2009 Annual Meeting, Northern Club, Auckland, 17th November 2009

Chairman's Address

Ladies and Gentlemen
At our last year's AGM in this same room and approximately the same date, both Stefan Lepionka and I spoke to you in quite positive terms as to how we envisaged our F2009 Year would evolve.

We had just recently commissioned our Renmark plant in South Australia and had implemented a new IT System here in NZ.

The NZ economy was starting to feel the World Financial economics, but we believed that with our launch of the Charlie's Brand in Australia we would be relatively sheltered during any consumer reduction in spending here in NZ in the year ahead.

However within the first 6 months from the implementation of our IT system it transpired that we were receiving unreliable information and making decisions based upon that. In other words it's been a very disappointing year for all of us or as the Queen would say a year of "annus horribilis"

2009 Full Year Result

The Financial performance of Charlie's in 2009 has been outlined in the Annual report.

For the financial year to 30 June 2009 the Company reported record Gross Sales of $34.1m, a year on year increase of 2% and a net loss after tax of $1,815,000.

It is particularly pleasing to report that Sales in Australia continue to increase significantly and we achieved an increase for the full year of 31% compared to the prior year. [*AUD $3,878k (2009) vs $2,960 (2008)*]

There were five Major reasons for the result

1. We discovered in late January 2009 that certain inputs into the product costing model were inaccurate due to the implementation of the new IT system. As a result of this issue we incurred a one off system correction cost of approximately $150,000. The issues with the IT system have now been fully resolved and it is now performing to the original expectations and the valuable data and analysis the system now provides has enabled the Group to manage it business more efficiently. Further enhancements are scheduled but these are normal improvements that occur where ever a new IT system is installed.

2. The establishment of our new Renmark plant in South Australia (which was achieved in record time) and commissioned in March 2008, did leave us with some teething problems. The facility has now been running for over 12 months and during this time the production techniques have been greatly improved and these will result in significant production costs reduction for the Charlie's Branded products for the current financial year

3. The transition from having our Charlie's branded products packed by a third party resulted in us carrying a substantial increase in inventory levels to ensure that we could deliver our products into the market place, during the time of commissioning our own plant. This also resulted in higher warehousing and freighting costs for the period and therefore higher interest costs from increased working capital requirements. The transition is now completed and stock levels have returned to normal.

4. The Group incurred high non recurring discounting costs relating to the clearance of deleted product lines on in the second half of this year because of the product rationalisation program. This clearance has now been completed.
5. We incurred a cost of approximately $160,000 during the year for non-recurring legal and consulting costs associated with corporate activity during the latter part of the year.
   We made the market aware on the 17 June 2009 that we had been approached by a number of interested parties over a period of time – but the Board in evaluating the various approaches determined that none of these were attractive enough to pursue in order to extract fair value for shareholders.

   We also said that the we would continue with our strategy to grow the Charlie's and Phoenix Organics brands across New Zealand, Australia and internationally and we are considering a capital raising and other any options to both implement that strategy and to reduce our current levels of debt.

   The first step in the debt reduction process has been the recent sale of our property at 87 Henderson Valley Rd, West Auckland for $2.5million which represented a $1.2million gain compared to the book value.

   The Group's total inventory holding decreased from $5.3million as at the end of June 2008 to $4.6million at the end of June 2009, which resulted in cash flow operating activities improving by 11%.

   In summary then, our result for the Financial year ending June 2009 was disappointing, but we know that with the actions we have taken during the last six months in slimming down our overhead cost, improving our manufacturing plants both here in Auckland and in Renmark, creating greater efficiencies across all parts of the Company and with increased sales emphasis in the Australian market will deliver substantial benefits during the year ahead.

Dividend

The directors have not declared a final dividend for the year and no interim dividend was declared during the year.
Last year I spoke to you about our Growth Strategy and despite the challenges outlined in my address to you today we do have a successfully established business that has achieved high growth since listing- from $9million in 2005 to $34 million in 2009 -Our strategy in now going forward is to use this platform to generate sustainable profitability for our shareholders.

Outlook

Subsequent events since our balance date have seen Directors and certain key management personnel exercise 3,700,000 options at an exercise price of 10 cents per share. This fully confirms the confidence and potential that we have in the Company.

As I also mentioned to you we completed the sale and leaseback of our Henderson production and facility site on the 30th October and were able to reduce our debt level from $7.1million at the 30th June 2009 to $4.3million as at the end of October.
The two planned payments of $500k on the 31st March 2010 and the 30th June 2010 will also further reduce debt and will be fully funded from profits and positive cash flows during this financial year. By the end of this current financial year our debt position will be approximately $3.3 million. We will continue to evaluate our Capital requirements in line with opportunities that present themselves via the beverage industry rationalisation or with our own desire to grow our Australian sales further.

I also wish to publically thank our major cornerstone shareholder Cottisloe Holdings for providing the bank guarantee facility of $5.3m to support the borrowings for group expansion. Cottisloe offered this facility to assist Charlie's to obtain more favourable terms given the credit crisis and the company's funding requirements.

Shortly Stefan our CEO will talk to you about how the first quarter of this financial year has gone so far and indicate to you that we expect to achieve a modest profit this year.
The road ahead will not be easy, and we have already seen the various economic spikes that have been occurring during the last few months. But we can assure you that we are determined to succeed in fulfilling our visions and ambitions.

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