

2011

Charlie's Group Limited Interim Report

For the six months ended 31 December 2010





Financial Results

Total gross sales:	\$21.9m	up 29% from \$16.8m
Net revenue:	\$17.1m	up 24% from \$13.8m
Net profit after tax:	\$1.1m	up 56% from \$0.7m
EBITDA:	\$2.1m	up 18% from \$1.8m
Net debt:	\$0.8m	down 50% from \$1.6m
Debt/equity ratio:	5%	down from 17%
Australian net revenue:	\$6.3m	up 95%
New Zealand net revenue:	\$10.5m	up 3.2%
Top seller:	Charlie's Old Fashioned Lemonade 1.5lt now top selling product Group-wide	

CHARLIE'S HALF YEAR PROFIT UP

56%

CEO and Chairman Report

The Directors of Australasian premium beverage company Charlie's Group Ltd are delighted to report a net profit after tax of \$1.1 million for the first 6 months of the 2011 financial year. This represents an increase of 56 per cent on the same period a year ago (excluding the one-off profit from the building sale last year).

The past six months have seen a transformation take place in the business following the very successful launch in to Coles. Charlie's Australian operation now represents 37 per cent of total group net revenue compared with 23 per cent last year and the Directors see this as an ongoing trend in the business as our brands become entrenched in the Trans Tasman beverage markets.

Australia

HOTELS, RESTAURANTS AND CAFES CHANNEL (HORECA)

Highlight: | **HORECA channel grows 29%**

Charlie's Group Limited's Australian business continues to go from strength to strength with both the Charlie's and Phoenix Organic brands growing strongly in both the HORECA and Grocery channels.

The Phoenix Organic and Charlie's brands within the HORECA channel grew at 29 per cent for the period as more account activations and branded fridge placements were made during the period.

The brands can be found at some of the best and leading middle- to high-end food outlets. The Directors see plenty of further opportunity and we will continue to invest in the HORECA channel going forward.

SUPERMARKET CHANNEL

Highlights: | **Brand market share in Coles at 8.1% in January**
Charlie's Old Fashioned Lemonade enters top 10 products in its category
Brand recognition in Australia up to 45%
Processing plant staff doubled to cope with growth
Lemons purchased increase to 6.3 million

Last year we were delighted to announce to the market our ranging in Coles supermarkets. We are pleased to report today that the ongoing sales to Australian consumers are significantly greater than expected with purchases stronger through excellent consumer brand recognition and innovative product offering.

We undertook significant pre- and post-launch awareness research in Melbourne at the time of the Coles launch in November and December. The research showed brand awareness jumped from 3 per cent to 45 per cent among those surveyed in this short space of time.

Latest Nielsen market data for the trading month of January 2011 shows the Charlie's brand gained a value market share of 8.1 per cent of the chilled juice category in Coles. This has exceeded all of the Group's earlier expectations.

Charlie's Old Fashioned Lemonade made it in to the top 10 products sold in its category for January within Coles. This is a category of 160 plus products which is usually dominated by established brands owned by the very large multi-national players such as Heinz, Coca Cola and Lion Nathan National Foods.

Following the successful launch of the first 11 Charlie's products in Coles, the Group was invited to supply an additional six across the Orange Juice, Smoothie and Old Fashioned Quencher ranges.

The additional distribution into Cole's 750 stores nationwide will not only grow our revenue and potentially our market share but also enables us to more fully utilise our Renmark production facility.

Renmark is now working regular double shifts to keep up with the demand and we have been able to create an extra nine jobs representing 50 per cent of the production floor workforce. The number of cartons through the plant has increased three-fold.



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When the Coles deal was announced we anticipated requiring four million extra lemons to meet the orders. In fact, due to the success of the Quencher Lemonade and the Quencher range, we are going to need 6.3 million lemons.

Our immediate goals for Charlie's Group are to continue to invest in people, marketing and infrastructure as we continue to grow significantly in the Australian market.

As a result of both past and anticipated market growth we have appointed an experienced Grocery Key Account Manager for Australia. Richard Witton has 28 years' experience in the \$1 billion Australian grocery juice market spanning some of the largest juice and beverage producers and leading brands in Australia.

New Zealand

Highlights: | **New Zealand market share growing**
New Zealand net revenue increases 3.2%

It is pleasing to note that following a year of adjusting to the new economic climate, rationalising our product portfolio, introducing new innovation and the gross margin strategies we put in place that we have returned to growth in the New Zealand market and increased the profitability of this segment.

Our New Zealand market is back in growth reporting a 3.2 per cent increase in net revenue on the same period a year ago. Of particular note is the growth we achieved in the quarter leading up to Christmas with net revenue growing eight per cent on the same quarter last year. Market share increases have helped this sales growth.

The strategy is to continue with the plans we have put in place and keep growing the market with a close eye on costs to ensure its profitability.

Exports

Highlights: | **First shipments to new supermarket group Park n Shop Hong Kong (January)**
Further advances in South Korea & Singapore

Our brands continue to attract enquiries and orders from export markets and although Australia and New Zealand are our key areas of focus in the short and medium term we are pleased with the new business that we are achieving as part of our long term strategy of building global brands.

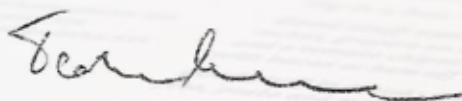
Hong Kong's largest supermarket chain Park N Shop took its first order of Phoenix and Charlie's products in January to be on the shelves mid-February.

Phoenix has a strong presence in South Korea and we gained a further listing in more than 300 Cafe Benne outlets to strengthen our presence. In Singapore we gained extra listings of Phoenix Organics in the Cold Storage supermarket chain.

Outlook

The Group has been experiencing a significant step change in the business over the last 6 months with its very successful launch in to Coles. This trend is continuing into the second half of the year with strong sales in January and February.

On behalf of the Board
Charlie's Group Limited



Chairman: Ted van Arkel



CEO: Stefan Lepionka



Directors' Report

The Board of Directors have pleasure in presenting the Interim Financial Statements of Charlie's Group Limited, for the half year ended 31 December 2010.

The Interim Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on 23 February 2011.



Chairman



CEO

Unaudited Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2010

		Half year ended 31 Dec 10 \$000	Half year ended 31 Dec 09 \$000
Revenue			
Net operating revenue		17,057	13,767
Cost of goods sold		<u>(10,035)</u>	<u>(7,882)</u>
Gross profit		7,022	5,885
Selling and distribution expenses		(3,658)	(3,172)
Marketing expenses		(695)	(272)
Administrative and other expenses		<u>(1,021)</u>	<u>(1,204)</u>
Operating profit		1,648	1,237
Finance income		20	-
Finance expense		(110)	(182)
Gain on sale of property	3	<u>-</u>	<u>1,202</u>
Profit before income tax		1,558	2,257
Income tax expense		<u>(464)</u>	<u>(352)</u>
Net profit after tax for the period attributable to:			
Shareholders of the parent company		<u>1,094</u>	<u>1,905</u>
Other comprehensive income			
Movement in cash flow hedge reserve net of tax		2	117
Movement in foreign currency translation reserve	5	32	-
Total comprehensive income		<u>1,128</u>	<u>2,022</u>
Earnings per share for profit attributable to shareholders:			
- Basic earnings per share (cents)		0.372	0.649
- Diluted earnings per share (cents)		0.352	0.614
EBITDA	2	2,061	1,751

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Unaudited Consolidated Statement of Financial Position

For the half year ended 31 December 2010

	Notes	As at 31 Dec 10 \$000	As at 31 Dec 09 \$000	As at 30 Jun 10 \$000 (audited)
EQUITY				
Share capital		16,029	15,950	16,029
Cash flow hedge reserve		(3)	64	(5)
Foreign currency translation reserve	5	32	-	-
Share option reserve	4	-	561	385
Accumulated profits/(losses)		1,385	(778)	(94)
Total equity		17,443	15,797	16,315
LIABILITIES				
Non-current liabilities				
Borrowings	6	3,442	-	3,359
Total non-current liabilities		3,442	-	3,359
Current liabilities				
Trade and other payables		5,056	3,983	2,019
Employee benefits		32	201	-
Borrowings	6	-	4,329	-
Taxation payable		412	-	120
Derivative financial instruments		20	-	5
Total current liabilities		5,520	8,513	2,144
Total liabilities		8,962	8,513	5,503
TOTAL EQUITY AND LIABILITIES		26,405	24,310	21,818
ASSETS				
Non-current assets				
Property, plant and equipment	3	3,822	4,257	3,968
Deferred tax		360	759	360
Intangible assets		9,086	9,176	9,007
Other non-current assets		90	-	78
Total non-current assets		13,358	14,192	13,413
Current assets				
Cash and cash equivalents		2,611	1,605	1,720
Trade receivables		5,399	3,582	1,809
Inventories		4,745	4,659	4,718
Prepayments and other assets		275	200	158
Derivative financial instruments		17	72	-
Total current assets		13,047	10,118	8,405
TOTAL ASSETS		26,405	24,310	21,818

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Unaudited Consolidated Statement of Changes in Equity

For the half year ended 31 December 2010

	Share capital \$000	Share option reserve \$000	Cash flow hedge reserve \$000	Foreign currency translation reserve \$000	Accumulated profits \$000	Total equity \$000
Balance as at 1 July 2009	15,580	561	(53)	-	(2,683)	13,405
Net profit for the period	-	-	-	-	1,905	1,905
Other comprehensive income						
Movement in cash flow hedge reserve net of tax	-	-	117	-	-	117
Total other comprehensive income	-	-	117	-	-	117
Total comprehensive income	-	-	117	-	1,905	2,022
Shares issued	370	-	-	-	-	370
Balance as at 31 December 2009	15,950	561	64	-	(778)	15,797
Net profit for the period	-	-	-	-	587	587
Other comprehensive income						
Movement in cash flow hedge reserve net of tax	-	-	(69)	-	-	(69)
Total other comprehensive income	-	-	(69)	-	-	(69)
Total comprehensive income	-	-	(69)	-	587	518
Share options lapsed	-	(97)	-	-	97	-
Share options exercised	79	(79)	-	-	-	-
Balance as at 30 June 2010	16,029	385	(5)	-	(94)	16,315
Net profit for the period	-	-	-	-	1,094	1,094
Other comprehensive income						
Movement in cash flow hedge reserve net of tax	-	-	2	-	-	2
Movement in foreign currency translation reserve	-	-	-	32	-	32
Total other comprehensive income	-	-	2	32	-	34
Total comprehensive income	-	-	2	32	1,094	1,128
Share options lapsed	-	(385)	-	-	385	-
Balance as at 31 December 2010	16,029	-	(3)	32	1,385	17,443

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Unaudited Consolidated Statement of Cash Flows

For the half year ended 31 December 2010

		Half year ended 31 Dec 10 \$000	Half year ended 31 Dec 09 \$000
	Notes		
OPERATING ACTIVITIES			
Cash was provided from:			
Net receipts from customers		13,467	12,620
Interest received		20	-
Cash was applied to:			
Payments to suppliers and employees		(12,220)	(10,816)
Interest paid		(110)	(182)
Income tax paid		(185)	-
Net cash inflows from operating activities		972	1,622
INVESTING ACTIVITIES			
Cash was provided from:			
Sale of property, plant and equipment	3	11	2,500
Cash was applied to:			
Purchase of property, plant and equipment	3	(92)	(118)
Net cash (outflows)/inflows from investing activities		(81)	2,382
FINANCING ACTIVITIES			
Cash was provided from:			
Proceeds from issue of shares		-	370
Cash was applied to:			
Repayment of borrowings		-	(2,405)
Net cash outflows from financing activities		-	(2,035)
Net increase in cash and cash equivalents		891	1,969
Cash and cash equivalents at the beginning of the period		1,720	(364)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		2,611	1,605
COMPOSITION OF CASH			
Cash and cash equivalents		2,611	1,605

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Unaudited Consolidated Statement of Cash Flows

For the half year ended 31 December 2010

	Half year ended 31 Dec 10 \$000	Half year ended 31 Dec 09 \$000
RECONCILIATION WITH NET PROFIT		
Reported net profit after tax	1,094	1,905
Items not involving cash flows:		
Amortisation expense	43	138
Bad debts written off and movement in doubtful debts	4	3
Depreciation expense	371	376
Foreign exchange gain	(167)	(40)
Gain on sale of property	-	(1,202)
Impact of changes in working capital items		
Increase in trade receivables	(3,590)	(1,017)
Increase in inventories	(27)	(30)
(Increase)/decrease in prepayments and other assets	(117)	224
Increase in taxation payable	292	-
Decrease in deferred tax	-	360
Increase in trade payables	3,037	905
Increase in other payables and accruals	32	-
Net cash inflows from operating activities	972	1,622

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Unaudited Notes to the Financial Statements

For the half year ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These general purpose financial statements for the interim six months reporting period ended 31 December 2010 have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and NZ IAS 34 Interim Financial Reporting. They do not include all the notes included in the full annual financial statements and are to be read with reference to the Annual Report for the year ended 30 June 2010.

The interim financial statements are in compliance with International Accounting Standard ("IAS") 34 Interim Financial Reporting.

Basis of preparation

The accounting policies used in preparation of these financial statements are consistent with those used in the previously published interim financial statements to 31 December 2009 and the audited financial statements to 30 June 2010 unless otherwise stated.

Entity reporting

The financial statements are the Consolidated Financial Statements of the Group comprising Charlie's Group Limited (the 'Company' or 'Parent') and its subsidiaries together referred to in these financial statements as the 'Group'.

The Parent and its subsidiaries are designated as profit oriented entities for financial reporting purposes. No separate Parent results are disclosed in the interim financial statements.

Statutory base

Charlie's Group Limited is a company registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The Company is also listed on the New Zealand Stock Exchange (NZX).

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

These interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group accounting policies.

Foreign operations

The results and financial position of foreign entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency below:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates;
- all resulting exchange differences are recognised as a separate component of equity.

Changes to comparative figures

Certain comparatives have been restated to conform with current year presentation, including a change in the presentation of revenue and selling and distribution expenses of \$1,707,000 for the half year ended 31 December 2009. This relates to the accounting for certain discounts and rebates paid to customers.

Unaudited Notes to the Financial Statements

For the half year ended 31 December 2010

2. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board of Directors together with the Senior Management Team, who review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

a. Reportable segments

The Group operates in one business segment, being the manufacture, marketing and distribution of quality beverages. This is then split by geographic location.

b. Other segment information

Performance of operating segments is assessed based on a measure of earnings before interest, taxation, depreciation and amortisation (EBITDA). This information is measured in a manner consistent with that in the consolidated interim financial statements. This excludes costs associated with capital raising and other overheads that are held at Group level and cannot be allocated.

Intersegment revenue has not been reported by segment as it is not evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

For the half year ended 31 December 2010	New Zealand*	Australia	Unallocated	TOTAL
	\$000	\$000	\$000	\$000
Total external net operating revenue	10,789	6,268	-	17,057
Total EBITDA	1,382	886	(207)	2,061
Total assets	16,025	9,946	435	26,405

For the half year ended 31 December 2009	New Zealand*	Australia	Unallocated	TOTAL
	\$000	\$000	\$000	\$000
Total external net operating revenue	10,548	3,219	-	13,767
Total EBITDA	985	1,057	(291)	1,751
Total assets	15,750	7,692	867	24,310

A reconciliation of EBITDA to profit before tax is provided as follows:

	Half year ended 31 Dec 2010	Half year ended 31 Dec 2009
	\$000	\$000
EBITDA for reportable segments	2,268	2,042
Unallocated EBITDA	(207)	(291)
Total EBITDA	2,061	1,751
Depreciation	(371)	(376)
Amortisation	(43)	(138)
Finance costs - net	(89)	(182)
Gain on sale of property	-	1,202
Profit before income tax	1,558	2,257

*Export sales are included within New Zealand as export sales are derived directly from New Zealand operations

Net operating revenues of approximately \$6,596,692 (2009: \$4,122,509) are derived from three external customers. Revenue from one customer is attributable to the New Zealand segment, the other two to the Australian segment.

Unaudited Notes to the Financial Statements

For the half year ended 31 December 2010

3. PROPERTY PLANT AND EQUIPMENT

Acquisitions

During the six months ended 31 December 2010, the Group acquired assets with total costs of \$92,301 (December 2009: \$117,996, June 2010: \$229,000).

Disposals

During the six months ended 31 December 2010 the Group sold a number of small fixed assets that it no longer required. The net book value of these was \$11,000 and resulted in no gain or loss on sale.

During the six months ended 31 December 2009 the Group sold its Henderson property. The net book value of this property was \$1,225,527 and resulted in a gain on sale of \$1,201,973 (December 2010: nil). The Group has leased this property back for an initial period of eight years on normal commercial terms by way of an operating lease.

4. SHARE OPTIONS

9,189,290 options have lapsed during the year (2009: nil).

5. FOREIGN CURRENCY TRANSLATION RESERVE

	Half year ended 31 Dec 2010	Half year ended 31 Dec 2009	Full year ended 30 June 2010
	\$000	\$000	\$000
Opening balance	-	-	-
Exchange differences from translating foreign operations	32	-	-
Closing balance	<u>32</u>	<u>-</u>	<u>-</u>

In previous financial periods, the functional currency for Charlie's Group Australia Pty Limited (CGA), a wholly owned subsidiary of Charlie's Group Limited was New Zealand dollars. This was appropriate as the activities of this foreign operation were carried out as an extension of the reporting entity and transactions were predominantly contracted in New Zealand dollars. CGA's main activities were to manufacture branded products that were predominantly exported to be sold by Charlie's Trading Company Limited and to sell goods imported from Charlie's Trading Company Limited.

CGA's sales activities of products manufactured and sold in the Australian market have grown significantly in the last year and in particular this financial period. The level of activity is such that the underlying transactions of this foreign operation have changed and therefore the functional currency of this foreign operation is Australian dollars with effect from 1 July 2010.

6. BORROWINGS

The Group has been in full compliance of all covenant measures and as such has classified the borrowings as non-current in accordance with the facility agreements and consistent with presentation as at 30 June 2010.

In December 2009 following breaches in prior year covenants, the borrowings were classified as current.

Unaudited Notes to the Financial Statements

For the half year ended 31 December 2010

7. RELATED PARTY TRANSACTIONS

Between the Group and key management personnel of the entity and other related parties

The Company undertook transactions with Directors and their related interests as detailed below. All related party transactions between the Company and its Directors were conducted on an arm's length basis and provided on commercial terms. No guarantees have been given or received in respect of these transactions. These transactions bear no interest. These related party transactions are part of the ordinary on-going business operations of the Company. No related party debts between the Company and its majority shareholder and Directors were written off or forgiven during the period and no doubtful debt expense has been recognised in relation to any related party balances (2009: nil).

Information on transactions with key management personnel or entities related to them:

- During the period the Company sold beverages to key management personnel on the same terms and conditions as available to staff. There were no balances outstanding at the end of the period.
- A Director, Tim Cook, is a director of Cook Executive Recruitment Limited, a company which provides recruitment services to Charlie's Group Limited. The services were provided on normal terms and conditions. There were no balances outstanding at the end of the period.
- A Director, Mark Darrow, is a director and shareholder of Juicenator Limited, a company through which this Director charges his Director's Fees in respect of Charlie's Group Limited. These services were provided on normal terms and conditions. (refer table below)
- A Director, Marc Ellis, is a director and shareholder of MCG Marketing Limited, a company that from time to time provides marketing services to Charlie's Group Limited and through which this Director charges his Director's Fees in respect of Charlie's Group Limited. These services were provided on normal terms and conditions. (refer table below)
- A Director, Eduard van Arkel, is a director and shareholder of Van Arkel & Co Limited, a company through which this Director charges his Director's Fees in respect of Charlie's Group Limited. These services were provided on normal terms and conditions. (refer table below)
- A Director, Tim Cook, is a director of Collins Asset Management, a company with a majority shareholding in Charlie's Group Limited, and through which this Director charges his Director's Fees in respect of Charlie's Group Limited. These services were provided on normal terms and conditions. (refer table below)

Transactions with related parties (excluding directors' fees)	Half year ended 31 Dec 2010	Half year ended 31 Dec 2009
	\$000	\$000
Cook Executive Recruitment Limited	-	7
Balance owing at end of period	-	-

The following Directors received directors' fees and dividends in relation to their personally held shares as detailed below:

	Half year ended 31 Dec 2010		Half year ended 31 Dec 2009	
	Directors' fees \$000	Dividends \$000	Directors' fees \$000	Dividends \$000
Executive Directors				
Stefan Lepionka	-	-	-	-
Non-executive Directors				
Ted van Arkel	27	-	28	-
Tim Cook	15	-	-	-
Mark Darrow	15	-	15	-
Marc Ellis	15	-	15	-
Charlie's Group Australia Directors				
Gavin Clifford	8	-	8	-
	80	-	66	-

Unaudited Notes to the Financial Statements

For the half year ended 31 December 2010

7. RELATED PARTY TRANSACTIONS (continued)

Key management compensation was as follows:

	Half year ended 31 Dec 2010	Half year ended 31 Dec 2009
	\$000	\$000
Salaries and other short term employee benefits	620	511
	<u>620</u>	<u>511</u>

8. CAPITAL EXPENDITURE COMMITMENTS

In August 2010 the Group was awarded a grant for improving the electricity infrastructure at the Renmark production facility in South Australia of up to A\$119,736. The grant is based on the Group matching the expenditure. So far the Group has spent A\$51,865 and to be eligible to receive the full grant the Group will need to spend another A\$67,871.

9. OPERATING LEASE COMMITMENTS

	Half year ended 31 Dec 2010	Half year ended 31 Dec 2009	Full year ended 30 June 2010
	\$000	\$000	\$000
Gross commitments under non-cancellable operating leases for the Group	4,600	5,518	5,344

10. CONTINGENT LIABILITIES

The Group is subject to litigation in the ordinary course of operations. The Group does not believe that it is engaged in any legal proceedings for which provision has not been made which would be likely to have a material effect on its business, statement of financial position or statement of comprehensive income.

11. EVENTS AFTER BALANCE DATE

On 25 January 2011 the bank facilities were extended to include an overdraft facility in Australia to help with working capital requirements. The overdraft limit is for AU\$600,000 and forms part of the existing banking arrangements. There have been no changes to covenant requirements as a result of this change.

2011



Charlie'sTM
GROUP LIMITED