

Annual General Meeting October 2008



Business Environment



.....external conditions did not improve over 2008

- ECONOMIC – FX rates, fuel prices
- CLIMATIC – Drought increased our costs
- MARKET – consolidation of competition

Foreign Exchange



....What's happened?

- USD RATE increased 13% in 2008 (Now 28% higher since 2006)
- DROPS our EXPORT REVENUES which comes straight off PROFITS
- At year end also affects PROFITS when we TRANSLATE ASSETS VALUED IN FOREIGN CURRENCY INTO \$A

Honey Supply

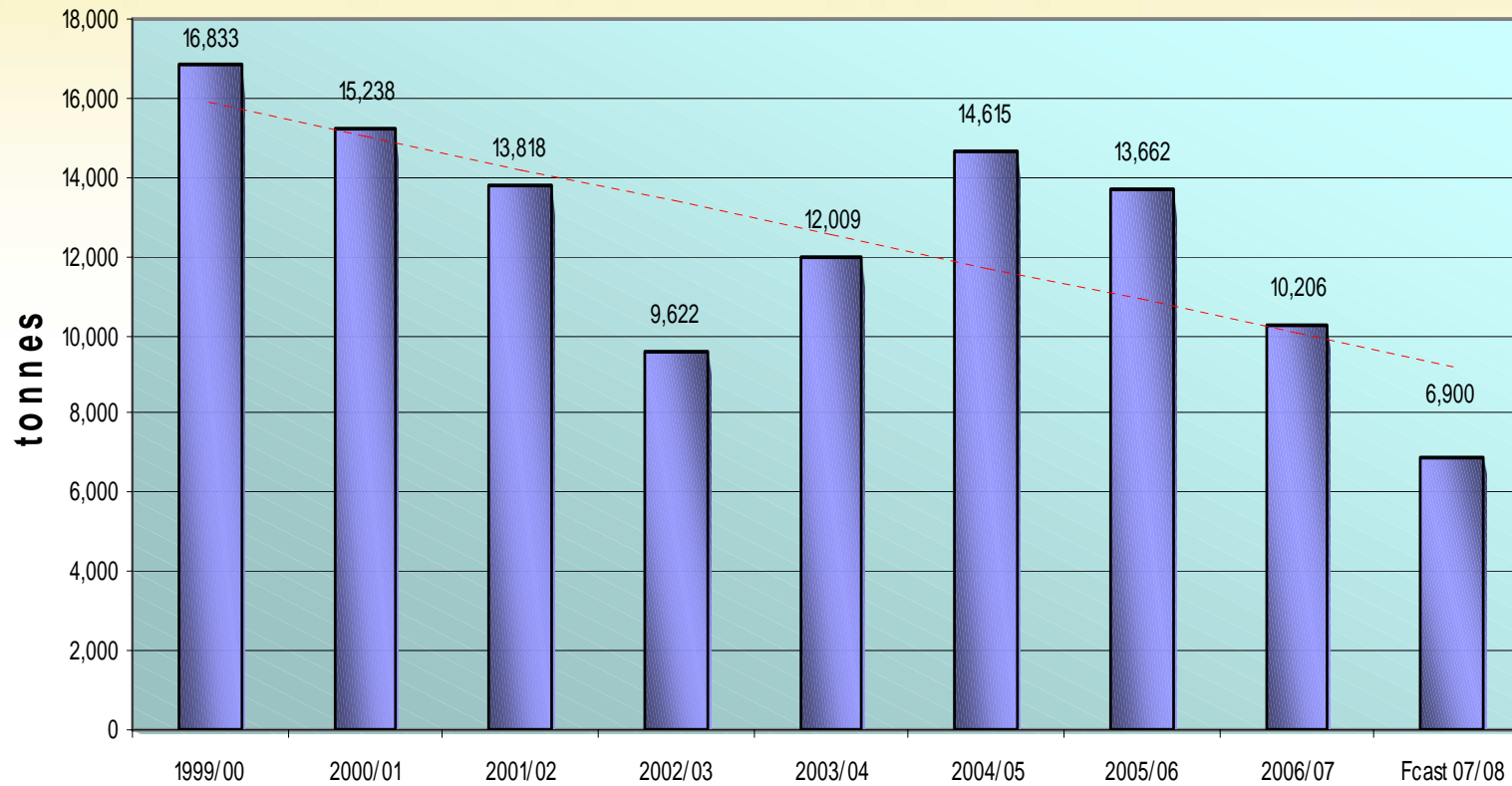


- Lowest Australian crop ever 2008
- Price paid A\$2.62/kg vs A\$2.20/kg last year
- Sales were 10,500 TONNES with Domestic Receivals only 6,900 tonnes
- Imported to preserve market
- CAPILANO ARGENTINA was the BUFFER
- HIGHER HONEY COSTS REDUCE COMPANY PROFIT



Honey Supply

- Australian supply over time





Finance Summary

2008 Results



	A\$000's
EBITDA & FX	2,985
Foreign exchange loss – translation of assets	(845)
Redundancies	(289)
Depreciation	(2,353)
Interest	(2,104)
	(2,606)
Write-down of Comvita shares	(3,641)
Accelerated depreciation of IBC containers	(1,100)
Accelerated depreciation of surplus plant and equipment at Maryborough	(720)
Provision for redundancies	(405)
Other	(623)
Tax credit	1,647
NPAT	(7,448)

\$2.6m underlying loss includes:

- \$4m increase in honey costs
- \$3.5m non-cash depreciation
- \$845k non cash adjustment for FX revaln at balance date

(\$7.5m) NPAT includes:

- \$3.6m non cash adjustment for shares valn at balance date
- \$1.8m more non-cash depreciation

The Industry in 2008



.... June 2008

The structural change referred to in December 2005 has occurred. We have fragmentation of the industry with more small honey packers and few sellers (supermarkets).

*More packers compete for private label business held in the hands of a few, driving margins down. **We now have low margins in a significant part of our business.***

In a shortage due to drought, beekeepers chased the spot gains in honey price offered due to smaller packers needing honey to complete some contracts.

The Market changes

Private label now occupies more than an estimated 37% of the market.



MAT TO 29/06/2008									
	VOL ACTUAL Dec 2005	PRICE PER KILO (\$) Dec 2005	VOL ACTUAL June 2008	PRICE PER KILO (\$) June 2008	VOL +/-	VOL % CHG	VOL % SHARE Dec 2005	VOL % SHARE June 2008	
CAPILANO HONEY LTD	4,046.6	10.23	3,318.7	10.1	-727.9	-18%	43.4	36.3	
BEECHWORTH HONEY P/L	789.0	10.38	759.5	9.6	-29.5	-4%	8.5	8.3	
LEABROOKS FOODS	731.9	9.80	686.1	10.1	-45.8	-6%	7.9	7.5	
WESCOBEE LTD	458.8	9.98	444.4	10.2	-14.4	-3%	4.9	4.9	
PRIVATE LABEL	2,632.0	8.09	3,055.7	8.5	423.7	16%	28.2	33.4	
AUSTRALIAN RAINFOREST			398.7	8.5	398.7	#DIV/0!		4.4	
OTHER MFRS	659.5	9.71	483.0	9.5	-176.5	-27%	7.1	5.3	
TOTAL HONEY	9,317.8	9.55	9,146.1	9.4	-171.7	-1.8%	100.0	100.0	

SOURCE: ACNielsen Australia ScanTrack (SHONCAP)

Capilano had deletions in Allowrie, Barnes and some SKU's in Capilano brand.

The retail pricing of private label is attractive to consumers. All brands have been affected, but particularly the market leader.

Changing the Business



- ✓ **Replace local market shrinkage with export market growth**
- ✓ **Meet changing consumer demands**
- ✓ **Reposition our company as a much more cost effective business without excess capacity and overheads to operate in the low margin sales environment that now exists**

Export Markets

Canada

- Capilano now has 2nd largest market share
- Capilano is now a national brand in Canada

USA

- Listed in 2nd largest retailer
- Alliance struck with USA's largest honey packer to develop complementary areas of our businesses with a mutual aim of building profit



Changing Consumer Demands



Snap n Squeeze

- Finalised product development
- Launching now in Australia and USA

New Products that meet criteria

- Learn from Medihoney
- Ready to market
- Meet financial return criteria
- Consider competitor reaction



Repositioning



- ✓ Reduce surplus capacity
- ✓ Cut costs
- ✓ Make lazy assets work or sell them

Reducing Surplus Capacity



Capacity cuts:

- Maryborough (Victoria)
- Victoriaville (Canada)
 - Cuts labour
 - Cuts overheads
- Write-off surplus equipment in depreciation charge

Staff numbers cut:

- at all levels including management, in both Richlands and Maryborough
- Includes Medihoney sale

154 employees three years ago to 82 currently

Cutting costs



- a 30% expense reduction was targeted, effective by beginning of the 2009 financial year
- AHBIC contributions become voluntary at beekeepers discretion
- reduce Board costs
- Make 'lazy' assets work or sell them



Special Resolution



To Amend Constitution regarding Directors

The Board believes a reduction to four directors - comprising two Beekeeper Directors, an Independent Director and a Managing Director, with the Chairman holding a casting vote in the event of a deadlock, is both possible and desirable, whilst still ensuring that the Board can continue to provide strategic direction to the Company.

The above changes are about reducing expenses to ensure a cost effective business and the Directors recommend you vote in favour of the Resolution.

Changing the Business



Make assets work or sell them

- Comvita shares
- Maryborough facility
- Sell or reduce any surplus equipment
- Richlands
 - *Currently examining the site utilisation to maximise returns from excess land*

IBC's

- Can Capilano afford to keep them and compete with packers who don't have that cost?
- Why should Capilano cover the cost of other packers who use our containers for delivery?
- A charge for use of IBC's and drums will be implemented which will bring us into line with our competitors who are competing against us.



Honey Price Mechanism



CAPILANO CAN NO LONGER REMAIN WITH COMPETITIVE DISADVANTAGE WHILE COMPETITORS PICK & CHOOSE

1. Competitors pick and choose honey they want and at what price – their price for a drum is being used by our suppliers as the price for our thousands of tonnes.
2. Competitors have no obligation to buy a quota.
3. Capilano current quota's do not impose any penalty on beekeepers for non delivery although we have honoured the obligation to buy surplus to our needs in non-drought years at our cost.
4. In a year in which our business survival was threatened by shortage some quota holders delivered outside to competitors.
5. Quota's do not protect Capilano from receiving poor honey as quota while good honey is delivered elsewhere as over quota.

Honey Price Mechanism



A NEW HONEY PRICING SYSTEM IS being discussed

1. Reward our loyal suppliers
2. Quota pool is to be re-allocated on the basis of supplier performance
3. Delivery of quota is required to retain quota
4. Quota's will be tradeable with approval of Capilano
 - Terms of trade are for the beekeepers to work out
5. Suppliers may buy honey elsewhere to fill quota or can sell quota which must be then filled.
 - Such substitute honey is to subject to approval by Capilano
6. Quota not filled will be re-allocated to the supplier pool.
7. Over-quota honey will be bought at commodity prices.

Current Performance



- ✓ Year to Date results are encouraging.
- ✓ 2 months EBIT \$900k
- ✓ Results above budget.
- ✓ Subject to continuing the tough measures taken to turn around performance in the new business environment of poor FX, low margin segments and high cost supply.

Question Time?

