

Half-Year Report to Shareholders

for the six months ended 31 December 2008

Dear Shareholder

FIRST HALF RESULTS ARE ENCOURAGING

Capilano has experienced a significant turn-around in performance for the first half of the financial year with revenue up 26.6% to \$39.1 million compared with the same period last year. This was derived from a combination of favourable exchange rates improving returns on our export markets and through volume growth in North America. Domestic sales were marginally down as a consequence of relinquishing the 'You'll Love Coles' private label business because drought meant we could not guarantee supply. However, our new product and branding initiatives have driven revenue growth in both export and domestic branded market segments. During the half year we obtained listings for Capilano brand in one of USA's largest supermarket chains and our brand became established in the eastern seaboard market of Canada. We have been able to supplement supply to our export markets with honey sourced through our supply chain in Argentina and Canada.

Group Net Profit Before Tax has improved by \$2.6 million on the same period last year despite a \$2 million increase in raw material cost with the average shareholder honey price rising 11.4% to \$3.02/kg. Our profitability was also assisted by our aggressive expense reduction program which cut expenses a further \$1.7 million on last year.

	2008	2007
	Group	Group
	\$million	\$million
Capilano Honey Limited - 6 months		
Earnings Before Interest and Tax (EBIT)	\$1.7	\$(0.9)
Net Operating Profit Before Tax (NPBT)	\$0.6	\$(1.9)
Revenue - 6 months		
Domestic	\$21.6	\$22.2
Export	<u>\$17.5</u>	<u>\$ 8.6</u>
TOTAL	\$39.1	\$30.8
Annual Domestic Crop (tonnes)	9,800 est.	6,900
Average Honey Price / Kg	\$3.02/kg	\$2.71/kg



OUTLOOK

Intermittent rain earlier in winter and spring was encouraging to our crop prospects. However, recent bad weather patterns, including low temperatures, rain during flowering, persistent drought in some areas and flooding in other areas, has downgraded our forecast significantly. There has been more recent extreme high temperatures in Victoria and South Australia which negatively affects the crop forecast. The impact of drought on honey supply remains a critical limitation on our ability to grow our markets. Our challenge will be balancing honey prices paid to suppliers with the pressures we experience on retail selling prices in an extraordinarily competitive market (particularly for private label).

On a positive note, interest rates are now dropping, while foreign exchange rates are favourable for the first time in some years, which favours the export markets we have developed. Higher volumes through our plant helps recover our manufacturing costs and makes us more competitive. Our focus on operating cost reductions will continue to deliver benefits.

Sharemarkets around the world have experienced very significant declines and this has affected the value of our shares in Comvita. This shareholding will be reviewed by the Board in the second half.

The solid operating performance over the first half year has been in accordance with expectations and the Board and Management will continue to work on achieving sustainable profit and growth.

Yours sincerely



R D Masters
Managing Director