

CAPILANO HONEY LIMITED

A.C.N.009 686 435

HALF YEAR REPORT TO SHAREHOLDERS

for the six months ended 31 December 2004

Dear Shareholder

The first six months of the financial year have presented a difficult trading time, characterised by increased honey production and falling selling prices, both internationally and domestically. The Australian crop has moved into oversupply and honey prices paid to beekeepers have fallen, evidenced by price decreases on 1 July and 1 December 2004. However, honey on hand at the beginning of the year was purchased at record high prices following the drought years, in order to secure supply to retain our markets. That honey is now being sold into the current market, substantially affecting profit in the short term. As that honey is used up, then an improvement in profitability is expected as lower priced honey becomes available. The average price paid for honey has moved from an average of \$4.38 last financial year to around \$2.80/kg at the current time. A positive outcome of the increased supply is the exceptional quality of honey, which makes for easier blending and a better tasting product.

Affecting our profitability is a change in our sales mix in the domestic retail market with a greater emphasis on private label. The export bulk market to which the surplus is directed has had extensive falls in selling prices. However, many of these events were factored in to our planning.

Capilano Group	Capilano Honey Limited	Capilano-Labonte	Medihoney
Profit – 6 months	<i>\$million</i>	<i>\$million</i>	<i>\$million</i>
Net Operating Profit After Tax (NPAT)	\$(0.4)	\$(0.4)	\$(0.2)

Capilano Honey Limited	2004	2003	2002
Profit - 6 months	<i>\$million</i>	<i>\$million</i>	<i>\$million</i>
Earnings Before Interest and Tax (EBIT)	\$0.3	\$3.2	\$3.5
Net Operating Profit Before Tax (NPBT)	\$(0.5)	\$2.5	\$3.0

Following some years of higher prices there has been a decrease in honey consumption shown by AC Nielsen data, which shows the total honey category in supermarkets has dropped from 10,038 tonnes in December 2002 to 9,338 tonnes in December 2004. However, in spite of this trend, we are currently achieving a growth in market share in the domestic retail market. We have undertaken a promotional program in supermarkets to increase growth in the honey category in the first half-year, and intend to lead with a more targeted marketing campaign in the second half. Our sales effort has been assisted by successfully regaining the private label business for Woolworths, which 12 months ago we could not supply due to the smaller Australian crop and the loss of suppliers who chose to supply elsewhere. However, this new Woolworths business will not affect our results until current stocks on supermarket shelves run out and we commence supply.

Capilano Honey Limited	2004	2003	2002
Revenue - 6 months	<i>\$million</i>	<i>\$million</i>	<i>\$million</i>
Domestic	\$29.6	\$32.3	\$34.9
Export	\$10.6	\$ 9.5	\$ 7.2

We expect to handle 2,700 tonnes more honey than last year in an environment where export bulk prices have reduced from above US\$3,000/tonne to less than US\$1,600/tonne in over 12 months. The improvement in export retail sales volume is helping to offset the movement in exchange rates that has negatively affected our export earnings. In response to lower selling prices, our buying price has moved to a forecast average position of A\$2.80/kg for 2004-05. We are also tightening quota eligibility and reviewing suppliers allocation against past and potential performance.

Capilano Honey Limited	2004/05	2003/04	2002/03
Crop Production - annual	<i>tonnes</i>	<i>tonnes</i>	<i>tonnes</i>
Receivals	14,650 (forecast)	11,949	9,527

Our international efforts are promising, with export retail sales continuing to grow strongly across all markets. The Upside Down pack continues to gain market share in the United Kingdom and is now the best selling speciality honey there. In the Middle East, our retail pack brands have traded strongly during the Ramadan and 'winter' months and we expect this growth to continue in the coming months. Further opportunities exist for market expansion in the Middle East and Indian sub-continent region. Sales across South East Asia remain steady.

Subsidiaries

Higher honey prices carried over from last financial year have also affected our subsidiary in a way similar to ourselves. The completion of an upgrade to the Capilano Labonté Inc (CLI) factory in Canada will enable future packing to our high quality standards at reduced costs for the North American market. Honey from a number of origins will improve the choice available to the consumer. Substantial sales increases were experienced in December 2004 as we began to supply our new Canadian supermarket customers.

	2004	2003	2002
Revenue - 6 months	\$'000s	\$'000s	\$'000s
Capilano Labonte Inc	6,532	5,478	-
Medihoney Pty Ltd	1,016	1,124	489

Medihoney has also made significant achievements in this half-year. Its *Woundcare* products are now CE marked following the successful completion of a Therapeutic Goods Administration (TGA) audit. The CE mark certification is a prerequisite requirement to allow the distribution and sale of its *Woundcare* range into Europe. Also, as a result of the audit, Medihoney is now a licensed manufacturer of Medical Devices giving us greater scope and flexibility in the development and marketing of new products.

Medihoney has been successful in having its products included on the tender list of products available under the National Health Scheme (NHS) in the United Kingdom. All hospitals there now have access to three of our wound care products. With the release of creams into the UK and the availability of our woundcare products into hospitals, three UK staff appointments have been made, including a clinical educator and hospital sales staff. The launch of our products into the UK is expected to commence in March 2005.

Following the Asian tsunami disaster, infection has been one of the primary concerns of aid workers. Medihoney has donated wound care products to be used in first aid kits. It is interesting that we had many customers contacting us and suggesting we donate some Medihoney to the relief effort.

Our Argentine joint venture has made its initial sales to Europe and the Middle East. Industrial customers, in particular, will appreciate the Capilano quality.

The first period of trading of Capilano shares on the Bendigo Stock Exchange has passed, with some interesting results. Trading commenced on the 23 June 2004 lifting to over \$5.00 a share by September 2004. At the time of writing this report on 13 January 2005 the last trade was at \$6.40/share. The total number of shares traded has been 137,278 in 57 transactions, of which 13,721 shares have been purchased by persons who have a Honey Supply Agreement with the company, and 122,857 by others.

Future

While the financial results at this half-year are not commensurate with prior periods, they are in line with expectations for CHL and CLI as carry-over higher priced stocks were sold into a lower priced market. We have regained the private label business of Woolworths following its tender, but sales from this are only likely to come into effect towards the end of this financial year. The sales growth in Canada occurred mainly in the last month, as our market development plans took effect, and we expect that to continue through 2005. In Medihoney, our plans for the launch of products into the United Kingdom were delayed by 6 months as we waited for approval of TGA audits and registration of our products. Our sales outlook is improved by the Australian and Canadian private label business, while the structure is in place for increased international trading. We are now carrying stock bought at prices reflecting current selling conditions.

This has allowed us to position the Group for the 2005 year and beyond.



R D Masters
Managing Director