

## Letter from the Chairman and Chief Executive Officer



Dear Shareholders

Charlie's Group Limited is a rapidly growing company with a portfolio of premium brands and products which appeals to our consumers. We remain focused on our vision to create a stable of internationally recognised brands that have broad appeal and will become increasingly valuable assets for Charlie's.

The six month period to 31 December 2007 was one of investment and continuing achievements for Charlie's.

Charlie's has racked up a number of achievements over the years and the first six months of the 2008 financial year has been no different. As well as operating highlights including record sales results, improving gross margins and increased market share, distribution and fridge space, Charlie's also won 10 Awards at the 2007 New Zealand Juice and Beverage Awards.

We are especially pleased with the improvements to gross margin (up 3.6%) due to production efficiencies at the Henderson plant, development of new and more profitable products and a more favourable product mix. Further efficiency gains are expected in the future, with our newly acquired Australian plant going online in the next few months.

To enable us to compete successfully in our journey to be a major player in the beverage market, we need to invest cash flow from our business to develop our infrastructure and add value to our business. Our Investment for Growth strategy continues to underpin everything we do and the costs we incur today will drive long term benefits for our company.

Of particular note, was the acquisition of a new production facility in Australia, which will allow us to expand our juice processing and bottling, with long term security of fruit supply. This was a major investment for the company and one which marks our arrival as a serious player in the beverage market. The production facility, which is expected to come on line by April 2008, will transform how we operate and sets the stage for the future development of our company.

Operating cashflow was used to fund other investments during the period. In particular, we increased our marketing spend to \$1.84 million (of the projected \$3 million marketing spend for the year). This resulted in an immediate increase in sales for the Group, a record gross sales result of \$16.85 million (up 37% on the previous year) and an increase in market share across all sales channels.

We also invested in our people, introducing a new product development team and expanding our sales force, as well as driving increased distribution, negotiating additional and desirable fridge placements and continuing the set up of the Australian production plant.

As forecast at the Annual Meeting, investment costs in the first half of the year contributed to a net loss for the company for the six month period.

The six month result, reported for the first time under NZ-IFRS (New Zealand International Financial Reporting Standards), included gross sales of \$16.85 million (up 37% compared to the previous year), Earnings Before Interest, Tax and Depreciation (EBITDA) of (\$377,000) and a Net Loss After Tax of (\$524,000).

The EBITDA result includes \$211,000 of employee benefits which were expensed under the new NZ IFRS standards and \$200,000 in costs related to the set up of the Australian production facility.

Charlie's is in a good financial position with a debt/equity ratio of 0.15/1 and significant excess debt capacity for future use. Investment costs, funded by operating cashflow, will taper off in the second half of the year, driving positive operating cashflow and profit by the end of the 2008 financial year.

## **Business Performance**

We continue to focus on our three pillars for growth – vertical integration, product innovation and brands. In line with these, we have invested in a number of positive initiatives in the first half of the year, some of which are already bearing fruit for the company.

In 2007, Charlie's announced the acquisition of a juice production and manufacturing plant in South Australia, which allows us to expand our juice processing and bottling in Australia, with long term fruit supply and more control over packaging and product quality.

Commissioning of this plant is well advanced and, as previously indicated, we expect it to be fully operational with the first Charlie's products rolling off the line by 1 April 08. Capital expenditure on the Australian processing plant is in line with expectations.

As part of this project, we have invested in developing a new, improved packaging proposition for Charlie's which will be introduced in New Zealand, launched for the first time in Australia and will be presented to all our existing Export customers in April 2008. We are very excited about the new packaging for the Charlie's brand, which will be one of the key benefits of owning our own production facilities.

We have continued to innovate with the hugely successful launch of Charlie's Soda Co on 1 October 2007. This range of healthy grown up fruit sodas has been supported by a humorous advertising campaign which has been very popular with viewers. The brand is now listed in all major supermarkets and oil retailers nationally, and has contributed an additional 15% to Charlie's Brand sales since its launch.

Sales, brand awareness and market share all increased following marketing spend of \$1.84 million, including record sales for Phoenix Organics following a new advertising campaign.

Charlie's Group Sales continued to grow, with a record \$16.85 million in gross sales for the period. This included a record monthly sales result of \$3.55 million in December 2007. While the total New Zealand Grocery fruit juice category has grown at 7.1% over the last 12 months to December 2007, Charlie's and Phoenix Organics combined have grown at 28.1% (source: AC Nielsen). This illustrates how the trend for premium beverage consumption continues to grow faster than the beverage market as a whole.

Sales successes continued during the period, with growth in both the grocery and route channels. Total beverage sales in grocery grew by 32.6% versus the same period a year ago, with a 41% increase for Phoenix and a 30.5% increase for Charlie's. In the route channel, sales grew by 16.4% versus the same period a year ago with an increase of 11.5% for Phoenix and 29.5% for Charlie's. A further 200 new accounts have been opened in the Route Channel between July and December 2007.

We maintained our stronghold on fridge space and listings in premium outlets with an 18% increase in fridge placements during the period, including rolling out a range of Charlie's and Phoenix beverages and a fridge placement programme into the Starbucks retail chain throughout NZ. As at 31 December 2007, we had a total of 971 fridges in the New Zealand market.

Our selective approach to the export market continued to show positive results with export sales growing by 207%, with strong demand from South Korea in particular. In Australia, our

sales grew by 60% on the same period last year and our fridge placements grew by 62%, taking total fridges to 331 in the Australian market.

Operationally, we continued to focus on creating efficiencies at our Henderson plant, resulting in an improvement in gross margins of 3.6 percentage points. We are expecting further production efficiencies following the commissioning of our Australian production facility.

## **Outlook**

Charlie's is starting to see the benefits of our planned growth strategy and we are pleased with the progress demonstrated in the first half of the year.

Sales results for the first two months of the second half of the year have been at record levels, and we are confident that the Group is on track to deliver year on year improvement at EBITDA and NPAT level as we take this company to a new level.

During the next six months and beyond, we will continue our focus on our three pillars of growth.

We will be actively seeking to extend our market share and volume across all brand categories, with an increased focus on execution through our distribution network and business development teams in both New Zealand and Australia. In line with this, we will be negotiating further fridge placements as we maintain our stronghold on premium and desirable outlets.

Product innovation and our focus on brands will continue with the launch of the Charlie's brand into Australia and other export markets, along with a number of other new products and packaging options. These initiatives will be supported by an ongoing marketing spend as we seek ever stronger consumer awareness of our brands and products.

We will also be implementing a new IT system for New Zealand and Australia with completion date set for June 2008.

Our commitment to the Investment for Growth strategy will continue and we remain focused on building long term shareholder value.

We are well positioned for future growth and continue to explore export market opportunities and brand expansion, whilst strengthening our existing product portfolio.

As a growth company, there's always a lot going on at Charlie's. So to help keep shareholders up to date with all the news, we are launching a dedicated investor website [www.charliesgroup.co.nz](http://www.charliesgroup.co.nz). This will provide simple access to latest news releases, shareholder reports and presentations. You can also subscribe to receive news announcements by email as they are released.

We thank you for your support and look forward to reporting on our progress and announcing our improved full year results later this year.



Ted Van Arkel  
Chairman



Stefan Lepionka  
CEO