CAPILANO HONEY LIMITED

A.C.N: 009 686 435

CHL212

1 February 2006

Honey Prices

Effective 1 February 2006

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This Notice to Supplier Shareholders confirms a reduction in honey price effective 1st February 2006 and outlines the causes, which relate to the effect of surplus honey which the company has on hand and is expecting to receive, to be sold into the bulk export commodity market.

Australia produces a honey crop surplus to its domestic retail and bulk requirements. Unless that surplus is sold into a value-added market, it is sold on to the bulk commodity market. Bulk commodity prices are currently between US$1350-1500/tonne, or between A$1.80/kg to A$2.00/kg before costs of drums, packing and freight.

The average honey price is currently $2.09/kg, determined by the averaging of the returns of the bulk commodity market and the higher margin retail pack markets. As we receive more surplus honey under our quota system, the average honey price will move down, as the cost of the crop is aligned to the market in which it is to be sold. Our contractual obligations will deliver honey above our domestic retail requirements, a burden most of our competitors do not share.

	December 2005	**December 2004**	**December 2003**
Capilano Honey Limited	*tonnes*	*tonnes*	*Tonnes*
Annual Crop	14,135	14,466	11,949
Honey Price / Kg	$2.09/kg	$2.96/kg	$4.48/kg
Total Honey Category – Supermarkets (MAT)	9,317	9,338	10,038

There are factors which are contributing to the growth in honey surplus, some of which appear to be structural to the industry.

- fragmentation of local industry with more small competitors (factors of export price 'boom' then 'bust', drought and then high domestic prices) competing for non-branded market segments producing rapid falls in selling prices.
- new technology used by supermarkets using e-auctions in 'real time' with massive reduction in selling prices as we compete with the new competitors. There is no guarantee these electronic competitors can provide the level of supply and quality as noted under the bidding terms. Honey becomes a commodity offering with prices to match.
- supermarket shift to more private label as the mainstream product similar to the UK or Europe.
- shrinking supermarket honey category (confirmed by moving annual totals (MAT's)) competing with chocolate spread substitutes which show substantial volume growth.
- transfer of manufacturing facilities to cheaper offshore locations by multi nationals, affecting local suppliers.
- supermarkets move to 'just in time distribution', pushing stock holdings back onto the supplier instead of their warehouses, shortening lead times, increasing our stock levels.
- the transfer of some sales to secondary channels eg farmers markets although not likely to be in the order of 3,000 tonnes, being the market shrinkage.
- in overseas markets the Chinese adulteration and residue issues and Argentine residue issues has changed product recipes in major industrial users.
- return to the world market of China, the largest honey producing country.

Other factors:
- export bulk commodity prices have not moved or are worse than 1990's
- the exchange rate is much more unfavourable to export than 1990's

Our marketing efforts have increased our market share and arrested a decline in volume, but not grown the market back by the 3,000 tonnes lost in the category. In recent months we have seen a reduction in domestic retail sales which may be attributed to the lower consumer spending behaviour reported by both the media and various other food companies.

As stated above, the cost of the crop must be aligned to the market in which it is to be sold and we must prepare for that event. It means our new product and global strategies become even more important to bring value added products to consumers and markets prepared to pay for them.

Roger D Masters
Managing Director