



## **RELEASE**

### **Capilano Honey Limited**

### **Update on Full Year Expectations**

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Further to our release dated 29 March 2005 we advise a further downgrade to profit expectations for the holding company to a potential loss of \$650,000 for year ending 30 June 2005.

The factors contributing to that result are the same as previously announced, namely

- continual decline in domestic sales transferring volume to the export bulk commodity segment.
- continued low prices in the bulk commodity segment below the cost of honey purchased.

Managing Director, Roger Masters said “Although the onset of winter normally provides an uplift in sales, we have not experienced growth to the extent forecast. The transfer of sales from supermarkets to the bulk commodity not only forgoes profit contribution, but incurs losses under present commodity pricing.”

Consequently the Board has resolved that no dividend be paid for the year ending 30 June 2005.

For further information:

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# Market Review

*From the Managing Director*

6 June 2005

Overleaf is a BSX Release dated 6 June 2005 noting a forecast loss for Capilano Honey Limited. Consequently it has been resolved by the Board that no dividend be paid.

The combination of factors causing this are very clear and consist of a declining domestic market and the transfer of our crop surplus to the bulk commodity market, where selling prices are lower than the price of honey purchased.

Shareholders of the company, both beekeeper suppliers and non-suppliers, expect a reasonable return on their investment. We aim to strike a balance between a honey price being fair compensation for the beekeeper and the retention of sufficient profit to pay a reasonable dividend. However, the rapid decline in world market prices exceeded forecast and could not be compensated for in the current financial year.

## Markets

According to AC Nielsen the size of the Total Honey Category has shrunk to 9,361 tonnes as at 13 February 2005 on a moving annual total (MAT) basis.

It is difficult to pinpoint the exact cause of this decline. It is consistent across Australian and imported honeys, with the latter showing a marginal decrease in market share. Changing consumer preferences may be responsible since it is reflected in other spread categories e.g jams, whilst there is considerable growth in chocolate spreads.

Our crop receipts level is currently forecast at 14,229 tonnes which exceeds the retail and industrial bulk requirements of the Australian

market. We have recently been awarded contracts for supply of private label for Woolworths and Coles supermarkets in the amount of some 2,200 tonnes. The sales of our export retail packs has grown to 2,700 tonnes, lead by growth in the markets of UK and Canada. This helps absorb our crop surplus.

The transfer of sales from Australian supermarkets to export bulk commodity loses the contribution from the domestic sale and replaces it with a loss on the export sale. This has driven the loss in the company while our honey buying prices re-align with what the market will pay.

## Honey Price

Competition for private label and industrial bulk sales in Australia has intensified, driving selling prices down, as the bulk export commodity market is no longer attractive. The increased crop size puts more honey into a market unable to absorb it.

We have now participated in electronic auctions in both onshore and offshore markets, with an increased level of competition as packers and beekeeper groups attempt to sell their honey surplus.

Lower selling prices in the domestic market have clearly translated into lower buying prices.

The forecast average honey price for year ended 30 June 2005 is \$2.80/kg.

	Honey Price (\$/kg)
2003	\$4.23
2004	\$4.38
2005 forecast	\$2.80
3 year average	\$3.71



## Future

Capilano has focused on re-building the honey category using a television commercial specifically targeting the nutritional differences between honey and chocolate spreads. It reinforces the Capilano brand, the non-fat content of honey, and the calorific value of honey, which is 64% of a leading chocolate spread. We are offering a healthy alternative to the chocolate spread. The initial response measured by the MAT's through A C Nielsen is encouraging.

We have regained the private label ground lost previously which will absorb some of the volume transferred to export bulk commodity sales in 2004-05.

Our honey buying prices are now averaging \$2.20/kg so we can compete against the increased number of packers and beekeeper groups who are avoiding selling on the bulk export market.

That also places us in a position to return to a profitable position to meet our shareholder expectations on dividends.

R D Masters  
Managing Director