

## **Directors' Report – Botry-Zen Ltd – Half Year Report**

The board is pleased to present this report for the six months to 30 September 2009. It has been a six months of further positive progress, fairly much in line with the plan outlined in the Chairman's Report in the 31 March 2009 Annual Report.

For the six months the company reports a loss of \$650,000. This is slightly better than budget and a much better result than the loss in the equivalent period last year of \$1,222,000.

Product has been made and sold at good margins and costs (in the factory, marketing and administration) have been well managed.

In the 31 March 2009 Annual Report, I stated that we saw the year being one in which there would be a focus on production consistency, improving production volumes, and growing domestic sales. Pleasingly, production for the year has been significantly ahead of last year and in fact we have limited production in recent weeks to ensure as far as possible a match to domestic sales.

On the sales front, the period has been a challenging one. In the year in which the company has had the capacity and consistency to manufacture larger volumes of product, the New Zealand wine industry, or at least large segments of it, has entered very difficult times. Despite that, we are anticipating March 2010 full year sales to be ahead of March 2009.

As was outlined in the Share Purchase Plan documents, and at the Special Meeting that a number of shareholders attended, we have successfully achieved a number of positive outcomes in international markets. We now have formal registration of Botry-Zen in the United States and state registration in California, one of that country's largest and most reputable wine producing states. We are also in the process of obtaining state registration in Washington and Oregon.

A visit to Europe by our General Manager, Dr Steve Lorimer, proved most valuable. At an industry conference it was clear that our product, Botry-Zen, was a well recognised and highly regarded residue free remedy for botrytis, a disease prevalent in many parts of Europe. Since Dr Lorimer's return, several significant European parties have expressed interest in partnering with us in Europe. We will be liaising with them in the coming months to identify and maximise that opportunity.

Our shareholders will be well aware, from the Shareholder meeting announcement of 21 October and the Share Purchase Plan documents, that the company needs to raise further capital. This position was always forecast.

Without wanting to repeat the detail outlined in the Share Purchase Plan documents, a minimum of \$1.5M needs to be raised to enable the company to continue to operate and to seriously pursue the international opportunities referred to above. The capital will also be used to fund the purchase of four new fermenters for the Dunedin factory, to grow production to allow the initial anticipated international demand to be met. As international sales of significance will realistically take some time to grow, trading losses are expected to continue for a time, so capital is required for this purpose also.

The board appreciates the patience that shareholders have shown over a number of years. Production volumes are now growing, domestic sales are improving (in a very difficult market), and there is serious interest in, and opportunities for, the company's products internationally (particularly the United States and Europe). The company can only survive to develop and pursue those opportunities if we have your support as shareholders to the capital raising under the Share Purchase Plan.

Our small team of staff, in production, management, technical, and sales, clearly retain their passion for the company and its products and I thank them for their hard work and positive results in the period.

In summary, the board believes the company is on track. It has certainly made the progress that we had planned for the last six months. We look forward to having the opportunity to see the company through its next stages of development, particularly internationally, with a view to growing the wealth of our shareholders.