30 July 2008

Capilano Honey Limited
2008 Result (unaudited)

In considering the provisional financial results for the year ending 30 June 2008, the Board has made provisions and asset revaluations which significantly add to the underlying operating loss result.

These include:

- an asset revaluation of $3.7 million of the shareholding in Comvita Ltd down to its market value as at 30 June 2008.
- a provision for write-downs of $2.5 million involving
    - accelerated depreciation of IBC containers ($1 million)
    - accelerated depreciation of surplus plant and equipment at Maryborough ($720k)
    - redundancy costs ($405k).

Drought and economic turmoil continues to significantly affect profit through higher honey prices and adverse exchange rates. The end of year result includes foreign exchange losses of approximately $845k relating mainly to the translation of our Canadian assets into Australian dollars at balance date.

Our suppliers have been badly affected by drought and rising fuel prices. Higher prices were necessary to obtain supply and ensure retention of our markets. The average cost of honey over the year has risen from $2.23/kg to $2.62/kg on sales of 10,500 tonnes. Low supply through record low domestic receivals of 6,700 tonnes resulted in Capilano only partially bidding for a significant private label tender, the loss of which drops recovery of manufacturing expenses. The shortfall of domestic honey was made up by importing honey at prices comparable with Australian prices, due to an Argentine drought and shortages in the USA. The imported honey was used in industrial and export markets.

The underlying operating loss of $(2.6) million includes the foreign exchange loss, depreciation of $2.3 million and interest of $2.1 million. After provisions and asset revaluations the net loss after tax is approximately $(7.5) million for the year ended 30 June 2008.

It should be noted that many of the above items are of a non-cash nature and write downs have been initiated on the basis of conservatism and prudent reporting. The increased cash required over the year was held to $1.1 million and we remain well within our facility limits.

The re-engineering of our business to reduce excess plant capacity, slash operating expenses and dispose of surplus assets is well advanced. In addition to ordinary expense savings, employee costs for the group are down $2.5 million and a further $1 million saving will flow in 2009 from action already taken. The purpose is to match the business to the lower margin sales environment that now exists. An interest cap protects over half our debt facilities. We are in the process of reviewing our business further for surplus assets that may be applied to a reduction of debt.

There are signs of an easing of the drought over the last 9 months which will lessen our dependence on imported honey from December onwards. Further detail will be available in the Annual Report when available.

R D Masters
Managing Director

For further information:

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