



ABN: 55 009 686 435

Half-Year Report to Shareholders

for the six months ended 31 December 2007

Dear Shareholder

The financial performance of the company is below expectation as we balance the short term costs of honey supply during a severe drought against the returns from the markets in which we operate. The average honey price paid during the year ended 30 June 2007 was 2.20/kg while over the last 6 months it has been \$2.71/kg. We have sold approximately 5,000 tonnes of honey in 6 months and the impact of the higher honey buying cost of \$2.5 million is reflected in the loss for the Half Year 2007.

In addition we continue to be affected by the unfavourable exchange rate position and the growth in private label sales. There has been little change in that position since last year end. A decline in the A\$/US\$ position of around 22% since 2005 negatively affects our export sales. Similarly a growth in private label over 3 years of about 10% produces a market share of approximately 37% of the supermarket honey category at the expense of all brands. That introduces a change in our sales mix to less profitable lines.

The consolidated cash flow statement shows Net Cash from Operations of \$1.869 million, reflecting results which include stock devaluation adjustments following the honey price changes in November 2007.

	2007	2006	2005
Parent Entity - Capilano Honey Limited - 6 months	<i>Smillion</i>	<i>Smillion</i>	<i>Smillion</i>
Earnings Before Interest and Tax (EBIT)	\$ (0.9)	\$ 0.4	\$ 1.9
Net Operating Profit Before Tax (NPBT)	\$ (1.9)	\$ (0.4)	\$ 1.1
Revenue - 6 months			
Domestic	\$22.2	\$22.5	\$27.4
Export	\$ 8.6	\$12.0	\$8.9
TOTAL	\$30.8	\$34.5	\$36.4
Annual Domestic Crop (tonnes)	6,300 est.	10,342	13,564
Average Honey Price / Kg	\$2.71/kg	\$2.08/kg	\$2.09/kg
Total Honey Category – Supermarkets (tonnes)	9,268 (excl Aldi)	9,240	9,317

The drought has had a significant impact on the availability of honey. Despite the financial impact of foreign exchange and private label on revenues, honey buying prices were held up in the beginning of the year in order to ensure we would have sufficient stock to see us through winter. We sought price relief from major customers which has been only partially met. At the 2007 Annual General Meeting we foreshadowed that the honey price would have to move down to meet the reality of the returns in the marketplace. Two years ago we reported likely structural change in the industry, and we are now finding some major market segments are now operating on a marginal contribution basis.

We are operating in a market in which new packer entrants have fragmented the industry with products on the supermarket shelves at prices well below leading brands and aggressively supporting lower return private label products. The supply of new packer entrants is a choice individual beekeepers make. Our competition are prepared to operate under those conditions and if we want to maintain those markets, we will have to meet the competition. With the low crop there have been no export bulk sales.

Capilano's direction since 2005 has been to undertake strategies involving Marketing & Brand Differentiation, Expense Reductions, and the disposal of Under-utilised Assets.

Marketing & Brand Differentiation

We have updated our Logo and introduced new style Branded Upside-Down packs. We have activated the Irwin & Australia Zoo sponsorship which has allowed promotional packs in Australia and the USA. We have completed the development of the Snap n' Squeeze pack which now faces a launch linking honey with the foods that today's consumers use, in a way that renders honey far easier to use than current packaging allows.

The new branding and new style pack is reflected in the market results at 13th January 2008. AC Nielsen results indicate Capilano 500g Upside Down was ranked number one (latest 6 months), the last quarter and last 4 week period. Capilano products also rank consistently 7 lines in the top 10 lines of honey products every month.

Expenses Reduction

There has been a special focus on cost reduction since 2005 including that related to excess capacity. In order to bring costs down, surplus capacity through Maryborough was targeted and a restructure implemented to save in the order of \$1.2million per year. While not a popular decision for some supplier shareholders in that region, it was necessary in the current environment. Our employee numbers had grown as we put in place a number of projects over 2003-06 and we were able to target a reduction in employee numbers and costs as project completions took place. Employee numbers have been reduced from 154 in 2005 to 111 as at December 2007.

A major program of further cost reduction has commenced with an objective of slashing general costs by a target of 30%. All areas of costs are under review. Significant progress has already been achieved and savings will be progressively implemented over the balance of the year. The Board has applied the same measure to themselves. They have decided against replacing the beekeeper director who resigned late last year, and they have also agreed to a temporary reduction in fees. The savings in travel, associated accommodation and fees is consistent with the objective of reducing expenses. The Board believes these changes will not reduce its effectiveness.

Under-utilised assets

The sale of Medihoney Pty Ltd reported in the 2007 Annual Report is consistent with the Board's objective of divesting the company of under-utilised assets. All assets are regularly reviewed in line with this objective.

Overseas Operations

Argentina

The joint venture with Honeymax supplies honey firstly, to supplement the Australian crop in times of shortage and secondly, to sell to industrial customers in Europe.

Currently the joint venture arrangement is supplementing the poor Australian crop. The European business is sensitive to volumes, prices and exchange rates. While it has positively contributed to Capilano in the past, at the present time those factors weigh against it. We can, therefore, suspend it until conditions improve.

North America

In 2003, Capilano Honey Limited (CHL) acquired a fifty percent interest in Capilano Labonte Inc (CLI) by purchasing shares and subscribing for additional capital. In December 2007 an agreement was signed subsequently confirmed by contract in February 2008 that the remaining fifty percent interest in CLI be transferred to CHL at no cost, with CLI becoming a wholly owned subsidiary of CHL.

CHL will undertake in Australia the majority of the honey packing requirements of CLI, creating significant savings for the CHL Group. CHL/CLI have terminated their involvement in the factory operation in Victoriaville, Canada, which will come under the control and ownership of Miel Labonte Inc (MLI).

The following table shows the growth in sales revenue by Capilano Labonte Inc.

- 6 months	2007	2006	2005
	<i>CADS '000s</i>	<i>CADS '000s</i>	<i>CADS '000s</i>
Revenue	\$6,091	\$4,173	\$5,419

CLI sales in the Canadian market have grown well. According to AC Nielsen Scan Data CLI's branded products have grown nationally at 36% in 12 months to 24 November, 2007. Nationally we have the 2nd largest market share in branded product and also are ranked 2nd when private label is included.

Our launch into the USA market has developed steadily. Our sponsorship with the Irwin Family has created media opportunities and our Capilano branded Irwin pack has been well received. We expect this will support the conservation message that our sponsorship requires and build the Capilano brand through good exposure. Our focus remains the North East USA market, with listings obtained in New England, New York State, Pennsylvania and North Carolina. We are now in 1400 stores with a listing in a well known retailer in a further 300 stores to follow in May, 2008.

Australian Supply and Prices

It is highly unusual that in a period of limited production honey buying prices were lowered, but that was dictated by the low returns from export due to unfavourable exchange rates, and lower domestic returns due to changes in sales mix away from more profitable lines. Suffice to say that private label will remain a very competitive segment.

We have had a few suppliers who have chosen to move supply to other packers in the belief they will continue to receive higher prices, actions that serve to destabilise the industry. However, we have also had majority beekeeper support that will enable us to overcome the supply difficulties of this year which, together with our initiatives described above, will address the issue of profitability.



R D Masters
Managing Director