



ABN: 55 009 686 435

Half-Year Report to Shareholders

for the six months ended 31 December 2006

Dear Shareholder

The financial performance of the company is in line with an expectation of a breakeven result for the first half –year, as we operate in a very changed market from a year ago, and to which we alerted shareholders in the 2005 Half-Year Report.

The table below shows Capilano Honey Limited (parent entity) achieved Earnings before Interest & Tax (EBIT) of \$0.4 million and Net Profit (Loss) before Tax (NPBT) of \$(0.4) million for the half year.

Parent

	2006	2005	2004
Capilano Honey Limited - 6 months	<i>\$million</i>	<i>\$million</i>	<i>\$million</i>
Earnings Before Interest and Tax (EBIT)	\$0.4	\$1.9	\$0.3
Net Operating Profit Before Tax (NPBT)	\$(0.4)	\$1.1	\$(0.5)
Annual Crop (tonnes)	10952	14,135	14,466
Average Honey Price / Kg	\$2.08/kg	\$2.09/kg	\$2.96/kg
Total Honey Category – Supermarkets (tonnes)	9,240	9,317	9,338

The low margins in supermarket Private Label business together with a change away from branded lines continue to have an impact on our profitability. Consumers are switching to cheaper Private Label products that are supported by a high level of retailer discounts. In turn, that introduces a change in our sales mix to less profitable lines. Other items contributing to our result include:

- non-budgeted redundancy costs of \$307,000 relating to the changed operational structures in both Maryborough and Richlands.
- the translation into Australian dollars of loans to subsidiaries and debtors in foreign currency at 31 December 2006 accounts for a net foreign exchange loss of \$307,000 due to the strengthening exchange rate.
- a devaluation of stock by \$843,000 adjusting stock previously purchased at higher prices to the current price.

Parent

Capilano Honey Limited	2006	2005	2004
Revenue - 6 months	<i>\$million</i>	<i>\$million</i>	<i>\$million</i>
Domestic	\$22.5	\$27.4	\$29.6
Export	\$12.0	\$8.9	\$10.6
TOTAL	\$34.5	\$36.4	\$40.2

The total honey category, as reported in AC Nielsen Scan data, has declined slightly. The volume growth of private label is 9.7% over the year to 31 December 2006, while the major brands have declined. Market shares are also falling in the major brands including Capilano, Beechworth, Leabrooks and Wescobee measured on a Moving Annual Total (MAT) basis as at 31 December 2006.

The introduction of new entrants has fragmented the industry with products on the supermarket shelves at prices well below leading brands. Cheaper brands together with Private Label are reflected in a decline in our own domestic revenues.

During the half year Capilano's marketing launched a new look for our products and corporate appearance, both nationally and internationally, to differentiate us from competitor products that have appeared using our innovations and colours. We started with the updating of 'our bee' and a change to our labels, followed by the website, corporate documents and uniforms. Our products as they appear on the shelf are again now more distinctive. Development of new channels has been undertaken and joint promotions held with honey friendly products. We have joined with Kraft Foods in the launch of a 'lunch pack', which will include honey as one of its accompaniments, co-branding with our new-look Capilano bee. Another packaging upgrade is now underway which will differentiate Capilano products from the 'look-a-likes' which have appeared. Our aim is then to link honey with the foods that today's consumers use, in a way that renders honey far easier to use than current packaging allows.

The financial year started with honey-buying prices reflecting our expectations of the market. In October 2006 a non-budgeted increase in honey buying price was introduced in response to changed forecast crop conditions and potential returns from the honey expected to be available over this and next season. This also reduced our profitability as it flowed on to product costs. Currently there is much uncertainty regarding honey supply suffering from the impacts of the drought and recent bushfires.

The increasing competition from other packers for the Private Label business helps drive packer margins down and ultimately, beekeeper prices down. Packers who do not buy more than their immediate domestic market needs can offer more than a packer, such as Capilano, who buys under historic quota arrangements to sell surplus to the export bulk market. This places Capilano at a competitive disadvantage to other packers who buy only to service a domestic market. We have had a few suppliers who have chosen to move supply to other competitors in the belief they will continue to receive a higher price. Usually that is because the competitive packer has a short term need for honey to supply an immediate contract. Suffice to say that Private Label will remain a very competitive segment. Capilano will need to examine its structure to see how better to differentiate the price paid for honey going to the market segments providing better returns, if we are to face up to this competitive disadvantage.

We expect the second half-year to produce better returns than the first half. Although the benefit of higher selling prices is likely to be dissipated by the last increase in honey buying price, we have the benefit of non-recurring expenditure from the first half, in addition to savings from the Maryborough/ Richlands restructure expected to exceed \$1 million annually.

Associate

Capilano Labonté Inc (CLI) - 6 months	2006	2005	2004
	<i>CAD\$ '000s</i>	<i>CAD\$ '000s</i>	<i>CAD\$ '000s</i>
Revenue	\$4173	\$5419	\$6030
Earnings Before Interest and Tax (EBIT)	(\$590)	(\$22)	(\$402)

Capilano Labonté Inc (CLI) faced substantial price competition early this year in the Private Label segment, which rolled back the gains made in the prior year. Our exports to Canada of retail tonnage are over 1000 tonnes annually. Sales volume is a key element in this market and we share 50% of the gains (losses) made with our partner. In October 2006 we attended the Private Label Manufacturers Association (PLMA) trade show in Chicago and obtained strong interest from buyers in supplying the USA market. In November 2006 we launched our products into the USA and have obtained listings in 2 retailers. In both situations our ability to service the North American market was noted by buyers through our successful supply to Canada's largest supermarket retailer. Larger volumes to both Canada and the USA are key to success in this venture, together with better pricing in the sales and raw materials areas.

We continue to develop our industrial business to take advantage of our joint venture with HoneyMax in Argentina. Considerable time has been spent on proving our ability to supply blends required and in containers specified with on-time delivery. Our ability to do this has been enhanced by having warehouse facilities in Europe to hold buffer stock and we now have blending and hot-room facilities available in the UK. Capilano-Argentina is expected to improve its contribution to the Capilano Group.

Subsidiary

Medihoney Pty Ltd – 6 months	2006	2005	2004
	<i>\$ '000s</i>	<i>\$ '000s</i>	<i>\$ '000s</i>
Revenue	\$2,104	\$1613	\$1016
Earnings Before Interest and Tax (EBIT)	\$(691)	\$(790)	\$(573)

Medihoney's result shows a revenue growth of 24%, with a small improvement over last period's EBIT result. The marketing and distribution of its woundcare products is an expensive process requiring supporting clinical studies along with demonstration and education of nursing and medical specialists. Packaging changes to the products available to clinical users received positive response and distribution widened to Germany, Austria, Turkey and Finland.

The interest in antibacterial honey and its use, particularly in Europe, has grown enormously.

We now have interest in investment by other parties that would enable Medihoney to undertake focused product development and improve its general distribution. This will help realise its value to our shareholders.



R D Masters
Managing Director