ IAS 34 Interim Financial Reporting, as appropriate for profit-oriented entities.

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated group financial statements as at and for the year ended 31 March 2014.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except that derivative financial instruments, financial instruments classified as available-for-sale and biological assets are measured at fair value.

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency

These financial statements are presented in New Zealand dollars, which is the Company's functional currency. Amounts have been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of condensed consolidated interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Groups accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 March 2014.

The accounting policies have been applied consistently throughout the Group for the purposes of these condensed consolidated interim financial statements.

(e) Comparatives

The interim financial statement comparatives are consistent with presentation in the financial statements at 31 March 2014.

Notes to the Condensed Consolidated Interim Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 March 2014.

4. DETERMINATION OF FAIR VALUES

Some of the Group's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes on the same basis as those applied by the Group in the consolidated financial statements as at and for the year ended 31 March 2014.

5. SEGMENT REPORTING

Segment information is presented in the condensed consolidated interim financial statements in respect of the Group's contribution segments which are the primary basis of decision making. The contribution segment reporting format reflects the Group's management and internal reporting structure.

Performance is measured based on contribution which is a measure of profitability that the segment contributes to the Group. Contribution is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments. Inter-segment pricing is determined on an arm's-length basis.

Each segment sells Comvita's range of products, except for the medical segment, see below. Comvita's range of products primarily include products with apiary and other natural ingredients.

Apiary operations are an integral part of our total business and are represented over all segments.

The Company is organised primarily by geographic location of its subsidiaries, such as New Zealand, Australia, Asia & Europe, except for the Medical segment, though this is primarily earned from Derma Sciences, Inc., which is an American based company

The Group has five reportable segments as described below:

New Zealand	This segment captures both revenue and related costs for the New Zealand market, excluding exports.
Australia	This segment captures both revenue and related costs for the Australian domestic market and includes non-intercompany revenue and costs from Comvita Australia Pty Limited. This segment excludes all ethical medical based revenue and costs as these are shown in their own segment.
Asia	This segment captures both revenue and related costs of our Asian operations and customers. The Asian segment includes Hong Kong, Taiwan, Japan, China, Korea and Singapore.
Europe	This segment captures both revenue and related costs for the United Kingdom and European markets. This segment excludes all ethical medical based revenue and costs as these are shown in their own segment.
Medical	This segment is based over multiple geographical regions capturing both revenue and related costs for medical Manuka Honey based products. The main contributors to this segment are bulk medical honey sales, deferred revenue and royalty payments received from Derma Sciences, Inc.

Notes to the Condensed Consolidated Interim Financial Statements

5. SEGMENT REPORTING (CONTINUED)

Contribution Segments	New Zealand		Australia		Asia		Europe		Medical		Total reportable segments		Other		Total	
For the 6 months to 30 September	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
In thousands of New Zealand dollars																
Sales *	14,769	6,858	16,196	11,156	19,767	18,446	3,951	2,305	2,275	3,484	56,958	42,249	2,717	1,113	59,675	43,362
Contribution	5,313	2,949	3,782	2,642	1,179	1,433	423	(395)	959	975	11,656	7,604	(1,085)	(156)	10,571	7,448
Non attributable (including other corporate expenses)															(14,099)	(8,088)
Share of profit of equity accounted investees															-	-
Net (loss)/profit before tax															(3,528)	(640)

* Sales are net of inter-segment transactions. Inter-segment sales are nil (2013: nil).

Total assets

In thousands of New Zealand dollars	September 2014	March 2014
Total non-current assets for reportable segment	90,810	78,509
Other assets	9,287	12,665
Investment in equity accounted investees	85	85
Other unallocated assets	73,574	56,234
Consolidated total assets	**173,756**	**147,493**

6. GROSS PROFIT

Gross profit as a percentage of sales has decreased compared to the six-months ended 30 September 2013. This is primarily as a result of the acquisition of NZ Honey (refer note 17) which generates lower margins as a result of trading in lower grade honey's compared to those historically sold by Comvita, and increased sales in lower margin markets dominating the first six months of trading.

7. FINANCE INCOME AND EXPENSES

In thousands of New Zealand dollars	September 2014 Unaudited	September 2013 Unaudited
Interest income on bank deposits	14	19
Foreign exchange gain	642	472
Finance income	656	491
Interest expense on financial liabilities measured at amortised cost	(1,456)	(829)
Net change in fair value of derivatives designated at fair value through profit & loss	(1,080)	(11)
Finance expenses	(2,536)	(840)
Net finance cost	(1,880)	(349)

Notes to the Condensed Consolidated Interim Financial Statements

8. INCOME TAX EXPENSE

The effective tax rate is unusual for this reporting period at 8%, compared to September 2013 (negative 23%). The current period is impacted by a number of factors, including the spread of the net loss over various overseas markets which have local tax rates ranging from 15% to 30%. The previous period effective rate of negative 23% was primarily due to the timing of prior period adjustments being recognised in the first six months of that year. It is expected that the effective tax rate will normalise for the annual result.

9. EARNINGS PER SHARE

Basic earnings per share - weighted average number of ordinary shares

In thousands of shares	September 2014 Unaudited	September 2013 Unaudited
Issued ordinary shares at beginning of year	31,715	29,097
Effect of shares issued during the period	220	162
Weighted average number of ordinary shares at the end of the period	31,935	29,259

Diluted earnings per share - weighted average number of ordinary shares

In thousands of shares	September 2014 Unaudited	September 2013 Unaudited
Weighted average number of ordinary shares (basic)	31,935	29,259
Effect of stock entitlements on issue	1,190	893
Weighted average number of diluted shares at the end of the period	33,125	30,152

The effect of stock entitlements is nil where the exercise price is higher than the average share price for the year, in accordance with NZ IAS 33 *Earnings per share*.

When there is a net loss the diluted earnings per share cannot be less than the basic earnings per share.

10. PROPERTY, PLANT & EQUIPMENT

During the six months ended 30 September 2014 the Group acquired assets with a cost of $7,359,000 (six months ended 30 September 2013: $6,167,000), of which $3,280,000 was from business combinations (2013: $nil). Assets disposed of during the six months ended 30 September 2014 had a carrying book value of $18,000 (six months ended 30 September 2013: $nil).

INTANGIBLE ASSETS AND GOODWILL

During the six months ended 30 September 2014 the Group acquired intangible assets with a cost of $4,523,000 (six months ended 30 September 2013 $1,395,000), of which $1,720,000 was from business combinations (2013: $nil). Assets disposed of during the six months ended 30 September 2014 had a carrying book value of $nil (six months ended 30 September 2013: $nil).

In the first half of this year Comvita has undertaken a substantial capital works program around its ICT infrastructure, infrastructure build, its Apiary operations and the acquisition of NZ Honey (refer note 17).

Notes to the Condensed Consolidated Interim Financial Statements

11. FINANCIAL INSTRUMENTS

Financial instruments carried at fair value

A. Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In thousands of New Zealand dollars	September 2014			
	Level 1	Level 2	Level 3	Total
Derivatives designated at fair value through the income statement – Derma Sciences, Inc. Warrants (note 11c)	-	778	-	778
Derivatives – liabilities (hedged)	-	(963)	-	(963)
Other Investments	-	-	4	4
Available-for-sale financial assets – Derma Sciences, Inc. shares (note 11c)	9,283	-		9,283
Total	9,283	(185)	4	9,102

There have been no transfers between levels in either direction during the period.

In thousands of New Zealand dollars	September 2013			
	Level 1	Level 2	Level 3	Total
Derivatives designated at fair value through the income statement – Derma Sciences, Inc. Warrants	-	1,882	-	1,882
Derivatives – assets (hedged)	-	698	-	698
Other Investments	-	-	4	4
Available-for-sale financial assets – Derma Sciences, Inc. shares	12,936	-	-	12,936
Total	12,936	2,580	4	15,520

Available-for-sale financial assets – Derma shares

The Group determines fair value through Derma's share price on the Nasdaq, multiplied by the number of shares, converted into New Zealand dollar.

Derivatives – designated at fair value through the income statement – Derma warrants

The Group determines Level 2 fair value through the application of the Black Scholes Model. Inputs include, the share price (a Level 1 input), risk free rate of the remaining life of the warrant, and the volatility of Derma Sciences, Inc. share price.

Derivatives – assets and liabilities (hedged)

The Group's Level 2 fair values for simple over-the-counter derivative financial instruments are based on broker quotes. Those quotes are tested for reasonableness by discounting expected future cash flows using market interest rate for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Notes to the Condensed Consolidated Interim Financial Statements

11. FINANCIAL INSTRUMENTS (CONTINUED)

B. Fair values

The fair value of all financial assets and liabilities is the same as the carrying amount.

C. Investments and warrants held in Derma Sciences, Inc.

	September 2014 Unaudited	September 2013 Unaudited	March 2014 Audited
Available-for-sale financial asset			
Number of shares held	864,880	864,880	864,880
Value of shares held	$9,283,000	$12,936,000	$12,661,000
Derivative financial asset			
Number of warrants held	233,333	233,333	233,333
Value of warrants held	$778,000	$1,882,000	$1,858,000

The value of both the shares and the warrants have decreased primarily due to a decrease in Derma Sciences, Inc. share price in the previous six months.

12. INVENTORY

In thousands of New Zealand dollars	September 2014 Unaudited	September 2013 Unaudited	March 2014 Audited
Raw materials	21,883	10,426	14,722
Work in progress	4,868	3,600	268
Finished goods	15,395	19,251	12,166
Total inventory	42,146	33,277	27,156

The increase in inventory of $15 million since 31 March 2014 is due to an increase in raw materials and work in progress. The increase in raw materials compared to year-end is primarily due to the acquisition of NZ Honey (refer note 17). Work in progress increase is consistent with the prior year and is due to the honey crop seasonality, and is also due to the increase in owned Apiary business compared to September 2013.

13. LOANS AND BORROWINGS

This note provides information about interest-bearing loans and borrowings issued and repaid during the periods presented.

In thousands of New Zealand dollars	September 2014 Unaudited	September 2013 Unaudited
Balance at beginning of period	29,355	31,335
Foreign exchange movement	-	(903)
Repayment of term loans & borrowings	-	(700)
Drawdown from bank overdraft	-	212
Drawdown of related party borrowings	75	-
Drawdown from long term borrowings	40,300	7,700
Balance at end of period	69,730	37,644
Represented as:		
Bank overdraft	-	212
Current loans and borrowings	630	1,801
Non-current loans and borrowings	69,100	35,631
Total loans and borrowings	69,730	37,644
Less: cash and cash equivalents	(7,004)	(2,675)
Total net debt	62,726	34,969

The Group was in compliance with all banking covenants during the period and as at 30 September 2014.

Net debt has increased by $40 million from $29 million at 31 March 2014 as a result of our capital expenditure programme (refer note 10), our inventory build to meet the second half of the year forecast sales demand (refer note 12) and acquisition of NZ Honey (refer note 17).

Notes to the Condensed Consolidated Interim Financial Statements

14. RECONCILIATION OF THE LOSS FOR THE PERIOD WITH THE NET CASH FROM OPERATING ACTIVITIES

In thousands of New Zealand dollars	September 2014 Unaudited	September 2013 Unaudited
Loss for the period	(3,261)	(790)
Adjustments for:		
Depreciation	1,642	1,098
Amortisation of intangibles	645	619
(Gain)/loss on disposal of property, plant and equipment	(17)	(4)
Share based payments	108	111
Release of deferred revenue	(526)	(528)
Fair value adjustment in biological assets	-	39
Profit/(loss) adjusted for non-cash items	(1,409)	545
Change in inventories	(14,990)	(12,879)
Change in trade receivables	(470)	7,455
Change in sundry debtors and prepayments	834	59
Change in trade and other payables	8,833	(3,275)
Change in employee benefits	(591)	(308)
Change in derivatives	3,017	(432)
Change in tax payable	(1,257)	(972)
Change in deferred tax	(1,295)	(846)
Net cash from operating activities	(7,328)	(10,653)

The Group's negative operating cash flow in the first six months of this year is a direct result of the Group's planned increase in building supplies of both raw materials and work-in-progress inventories to meet the second half year forecast sales demands.

15. RELATED PARTIES

Transactions with key management personnel
Key management personnel compensation comprised:

In thousands of New Zealand dollars	September 2014 Unaudited	September 2013 Unaudited
Short term employee benefits	862	654
Shared based payments	59	52
Total key management personnel compensation	921	706

Other transactions with key management personnel
Directors and other key management personnel of the Company control 24.2% (31 March 2014: 27.8%, 30 September 2013: 20.3%) of the voting shares of the Company.

Other related party transactions
The Group rents property from Extracts NZ Limited, an equity accounted investee of the Group. The terms and condition of the transactions are determined on an arm's length basis. The value of rent during the period was $25,000 (30 September 2013: $25,000) and balance owing was $nil (30 September 2013: $nil).

Craigs Investment Partners Limited is considered to be a related party as Neil Craig is chairman of both entities. During the period, fees paid to Craigs Investment Partners Limited in relation to other expenses, mainly for secretarial services were $17,000 (six months ended 30 September 2013: $11,000).

16. EXECUTIVE EMPLOYEE SHARE SCHEME

Comvita Limited has an executive share scheme. The terms and conditions of this scheme are disclosed in the most recent annual financial statements. There has been one issue during the six months ended 30 September 2014. Movements in the number of share entitlements outstanding under the scheme are as below:

	September 2014		September 2013	
Entitlement In thousands	Number of Entitlements	Weighted average exercise price	Number of Entitlements	Weighted average exercise price
Entitlements on issue				
Entitlements outstanding at beginning of period	1,271	3.30	893	2.05
Entitlements issued	773	3.67	731	3.80
Entitlements converted to ordinary shares	(270)	2.63	(78)	1.53
Entitlements forfeited	(35)	3.55	(13)	2.44
Entitlements outstanding at end of period	1,739	3.58	1,533	2.36
Entitlements available to be exercised				
Entitlement outstanding at beginning of period	39	1.53	78	1.53
Entitlements converted to ordinary shares	(39)	1.53	(78)	1.53
Entitlements now exercisable	-	-	252	1.63
Entitlements outstanding at end of period	-	-	252	1.63

Fair value of share rights granted
The fair value of services received in return for share entitlements granted to employees is measured by reference to the fair value of share entitlements granted. The estimate of the fair value of the services received is measured based on a Monte Carlo simulation model.

Notes to the Condensed Consolidated Interim Financial Statements

16. EXECUTIVE EMPLOYEE SHARE SCHEME (CONTINUED)

Fair value of share entitlements and assumptions

Issue Date	03-Mar-11	04-Apr-12	25-Jul-13	05 Sept-14
Entitlements issued (number)	160,000	488,500	731,250	772,500
Entitlements on hand at 30 Sept 2014	38,750	221,500	706,250	772,500
Fair Value at measurement date	$0.23	$0.52	$0.59	$0.59
Share price at grant date	$1.40	$2.60	$3.90	$3.65
Grant date	03-Mar-11	04-Apr-12	25-Jul-13	05-Sept-14
Exercise price	$1.53	$2.65	$3.90	$3.67
Expected price volatility	39.7%	39.4%	26.5%	35.3%
Entitlement life	2-4 years	2-4 years	2-4 years	2-4 years
Expected dividend yield	5.71%	2.50%	2.50%	4.20%
Risk-free interest rate	5.43%	4.00%	4.00%	4.09%

17. BUSINESS COMBINATIONS

On 1 July 2014 Comvita Limited acquired all of the shares of New Zealand Honey Limited for $17.1 million. $15.1 million in cash and the issue of 571,429 shares in Comvita Limited at a fair value of $3.50 per share. The shares are currently held in Escrow and will be released to the New Zealand Honey Producers Co-Operative Limited upon fulfilment of certain honey supply conditions with Co-Op members.

The acquisition had the following effect on the Group Statement of Financial Position:

In thousands of New Zealand dollars	September 2014 Unaudited
Inventory	11,300
Trade receivables	3,400
Property, plant and equipment	2,500
Trade and other payables	(900)
Other assets and liabilities	(200)
Pre-acquisition carrying amount	16,100
Intangible asset – fair value adjustment	1,000
Recognised value on acquisition	17,100
Consideration paid – cash	15,100
Consideration paid – shares	2,000

Pre-acquisition carrying amounts were determined based on applicable NZ IFRS immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their carrying amounts which are equal to their estimated fair values. The acquisition accounting values may change within 12 months of acquisition. The intangible asset is for the Honey Supply Agreement, which will be amortised over 6 years.

The acquisition had the following effect on the Income Statement and Statement of Comprehensive Income:

For the six months ended 30 September 2014 NZ Honey represents $7,500,000 of revenue, $18,000 of net loss after tax and $18,000 of total comprehensive income for the period attributed to equity holders of the company.

The Group had other non-material business combinations.

Notes to the Condensed Consolidated Interim Financial Statements

18. NET TANGIBLE ASSETS PER SHARE

	September 2014 Unaudited	September 2013 Unaudited
Net tangible assets per share (NZ cents)	121	147

19. DIVIDENDS

On 27 June 2014 a final dividend was paid. It was a fully imputed final dividend of $2,535,000 (8.0 cents per share).

20. SUBSEQUENT EVENTS

Interim dividend

The Board has announced an interim dividend of 4 cents per share (fully imputed) payable 5 December 2014.

Joint Venture with East Taupo Lands Trust

In November 2014 the Group entered into a 50/50 Joint Venture Partnership with East Taupo Lands Trust to form Kaimanawa Honey GP Limited. This allows the Group to strengthen its supply of Manuka (Leptospermum) Honey through long term land use agreements. This apiary business will be managed through the existing Kiwi Bee Apiary business.

Company Directory

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Alan John Bougen
Maurice John Prendergast
Thomas (David) Cartwright Cullwick
Sarah Christine Ottrey
Edward Joseph Quilty
Lucas Nicholas Bunt (apt 24 July 2014)
Robert Bertram Tait (resigned 24 July 2014)

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