CAPILANO HONEY LIMITED

ABN: 55 009 686 435

# Half-Year Report to Shareholders

for the six months ended 31 December 2009

Dear Shareholder

**RESULTS**

Shareholders were advised before Christmas that Capilano would exit selected export segments where market profitability was made marginal by unfavourable foreign exchange movements. This move also lowered working capital requirements and reduced our risk of exposure to further devaluations of assets held in other currencies. Although set up to sell the crop surpluses in past years, a prolonged period of unfavourable exchange rates has meant the returns from those markets do not currently support the higher price paid for limited supplies of local honey. Ironically, Capilano had just won the Agribusiness Award at the 2009 Australian Export Awards in Canberra, which followed on from our win at the Premier of Queensland's Export Awards of 2009 in the Agribusiness Category.

Actual half-year results are a net loss before tax of $1.25 million, before impairments as a consequence of the withdrawal from segments of the Canadian market. These impairments are now quantified as a non-cash write down of goodwill in the amount of $2.664 million and of future income tax benefits of $0.575 million.

The average cost of supplier shareholder honey for the 6 months to 31 December was $3.53/kg compared with $3.02/kg the same period last year, an additional cost of $2.2 million in the 6 months.

| **Capilano Honey Limited Group - 6 months** | **1H 2009** | **1H 2008** | **1H 2007** |
|---|---|---|---|
| | *$million* | *$million* | *$million* |
| Earnings Before Interest and Tax (EBIT) | $(0.6) | $1.7 | $(0.9) |
| Operating Profit Before Tax (PBT) | $(1.25) | $0.6 | $(1.9) |
| Impairments to goodwill and FITB | $(2.66) | - | - |
| Net Operating Profit Before Tax (NPBT) | $(3.91) | $0.6 | $(1.9) |
| **Revenue - 6 months** | $40.8 | $39.1 | $30.8 |
| | | | |
| Average Honey Price / Kg | $3.53/kg | $3.02/kg | $2.71/kg |

**A CHALLENGING FIRST HALF**

Over recent years, bank lending had financed the growth in our business, including the higher levels of stock and debtors. However, the greatest challenge the company faced in the last six months was operating under reduced borrowing limits as credit tightened following the global financial crisis. Recently, we have significantly reduced working capital, sold Comvita shares, and reduced expenses by approximately a further $1 million per annum. As at 31 December 2009 we completed a repayment of over $3.5 million in reduction of our bank facility.

Following an extensive review by NAB we have ongoing bank facilities in place which, as part of their terms, require CHL to implement a $6.5 million capital raising, further reduce working capital and potentially implement further asset sales. A prospectus will be issued very shortly in respect of the capital raising.

**OUTLOOK**

Capilano will be a more compact business benefiting from lower operating costs and unburdened by marginal export business. Requirement for honey is likely to be reduced by around 5,000 tonnes per annum. Accordingly, the honey quota pool is under constant review and, in the event of a larger crop, our quota holders will be preferred suppliers.

Yours sincerely

R D Masters
Managing Director