



CAPILANO
Honey Limited

annual report

05



05



2005 ANNUAL GENERAL MEETING

THE SEBEL KIRKTON PARK
336 Oakey Creek Road
Pokolbin, Hunter Valley, NSW

A series of gatherings will be held in conjunction with the Annual General Meeting to enable shareholders, directors and management to discuss items of mutual interest.

Schedule of Events

Thursday, 6 October 2005

12.00 noon Company Management Presentation

A presentation to update shareholders on company activities including local and export sales, marketing, finance and manufacturing, followed by informal discussions.

3.30pm Annual General Meeting – Capilano Beekeepers Ltd

Registration from 3.00pm.

7.00pm Capilano Annual Dinner

Friday, 7 October 2005

10.00am Annual General Meeting – Capilano Honey Limited

Registration from 9.00am.

If you are planning to attend please complete and return the enclosed Attendance Form by 5.00pm on Friday, 23 September 2005

For further details please refer to:

Notice of Meeting page: 2

Attendance Form page: 45

Proxy Form page: 47





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NOTICE OF MEETING

Notice is given that the thirty-third Annual General Meeting of shareholders of **Capilano Honey Limited** ('CHL') ACN 009 686 435 will be held at The Sebel Kirkton Park, 336 Oakey Creek Road, Pokolbin, Hunter Valley on Friday 7 October 2005 commencing at 10.00am.

AGENDA

1. Ordinary business

- **Resolution - Election of Meeting Chairman**

To elect Mr Donald Keith as Chairman to preside at this Annual General Meeting in accordance with Rule 84 of the Constitution.

- **Financial Statements and Reports**

To receive and consider the Financial Statements, Director's Declaration and the Reports of the Directors and the Auditors for the year ended 30 June 2005.

2. Special business

- **Resolution - Remuneration Report included in the Report of the Directors**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That the Remuneration Report included in the Report of the Directors be adopted".

The Remuneration Report is included in the 'Report of the Directors' on page 23 of this Annual Report.

In accordance with the BSX Listing Rules, any votes cast in relation to this resolution by any director or their associates will be disregarded.

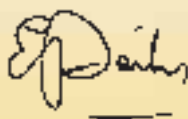
However the company need not disregard any such vote if:

- it is cast by any person referred to above as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The external Auditors will be available at the meeting to answer questions on the conduct of the Audit and their Independent Audit Report. It is preferable that questions be submitted to the company in writing no later than five business days prior to the meeting. A list of questions submitted will be available at the meeting.

Dated this NINETEENTH day of AUGUST 2005

By Order of the Board



CAPILANO HONEY LIMITED

Errol J Bailey

Company Secretary

THIS IS AN IMPORTANT DOCUMENT

If you do not understand this notice or are in any doubt about the action you are required to take, you should consult your legal, financial or other professional adviser immediately.

INSTRUCTIONS

If you are unable to attend the meeting and wish to vote, you are requested to complete the Proxy Form on page 47 of this Annual Report.

If you are planning to attend the Annual General Meeting please complete the Attendance Form on page 45 of this Annual Report.

NOTES

- Information about the Resolutions appears in the Explanatory Memorandum.*
- Under the Constitution no ordinary resolution can be passed in a general meeting without the vote of Capilano Beekeepers Ltd ('CBL') being cast in its favour.*
- A member who is entitled to attend and cast a vote at the meeting is entitled to appoint a proxy.*
- A proxy need not be a member of the Company. A member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.*
- If you wish to appoint a proxy and are entitled to do so, then complete and return the attached proxy form.*
- A corporation may elect to appoint a representative in accordance with the Corporations Act 2001 in which case the Company will require written proof of the representative's appointment which must be lodged with or presented to the Company before the meeting.*

EXPLANATORY MEMORANDUM

➤ **Resolution - Election of Meeting Chairman**

As he is retiring by rotation and not seeking re-election, Mr D G Keith's tenure as a director, and therefore Chairman, of the Board of Directors, will cease at the conclusion of the CBL AGM on 6 October 2005. The purpose of this Resolution, which will be by a show of hands and which will not involve the Foundation Share, will be to seek approval for Mr Keith to Chair the meeting.

➤ **Resolution - To adopt the Remuneration Report in the Report of the Directors**

A resolution to adopt the Remuneration Report is required by the Corporations Act, which states that the vote on it is advisory only, and does not bind either the directors or the company. The Remuneration Report has been prepared in conjunction with RPC Group Pty Ltd, a company specialising in corporate remuneration planning. RPC have concluded that the company's remuneration policies are fair, reasonable and appropriate for its needs.

Under the Constitution of CHL no ordinary resolution can be passed in a general meeting of CHL without the support of CBL.

The directors support the resolution but will not be voting on it. However, they encourage shareholders to vote in favour of it which will support the policy of seeking to attract the best persons for the company's needs, and of remunerating them in accordance with industry standards. The CBL Constitution provides that no remuneration be paid to its directors. The directors of CBL receive their remuneration from their positions as directors of CHL.

➤ **Appointment of Directors Acknowledged**

In accordance with Rule 101A of the Constitution, 2 persons will be appointed as Directors of CHL by virtue of them having been elected as directors of CBL at that company's Annual General Meeting.



05 CHAIRMAN'S REPORT



The steep decline in world honey prices which commenced in the 2004 financial year continued in 2005 to levels not anticipated a year ago, and is reflected in Capilano's results for the year.

On the positive side, beekeeper shareholder production returned to near normal levels, providing choice quality honey to meet our packing requirements. Honey imports were restricted to the minimum required to meet overseas customer specifications in blends, while Australian honey was used to satisfy our Australian commitments.

Overview of Results

A net loss after tax of \$1.795 million for the Group is reported for the year.

The average quota honey price was \$2.70/kg, a decrease of 38% from the 2004 record average price of \$4.38/kg.

Although total honey sales increased, a further decline in the most profitable domestic retail market occurred. Marketing initiatives have been put in place to halt this decline, and this market has now stabilised.

The honey market has been through a massive distortion over the past three years following the banning and subsequent re-entry of Chinese honey to Europe and North America.

Three negative aspects which have had a major effect on Capilano's 2005 results were:

- the extremely high prices on supermarket shelves contributed to reduced honey usage.
- the bulk export market moved quickly from very high to very low prices.
- the sharp honey buying price decline required stock revaluations of approximately \$7 million to be written off against the year's profit.

The current nominal average buying price of \$2.11/kg, while low compared with recent years, is at a level that maintains significant long term improvement when compared to the Consumer Price Index.

Looking to the Future

While the Capilano Group has reported negative results for the year, substantial progress has occurred, placing the group in a strong position to return quickly to profitability. Initiatives to date include:

- honey buying prices have been adjusted to match market changes, and with most of the stock write-downs achieved in 2005, prospects are for a return to profitable trading.
- we believe we have arrested the decline in the demand for honey in the domestic market and have succeeded in achieving modest growth in domestic market share.
- we have won the Woolworths' Homebrand business for the 2006 year.
- we are acting to achieve total market growth from renewed marketing initiatives.
- our drive to increase retail exports continues to be successful.
- Intermediate Bulk Containers ("IBC's") have been introduced, providing labour savings and improved quality control.
- commissioning of the "in-house, state of the art" laboratory providing improved testing efficiency and a point of difference in our industrial sales.
- upgrading the Capilano Labonte packing facility has provided an efficient factory, meeting customer quality assurance expectations.
- Medihoney products have been launched in the UK.

Joint Venture with HoneyMax

Capilano sales of Argentine honey processed by our joint venture partner have commenced. Sales are building steadily as this value added product is introduced to bulk honey buyers in the world market. Specialist sales representatives have been appointed in Europe and Asia to provide permanent regional contact with customers and potential customers in these major markets.

The Argentine Joint Venture and our Australian supply provides Capilano with the ability to present a wide range of quality assured honey to meet the requirements of bulk honey buyers anywhere in the world.

Capilano Subsidiaries

Medihoney Pty Ltd

The Medihoney business continues to grow, with particular emphasis this year on launching Medihoney products into the UK market.

Medihoney has continued to require significant investment to grow the company to take advantage of the opportunities its excellent products present.

- **Capilano Labonte Inc ('CLI')**

Our Canadian 50% owned subsidiary experienced significant disruption to production in the first half of the year as the plant was upgraded. With the commissioning of the new plant, CLI had a favourable second half year with successful customer QA audits, and was able to start delivering its budgeted sales.

- **The Capilano Vision**

Major changes have occurred at Capilano in recent years. However, the company's objectives of increasing shareholder wealth and meeting customer needs and expectations remain. Capilano has embarked on a major project of developing global markets from the sound base of our pre-eminent domestic market position and our already established export consumer pack markets.

The company listed on the Bendigo Stock Exchange in June last year, providing a greatly expanded market for its shares.

It is fair to say that the company has moved significantly from being production driven to being market driven.

However, in all this change, the Board has continually recognised a major strength that has helped underpin Capilano's success, and that is the close involvement of producer shareholders in the Company. This strength continues to be maintained through the obligations of the Honey Supply Agreements and Capilano Beekeeper Ltd control of Capilano Honey Limited.

The company was unable to operate profitably this year in what was a very extraordinary marketing environment due to external factors. However, Capilano is now well placed for a profitable future as the changes we embarked on, and continued to pursue through this most difficult of years, bear fruit.

Capilano has been successful in attracting highly skilled and motivated people to its management and staff. Among Capilano's shareholders are some of the world's most competent honey producers. With the support of a more varied shareholder base and with sound corporate governance the future is bright.

- **The Board**

There will be changes to the Board of Capilano in the year ahead. My retirement takes effect after the Annual General Meeting of Capilano Beekeepers Ltd.


Warwick Wilshire is retiring from the Board on 30 June next year, so this will be his last Annual General Meeting as a Board member also. When he retires, Warwick will have served the company for twenty-three years, thirteen as Managing Director and ten as an Independent Director. Capilano has benefited significantly from Warwick's wide range of skills.

I wish our new Directors well as they join a very effective team continuing on the Board.

- **Our People**

Comments on the courteous, helpful attitude of our staff have been made to me many times. These comments are very encouraging and are in keeping with my personal experiences.

My sincere congratulations to all at Capilano who efficiently fulfil their roles and provide such a favourable impression of the company for those who have contact with us.



Don Keith
Chairman of Directors



05



BOARD OF DIRECTORS



Donald G. Keith, FAICD, AM.

Chairman, Non-Executive Director, Commercial Apiarist

Age 66

(Elected Director 1989, Deputy Chairman March 2000 and Chairman October 2000)

Mr Keith has been a Director since 1989, and was elected Deputy Chairman in March 2000 and Chairman in October 2000. He is well known in the apiculture industry as a honey producer. During more than thirty years of active involvement in industry affairs, he has served three terms as President of the Queensland Beekeepers Association, and from 1986 to 1989 held the position of National President of the FCAAA. He is a Fellow of the Australian Institute of Company Directors and holds a Company Directors' Diploma. He was made a member of the Order of Australia in 1999. He was also a recipient of the Goodacre Memorial Award in 2000. Mr Keith is also a Director of Medihoney Pty Ltd.

Mr Keith will retire from office at the 2005 AGM in October.



Trevor R. Morgan, FAICD

Deputy Chairman, Non-Executive Director, Commercial Apiarist.

Age 50

(Appointed, and Elected Director 1998, and Deputy Chairman 2004)

Mr Morgan has been a Director since 1998 and was elected Deputy Chairman in October 2004. He is a second generation beekeeper with over 30 years experience in honey production. He has been widely involved in industry matters for many years at both State and National level, serving on the South Australian Apiarist Association executive for more than ten years, including two years as President. He is a Fellow of the Australian Institute of Company Directors and holds a Company Directors' Diploma.



Roger D. Masters, B.Com, MBA, CA.

Managing Director

Age 50

(Appointed Director 1996)

Mr Masters was appointed by the Board as Managing Director in 1996. He has a Bachelor of Commerce Degree, a Masters Degree in Business Administration and is an Associate of the Institute of Chartered Accountants. He has had a distinguished career in senior management with significant experience in finance, marketing and business development. Prior to joining Capilano Mr Masters was Finance Director for Bullivant's Natural Health Products.

Mr Masters is also a Director of Medihoney Pty Ltd, Medihoney (Europe) Ltd and Capilano Labonté Inc.



Ian A. Cane

Non-Executive Director, Commercial Apiarist

Age 47

(Elected Director 1990, and Deputy Chairman 2000 - 2004)

Mr Cane has been a Director since 1990 and held the position of Deputy Chairman from 2000 - 2004. He is a third generation beekeeper with extensive experience in honey production. Mr Cane is a qualified carpenter and joiner and has conducted his own business in the building industry.



Phillip F. McHugh

Non-Executive Director, Commercial Apiarist.

Age 48

(Elected Director 1993)

Mr McHugh has been a Director since 1993. He is well known in the NSW apiculture industry and his family have been Capilano shareholders since 1975. Mr McHugh is active in industry affairs having served as Branch President of the NSW Apiarists Association.



Rosemary Doherty, GAICD

Non-Executive Director, Commercial Apiarist.

Age 55

(Elected Director 2000)

Mrs Doherty has been a Director since 2000. She has been a commercial apiarist in a partnership for over 30 years and is actively involved in industry issues, serving 20 years as Branch Secretary, NSW Apiarists' Association, Western Plains Branch, and seven years as committee member of the Honey Bee Research and Development Committee. She is a Graduate of the Australian Institute of Company Directors and holds a Company Directors' Diploma and Certificate IV in Business Studies from New South Wales' TAFE.



Warwick B. Wilshire, FAICD, JP (C.Dec)

Independent Non-Executive Director

Age 67

(Appointed Chief Executive in 1983, Managing Director in 1984, and Independent Non-Executive Director in 1996)

Mr Wilshire has extensive experience in manufacturing, marketing, financial and general management gained during more than forty years in management positions. He is a Fellow of the Australian Institute of Company Directors and holds a Management Certificate from Sydney Technical College and the Company Directors' Diploma.

Mr Wilshire is also a Director of Medihoney Pty Ltd.



Bernard J. Ballantyne

Independent Non-Executive Director

Age 58

(Appointed Director 1991)

Mr Ballantyne is the Group Managing Director of Castlegate VGS Pty Ltd which is involved in the marketing and distribution of grain and grain by-products. He has had extensive experience in Agribusiness in senior management positions encompassing operations, sales, marketing and general management. Prior to his appointment to the Capilano Board in 1991, Mr Ballantyne had been the AFAL Nominee Director for six years.

Mr Ballantyne is also Chairman of Medihoney Pty Ltd and Capilano Labonté Inc.



Group financial results show a loss of \$1.795 million, after stock valuation write-downs in the amount of \$7.0 million charged against profit during the year. This followed reductions in honey price from the record levels paid last year. Action has been taken through 2005 to align the honey price with the average returns from the markets into which they are sold, with a consequential effect on carrying stock valuations. Last years crop cost approximately \$20 million more than it would at this year's average price. Honey buying prices maintained at levels above the market will transfer profit from the company to supplier shareholders. We encountered the following significantly different trading conditions during the year, which clearly could not sustain the past buying price levels.

- a decline in the export bulk price
- a lower retail sales volume
- lower wholesale selling prices in the domestic retail pack segment
- a far larger crop than forecast
- transfer of stock holdings from supermarket to supplier
- lower domestic bulk prices

The outcome of a transfer of sales to the export bulk market and a bigger crop is to not only lose the higher returns from the value added retail pack market but also suffer the negative returns of the export bulk market.

The returns from the export bulk market were shown at the mid year District Visits, where graphs tracked the selling price from A\$2.96/kg in April 2004 to A\$1.95/kg in December 2004. By March 2005 the price had dropped to A\$1.65/kg. This is the result of the combination of lower US\$ prices and a rising exchange rate.

In the domestic market, the total honey category at supermarket level measured by AC Nielsen scan data shows its size as 9,346 tonnes at 3 July 2005 compared with 9,597 tonnes one year ago. Price promotions introduced by Capilano in February 2004 helped flatten the decline in the honey category, measuring almost 3,000 tonnes over

3 years, of which 2200 tonnes occurred prior to the negative publicity of December 2003. We also believe the honey category has been affected by the entry of a relatively new product in the spread category, exhibiting a growth in volume of 1000 tonnes over 2004.

Despite these issues, Capilano has increased its market share in 2005 and remains market leader in the domestic retail honey market. In addition, we have re-gained the Woolworths 'Homebrand' honey business and retained the Coles 'Farmland' honey business, which went to tender during the year.

The positive aspects of our global strategy are being realised through our presence in the UK and Canadian markets, providing an outlet for our honey other than bulk export. The use of quality assurance results through our NATA accredited laboratory has been important in developing and maintaining our business. The export retail segment has grown to 2,718 tonnes and further growth is expected next year. These are sales that would otherwise be at export bulk commodity prices.

The Argentine joint venture has started supplying customers with specifications for Argentine honey and benefits have already started to flow. With the appointment of a European based Business Development Manager we have started the work of getting new business. The opportunities exist of also using Australian honey, either alone or in blends, in response to the specifications of new customers.

Medihoney achieved a modest revenue increase, following a six month delay in obtaining the necessary certification for its products and registration for use on the Drug Tariff Register in the UK. There is more written about Medihoney later in this Annual Report.

Significant Events for the Group:

- Net loss after tax \$1.795 million
- Write-downs of stock of \$7.0 million
- Increase in honey receipts by 2,517 tonnes to 14,466 tonnes
- Arresting the decline in domestic retail market
- Initiated a marketing campaign to differentiate honey from substitute products
- Increase in market value of land & buildings by \$3.436 million
- Argentine joint venture commences trading
- Increase in market share in the domestic retail market
- Launch of Medihoney products in the UK

FINANCIAL OVERVIEW

Group Result

	CHL	CLI	Medihoney	Consolidated
NPAT (\$'000's)	(\$1,104)	(\$171)	(\$520)	(\$1,795)

Profitability

	2005 \$'000's	2004 \$'000's	2003 \$'000's
Gross Sales Revenue	79,395	83,848	87,815
Earnings before Interest & Tax	(850)	1,433	5,280
Net Profit after Tax	(1,795)	43	2,387

Revenue was down as lower volume domestic bulk sales were made at much lower selling prices. This followed more packer competition as honey supply became more plentiful. Greater discounts were offered as part of an effort to produce a higher sales volume. A trade-off exists between reduced profitability through discounts and the transfer of volume to lower contributing export bulk markets.

As noted previously, write-downs of stock took place in the order of \$7.0 million as honey buying prices were reduced. Honey buying prices fell from an average of \$4.38/kg last year to \$2.70/kg for 2005.

Net asset backing as at 30 June 2005 was \$5.03/share. The average traded price of shares was \$4.73 in financial year 2005, with recent sales in July on the Bendigo Stock Exchange at \$4.04.

	2005 \$'000's	2004 \$'000's	2003 \$'000's
Shareholders Equity	25,775	24,140	24,374
Return on Equity	(6.9%)	0.2%	9.8%
Earnings per Share (cents)	(35.0)	0.8	46.5

Balance Sheet

	2005 \$'000's	2004 \$'000's	2003 \$'000's
Current Ratio	2.82	3.26	2.19
Debt Ratio (Total Liabilities/ Total Assets)	61%	64%	60%
Interest Coverage (EBITDA/ Interest)	0.67	2.21	7.04
Total Assets	65,883	66,200	60,549
Cash at year end (\$'000's)	1,037	3,343	3,694

The Balance Sheet remains healthy, shown by a decreased debt ratio of 61% and a strong current ratio of 2.82, indicating excellent liquidity. The assets are of good quality with current assets of cash, receivables, prepayments and inventory including raw material in the amount of \$17.2 million. Raw Material includes bulk honey, which has reduced in value by \$1.40/kg from last year's stock valuation.

When considering the interest coverage ratio, calculated according to generally accepted accounting principles, the write-down of stock of approximately \$7.0 million should be kept in mind.



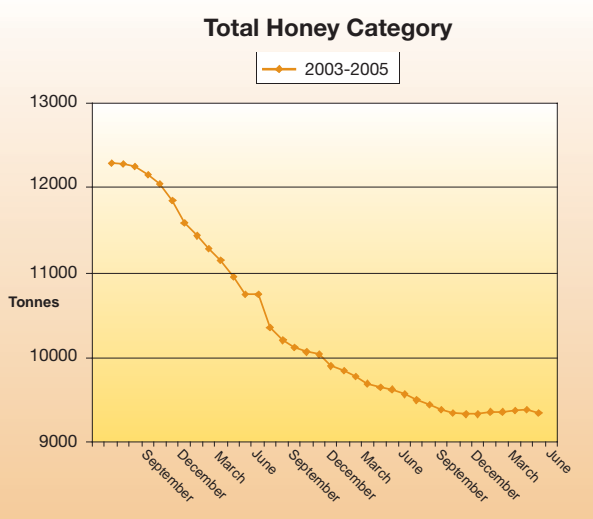
SALES & MARKETING

Domestic

Although we had an increased domestic market share in 2005, we did not achieve budgeted sales volumes. Honey buying prices are also budgeted based upon the profit expected to flow from the business, of which the Australian domestic retail segment is the key driver. A transfer of sales from the domestic retail market to the export bulk market significantly lowers profit, which immediately impacts on the honey buying price.

In 2003 we sold 7,794 tonnes in the domestic market, including the private label 'Homebrand' product. In 2004 we declined to supply 'Homebrand' due to low stocks and insufficient supply of honey required early in the season. Our expectation in 2005 was that, following some relief from the drought, our honey supply would enable us to bid competitively and win the 'Homebrand' contract for a half-year in 2005.

Although we won the 'Homebrand' contract at the expected date, Woolworths ended up running out existing stocks until late May 2005 due to stock on hand and running out supply contracts with their overseas supplier. The activity undertaken by Capilano only had the effect of flattening the decline in the total honey category by December 2004.



The other unexpected event was the effect on Capilano of the running down of stock in the supermarket distribution centres. It appears they have adopted the 'just-in-time' distribution philosophy, which pushes back responsibility for holding stock to the supplier, to be delivered 'just-in-time' for the supermarket requirement. This has consequences for the supplier, since while this is phased in, sales orders are held back until their target stock levels are reached. In our case, we were able to

monitor their stock levels in the distribution centres and found they were running to a level which we believed was affecting their ability to keep stock on supermarket shelves. In May 2005 our merchandisers began reporting 'out-of-stocks' on the supermarket shelves and we saw through the scan data a sales downturn in June 2005, normally a seasonally high month. Higher post year-end sales orders in July 2005 seem to be an attempt to remedy the situation.

The promotional activity undertaken by Capilano to stimulate growth is considered later in this Annual Report.

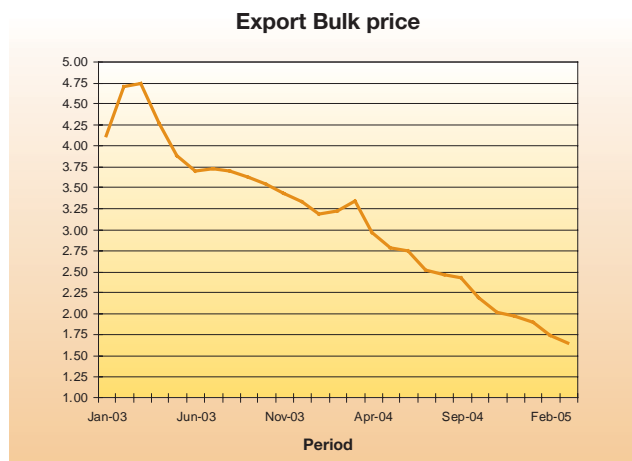
Export

The export retail pack segment has grown by 13% to 2,718 tonnes. Bulk sales increased to 3,018 tonnes from 1,861 last year as a consequence of both the transfer from the domestic retail market segment and an increased crop.

As was reported last year, the Canadian market is an importer of honey for up to half its domestic needs, as much of the Canadian honey goes across the border to the United States. The upgrading of our Capilano-Labonte plant in Canada is enabling us to supply that market with Australian, Argentine and Canadian honey. Honey sales in Canada from Capilano Labonte grew from 1,643 tonnes in 2004 to 2,311 tonnes in 2005, including 1,300 tonnes shipped from Australia.

Sales into the markets of UK & Ireland are developing soundly, while sales into the Gulf region are frustrated by the sale of other honey 'badged' as Australian, but actually from other origins. We are working with Austrade to combat this problem. Progress in South East Asia is slow, there being a preponderance of cheap Chinese honey to compete against.

Bulk export prices have now moved back to levels of US \$1,300/tonne or A\$1.65/kg. The graph shows the decline in export bulk prices in Australian dollars since 2003.



REVIEW OF OPERATIONS 2004 – 2005

There is a lot more competition for the industrial bulk markets overseas, especially when business is put to electronic tender. One of the effects of such a tender process is that it is not known if the competitor is actually supplying to the same level of quality when tendering a price in these auctions. Capilano Honey is backed by a top level QA assurance scheme and our own NATA accredited laboratory to ensure the high standard and residue-free status of our honey.

OPERATIONS

Honey receipts rose from last year as the effect of the drought receded, and we received 14,466 tonnes compared with 11,949 tonnes previously.

The sale of honey surplus to the needs of our domestic and export retail markets into the export bulk market at commodity prices creates a loss at current honey buying prices of an average of \$2.11/kg. To date, we have not found a pricing mechanism which allows us to separate the beekeepers delivery of honey destined for this market, to be matched with a commensurate buying price. Instead, the buying price is an average of the higher contributing market segments and the lower export bulk segments.

honey buying price and also a proper return on shareholders' investment in the company.

The average honey buying price in 2005 was A\$2.70/kg.

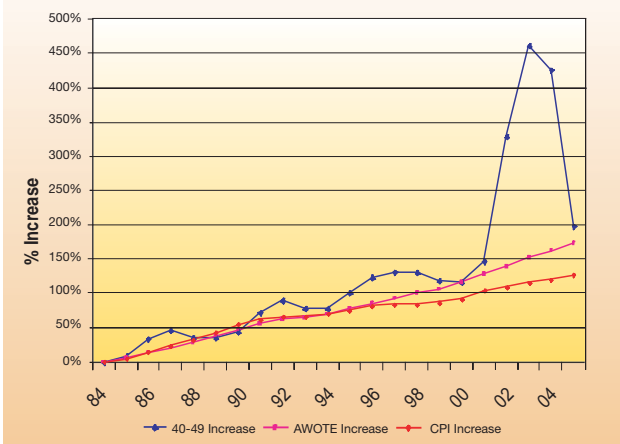
FUTURE

The higher prices of recent years, assisted by events offshore and a drought in Australia, have led to a number of new entrants in the packing sector. Rather than an effect of driving up buying prices through increased competition for beekeepers honey, it has the effect of increasing competition for the markets in which to sell the honey – for a surplus of honey exists. That leads to lower selling prices and drives down beekeeper returns.

We have seen this materialise in new brands on supermarket shelves at lower prices, with new products now appearing at the butcher/greengrocer/market sector supplied at cheaper prices by the new packers. We have increased competition for private label supply, and cheaper honey offered to domestic bulk customers. The alternative is the export bulk commodity market.

That is why it remains important for us to pursue our strategy of value added retail products in export markets and to develop our position as a global provider of quality honey in order to maximise returns for our shareholders.

Avg Honey Price Increase v CPI Increase v AWOTE Increase



This graph shows the average honey price percentage increase from a base year in 1985 compared with the Consumer Price Index (CPI) and Average Weekly Ordinary Time Earnings (AWOTE). The effect of the drought and honey shortage, together with the high offshore bulk price created through bans on the Chinese honey and anti-dumping legislation on Argentine honey, created the high returns to beekeepers (matched by low returns to the company) in 2003-2004. Current buying prices remain above the trend lines of both CPI and AWOTE. The aim is to deliver a sustainable

Roger D Masters
Managing Director





→ Sales Environment

Whilst the Capilano brand has performed very well compared to the total honey category in supermarkets, the total honey consumption of retail packs has significantly reduced from 12,300 tonnes in 2002, to 9,346 tonnes for the year ended June 2005. (AC Nielsen scan data). This decline has been well publicised and is the result of a combination of factors, including higher prices, an emerging spread substitute and perhaps the combination of the after effect of negative publicity surrounding imported honey which remained in generic brands 18 months after Capilano had sufficient stock to take it out of its blends. The use of the imported honey enabled us to retain our brand share during the critical period of the drought when we had insufficient stock, and then control its deletion.

Retailers in the past 12 months have been more demanding than ever before, reducing ranges and introducing live electronic auction processes for tendering large private label contracts. These auctions play competitors off against each other in a very live sense, designed purely to deliver the retailer the very best price. In the current environment of surplus honey more packers are emerging and the competition for that private label market segment to avoid the low export bulk market has driven down returns. More packers doesn't equate to more competition to buy product, driving honey buying prices up, but more competition for the market in which to sell it, driving prices down.

Supermarkets have also required substantial promotional funds for suppliers to retain branded products in the range. Coles Myer Limited has been very public about increasing their private label presence into the future at the expense of branded products. These pressures certainly have a serious financial impact and these trends will only continue from here to get tougher during the next decade as the retailers promote private label as their own point of difference to consumers. The major Australian retailers are now adopting global strategies and are trying to reposition themselves as major brand owners similar to large global supermarket chains.

Despite the retailer factors mentioned above, ex-factory sales of the Capilano brand grew slightly from the previous year. Supermarket sales for the total honey category showed a decline of 2.6% in tonnes on a moving annual total basis (MAT) while the Capilano brand performed better than the category, increasing by 2.2% in tonnes (MAT). Total CHL brands market share grew from 42.7% to 43.2% measured on a MAT basis. Capilano also has a significant share of the private label segment (see comments below).

→ Distribution

The year saw a change in the way in which major supermarket chains handle the receipt of goods from many suppliers, including CHL. Woolworths and Coles Myer now prefer to be responsible for the collection and shipping of goods from the point of manufacture to their respective distribution centres.

Major supermarkets significantly reduced their physical inventory both at warehouse and store level during the course of the year, which was a significant factor creating a difference between ex-factory sales and the ex-supermarket consumer scan sales.

→ Private Label

Capilano was successful in the tender for the Homebrand honey contract on a national basis through negotiations with Woolworths for in excess of 1,100 tonnes from Australian beekeepers, previously supplied from off-shore.

Capilano was also successful through the new GNX electronic auction process in retaining the Farmland & Bi Lo private label contract in all States with the exception of Western Australia, where regulations governing the transfer of honey across the border made it non viable financially for the tonnage involved.

→ Domestic bulk sales

Bulk honey sales volumes increased 2.8%, but declined in value by 26.6% as a result of increased honey supply to the market, which has increased competition in a smaller total market size. The falling world price of honey coupled with a rising exchange rate against the US dollar has seen a return to the local market by many producers, previously speculating in the bulk honey export market. This situation has increased competition immensely and reduced returns significantly.

→ Other

Increased honey supply has also seen a resurgence of brands and activity into other distribution channels, such as fruit & vegetable outlets. This competes against the bulk of the honey sold through the supermarket chains and pricing is usually lower, which again drives down returns.



Marketing Activity

Capilano undertook a number of activities this year designed to create brand awareness among consumers and re-build the honey category that has suffered considerable decline in recent years for a number of reasons. As the holder of a market share approaching 70% for brands and private labels, action by Capilano was required to have any impact on the market.

Marketing activities have included:

- Television Commercial
- Barnes & Allowrie Radio Campaign
- South Australia Radio Advertisement
- HomeGrown Campaign
- New 600g Pack Size
- Coles Consumer Promotion
- In Store Demonstrations

Capilano initiated an advertising campaign in April 2005 with a television commercial pointing out some facts about the nutritional content of spreads, providing honey as a healthier alternative to popular chocolate spreads. It was backed up by print advertisements in major women's magazines, featuring a spreads comparison of the fat and kilojoule levels of honey, chocolate spread, peanut butter and cheese spread. The theme of the advertising campaign is to show consumers that honey is a healthier alternative to chocolate spreads.

In July 2004, Capilano aired a radio advertisement in South Australia, narrated by Susie O'Neill and aimed to create awareness amongst consumers in that State. A winter radio campaign in NSW and Victoria between May and June 2005 featured both the Allowrie and Barnes brands. The advertisements promoted the heritage of both, and encouraged consumers to look for them at their local Coles and Bi Lo supermarkets, since they are not listed

in Woolworths. The campaign was also backed up by ads played on the Coles in store radio.

In April 2005, Capilano Honey became an official member of HomeGrown, an organisation representing the agricultural industry in promoting Australian produced products. Still in its early stages, the HomeGrown campaign is designed to encourage consumers to purchase produce carrying the HomeGrown logo.

Capilano was able to offer the new 600g size Twist and Squeeze to the Homebrand private label, providing a point of differentiation for consumers and the opportunity to purchase a greater value, larger pack. The Barnes Honey and Smiths Premium Golden Syrup brands have also had the 600g Twist and Squeeze as an addition to their ranges.

Capilano's 'Win an Outdoor Package' promotion was well received by Coles customers in June 2005. With the opportunity to win one of 3 outdoor packages, consumers entered the promotion via entry forms placed in the honey aisle of Coles supermarkets and entry coupons in the July issue of Table Magazine.

In-store demonstrations were made of Capilano's Flavoured Toppings and Capilano Honey & Ginger Spread in 350 Coles and Woolworths Supermarkets during April 2005. This introduced consumers to a wider product range and some new products under the Capilano brand.

Notwithstanding these initiatives, we are still faced with a considerable challenge to get the market back to previous growth levels.

Kevin Fenton
National Sales Manager



05 INTERNATIONAL MARKETS



Our efforts to increase international sales through a global network of honey supply and distribution continued to gain momentum throughout the year. Export sales totalled \$22.75 million, up from \$20.8 million the previous year.

A number of external factors have made international sales development an even greater challenge throughout the year.

Prices on the international bulk commodity market fell sharply from supply-side influences. China's return to the European market in September 2004 and improved production in South America resulted in lower spot demand in response to the improved supply choice. International bulk prices have now retreated to levels last seen in February 2002 when the European Union first introduced the ban on Chinese honey imports.

The Australian dollar has continued to trade in a band between US\$0.75 - \$0.80 throughout the year. The strength of the dollar continues to impact on a number of our customers throughout South East Asia, making Capilano's products more expensive against local products.

Export Retail

Our commitment to developing value-added export retail markets has resulted in sales doubling over the past 4 years to 2,718 tonnes.

While overcoming some very solid barriers during this past year, Capilano Labonté has moved forward and is becoming a major competitor in the Canadian market. The transition of the Miel Labonté range to the new Capilano Labonté branding saw our Quebec launch focus on brand development and the introduction of three unique floral upside down packs (Australian Eucalyptus, Canadian Clover and Canadian Blueberry), together with our Pure & Natural blended products.

Promotional activities included in-store tastings, off location displays, direct mail couponing, editorials and advertisements in lifestyle magazines and newspapers. Capilano Labonté

also participated at the Montreal SIAL food show to reinforce the new image to local, interstate and international buyers.

We have recently presented the Capilano Labonté brand nationally through our broker, which has seen listings accepted at major supermarkets in Western Canada. Promotional activities planned for later in the year will support a national focus and provide a strong platform for the brand to grow.

Private label business partners continued to support their products throughout the year with off location displays and flyer advertising. We expect these marketing initiatives by the supermarkets will contribute to our continued growth in the private label arena.

In Europe, we have maintained our market position in the UK despite increased competition. There is increasing pressure from competitors and supermarkets alike, with the UK retail food market one of the most price competitive in the world. This price competition is expected to intensify with new season crop of Chinese honey. Although many supermarkets will not allow Chinese honey in their own label products, some supermarkets are beginning to regain confidence in honey from this origin.

The Upside Down pack has held its market share and remains the best selling speciality honey in the UK market over the past 12 months. In November 2004, Capilano again exhibited at the BBC Good Food Show in Birmingham, and sponsored the celebrity chef cooking demonstrations.

Sales in other European markets have also continued to perform well. We have gained full supermarket distribution in Ireland, where our range of retail products was recently extended. Further expansion into new European markets is planned for the coming year.

Sales to the Middle East remain strong, with Capilano sales benefiting from increasing prosperity across the region. The retail environment in key markets is changing, as multinational supermarket chains from Europe introduce the 'hypermarket' retail concept. Local supermarket chains are also growing at the expense of the traditional local retail store. Capilano enjoys high brand recognition in the supermarket trade, with this change in retail environment expected to continue to benefit sales in the coming years.

Price sensitive markets such as Saudi Arabia have continued to suffer as locally packed Chinese honey is sold cheaply. All premium brands, including European brands, are suffering from this cheap competition. We have continued our marketing efforts to highlight the premium position of the Capilano brand.

Although the impact of the high Australian dollar is being felt in markets across South East Asia, we have held our position across the region.

Export Bulk

Bulk export sales increased to 3,018 tonnes, up from 1,863 tonnes the previous year. This increase represents surplus crop being sold into the international bulk commodity market. Prices to this market segment have fallen to A\$1.65/kg excluding packaging costs.

Beeswax

Beeswax export sales increased strongly on the back of supply shortages in the international market. Sales totalled 248 tonnes, up from 190 tonnes the previous year.

Capilano Argentina

The first sales from Capilano Argentina were recorded this year. This joint venture plays an important part in our global network of honey supply and distribution, particularly in North America and Europe. Our established distribution structures allow us to distribute this honey direct to the end-user industrial manufacturer. Depending upon customer preferences and specification, the opportunity exists to supply blends with Australian honey. Capilano-Argentina has the same QA assurance systems in place and conducts a rigorous testing program using our in-house laboratory in addition to the external Argentine government laboratories testing requirements. Argentina remains an important honey supplier to these North American and European markets.

Peter McDonald

General Manager – International Business





MEDIHONEY™

05





The 2005 financial year has been significant for the impact of the regulatory environment on Medihoney's business. Greater scrutiny of therapeutic products and their ingredients coupled with more onerous auditing processes by the Australian Therapeutic Goods Administration (TGA) following the Pan Pharmaceuticals recall has frustrated Medihoney's ability to promote existing products, launch new products and gain regulatory approval to move into offshore markets.

In December the TGA directed that one of the key ingredients in our creams be removed from the Australian Register of Therapeutic Goods because the overseas manufacturer was unable to meet the TGA's documentation requirements. Finding a natural alternative, reformulating and doing the necessary stability studies is a complex process that takes many months. As a result, no promotions on our leading cream products were carried out for over 4 months and two new products had their launch dates delayed by 8 months.

Further revisions by the TGA on the licensing requirements of our contract packers and their facilities effectively meant that for a period of 4 months no one in Australia could pack our wound care products. As a result, stock had to be rationed resulting in an extended out of stock period for our major retailers.

An important regulatory milestone achieved during the year was the successful Conformity Assessment audit of our wound care products allowing them to be sold into Europe and the UK. While the audit process is complex and involved, the well-documented system we have created will be used to support marketing approval applications in other countries such as the USA. Medihoney wound care products are now CE marked and can be sold alongside other advanced wound care products with high level claims in both Australia and the UK.

•••• Australia

Against a background of long periods of limited supply across our major lines, domestic sales were still up 12% on

last year. Some promotional activity was conducted with all major retailers including clip-strip activity with Woolworths and pre packs of Eczema Cream with pharmacies. Neck tagging of Active + was used to differentiate Medihoney from our key competitors. Medihoney Active+ is regulated as a complementary medicine to allow us to make therapeutic claims. Neck tagging allows these claims to be highlighted. Medihoney wound care products were also successful on the Queensland and Western Australian wound care tenders for supply to public hospitals.

•••• United Kingdom

A major focus of our resources during 2005 was the successful launch of both our cream products and wound care products into the UK market. The development costs associated with listing of new products in pharmacy groups, promotion, PR, employing staff, training and servicing the market from Australia requires a significant up front investment during the development phase. These costs have a large impact on short term cash flow and profitability. Consequently the subsequent investment in business development impacted on the 2005 results in the expectation of steadily building sales through 2006/07 with potentially significant benefits resulting in subsequent years.

Following almost 5 years of background work in the UK, medical honey is now commonly discussed as a treatment option and Medihoney has a very high profile.

Medihoney Active + has been available through Sainsbury and Tesco pharmacies for three years. To further build the brand and the business, Medihoney Moisturising Cream and Medihoney Baby Cream were also launched into leading pharmacy chains.

Medihoney successfully tendered for supply to the UK National Health Care Logistics Wound Care tender and is now available to all UK hospitals. A media event was held at the Royal Society of Medicine, London. Dr Rose Cooper and Clinical Nurse Specialist, Val Robson, presented to invited science and medical journalists on their experience with Medical Honey. Val has been running a large clinical study on Medihoney for the past two years. Medihoney was very well reported in mainstream print media.

•••• Marketing

This year's marketing focus has been on promoting a consistent brand image and message throughout all activities. We have concentrated our efforts on standardising marketing material from packaging to sales literature and on introducing a more professional and dynamic image. Slight packaging

improvements were introduced to the wound care and skin care ranges and a label more consistent with a therapeutic product was developed for Active+ to overcome emerging competition through the grocery channel. The website underwent a temporary improvement whilst major design changes are being developed.

Print advertising and editorial was undertaken in clinical publications to support the launch of the single use wound care products in both Australia and the UK. The UK launch was supported by good media interest which generated a strong response from consumers and healthcare professionals. Consumer print and Internet advertising was also undertaken in Australia to raise consumer brand awareness using a more consumer-friendly advert style.

Technical

CE Mark Certification was achieved in December 2004 allowing our wound care products to be sold into the European market. At the same time, Medihoney was successfully accredited to the Quality System ISO13485 by the TGA allowing certification of our wound care products to the new Australian regulations. This regulatory process took eleven months to complete.

A key paper from the Brisbane's Princess Alexandra Hospital study comparing Medihoney to the standard antibiotic, Mupirocin, was published in May 2005 in the highly regarded peer-reviewed Journal of the American Society of Nephrology. Previous trials have shown that topical Mupirocin application was associated with a seven to thirteen fold reduction in catheter-associated infections. This paper reported no significant difference in infection rates between Medihoney and Mupirocin in 101 patients but Medihoney had the added advantage of being effective against Mupirocin-resistant staphylococcal isolates. This was the first published paper comparing a standardised medical honey product to a standard antibiotic and it indicates that Medihoney products are a proven treatment alternative in this age of antibiotic resistance.

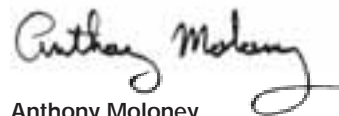
Five other publications involving clinical case studies and laboratory investigations of Medihoney have been published in peer-reviewed journals since the last annual report. Two other publications on Medihoney studies have been submitted for review including the impressive results of the completed ophthalmic study and the laboratory study conducted by the Queensland Health Pathology Service on drug resistant bacteria.

A randomised-controlled trial has commenced at the Royal Brisbane Hospital comparing Medihoney Wound Gel to a silver-based antimicrobial cream. This trial will recruit 130

patients with chronic ulcers for biopsy, swab and clinical assessment. This will enable a comparison of both dressings for their effect on bacterial reduction and improvements in inflammatory markers and healing indicators.

Outlook

Much of our earlier marketing work has been directed at education and building brand awareness. The immediate marketing objectives will switch to a more sales and marketing focus to build our revenue base. Development work will continue on increasing our product range and building our honey knowledge base. Medihoney is positioning itself as a world leader in both clinical and laboratory research on medical honeys, and developing clinical evidence on products such as Eczema cream will allow stronger claims to be made and provide data for media events. Submissions have been made to the USFDA for marketing approval of our wound care products and we expect some resolution during 2006. Consolidating these building blocks over the next two years will put Medihoney in a sound commercial position.



Anthony Moloney

CEO – Medihoney Pty Ltd



concise financial reports

05

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This concise report has been derived from the full financial report for the year ended 30 June 2005. The full financial report and auditor's report is available free of charge on request.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Capilano Honey Limited and its controlled entities as the full financial report.

REPORT OF THE DIRECTORS

Your directors present their report on the consolidated entity consisting of Capilano Honey Limited ('CHL') and the entities it controlled at the end of or during the year ended 30 June 2005.

Directors

The following persons held office as directors during the financial year and up to the date of this report:

- Donald Gordon Keith (*Chairman*)
- Trevor Richard Morgan (*Deputy Chairman*)
- Roger David Masters
- Bernard James Ballantyne
- Ian Alfred Cane
- Rosemary Doherty
- Phillip Francis McHugh
- Warwick Birdsall Wilshire

Activities

The principal activities of the consolidated entity during the year continued to be:

- packing of honey for domestic and export sales.
- supply and distribution of honey based therapeutic products.

Consolidated Results

The operating loss of the consolidated entity for the year after income tax was \$1,795,158.

Distributions

The ordinary dividend of five cents per share provided for in the 2004 accounts was paid during the year absorbing \$258,292 in cash.

No dividend has been declared for the year ended 30 June 2005.

Matters Subsequent to the End of the Financial Year

There is at the date of this report no other matter or circumstance which has arisen since 30 June 2005 that has significantly affected or may significantly affect:

- i) the operations of the consolidated entity;
- ii) the results of those operations; or
- iii) the state of affairs of the consolidated entity in financial years subsequent to 30 June 2005.

Review of Operations

Sales revenue of \$79,395,184 for the consolidated entity was \$4,453,104 below the previous year's result. An analysis of this sales decrease is as follows:

	% increase/ (decrease) of 2005 over 2004	2005 \$	2004 \$
Capilano Honey Limited	(5.5%)	77,271,173	81,770,614
Medihoney Pty Ltd	2.2%	2,124,011	2,077,674

The decrease in revenue for the parent entity was mainly a result of increased domestic supply, lower offshore commodity honey prices and increased domestic competition.

Significant Changes

There were no significant changes in the state of affairs of the consolidated entity during the year.

Likely Developments

Likely future developments of the consolidated entity include continuing competitive marketing of the consolidated entity's brands on both domestic and export markets.

In the opinion of the directors it would prejudice the interests of the consolidated entity if any further information on likely developments in the operations of the consolidated entity and the expected results of operations were included herein.



REPORT OF THE DIRECTORS

INFORMATION ON DIRECTORS

Director	Qualifications/Experience	Special Responsibilities	Shares held in Parent entity
Donald Gordon KEITH	FAICD, AM Commercial apiarist. Director since 1989.	Chairman of Capilano Honey Limited Board, Chairman of the Nomination Committee, and a Member of the Honey Supply & Industry Committee. Chairman of Capilano Beekeepers Ltd. Director of Medihoney Pty Ltd.	D G Keith is a partner in a partnership which holds 57,920 shares.
Trevor Richard MORGAN	FAICD Commercial apiarist. Director since 1998.	Deputy Chairman of Capilano Honey Limited Board. Chairman of the Audit & Compliance Committee and Member of the Honey Supply & Industry and Nomination Committees. Director of Capilano Beekeepers Ltd.	T R Morgan is a partner in a partnership which holds 13,260 shares.
Roger David MASTERS	B.Com, MBA, CA Managing Director since July 1996, fourteen years senior management experience in the food industry, including nine years in the agribusiness sector.	Member of the Audit & Compliance and Honey Supply & Industry Committees. Director of Medihoney Pty Ltd and Director of Medihoney (Europe) Ltd. Vice-President of Capilano Labonte Inc.	1 R D Masters is also the beneficiary of an entity holding 4,000 shares.
Bernard James BALLANTYNE	Independent Director since 1991, and for six years prior was the nominee director representing the Allowrie shareholding. He has extensive experience in Agribusiness in senior management positions encompassing operations, sales, marketing and general management. Currently Group Managing Director of Castlegate VGS Pty Ltd.	Independent Non-executive Director. Member of the Remuneration and Audit & Compliance Committees. Chairman of Medihoney Pty Ltd. Chairman of Capilano Labonte Inc.	1
Ian Alfred CANE	Commercial apiarist. Director since 1990.	Chairman of Remuneration Committee and Member of the Honey Supply & Industry and Nomination Committees.	I A Cane is a partner in a partnership which holds 24,235 shares.
Rosemary DOHERTY	GAICD Commercial apiarist. Director since 2000.	Member of the Audit & Compliance, Nomination, Remuneration and Honey Supply & Industry Committees.	R Doherty is a partner in a partnership which holds 13,800 shares.
Phillip Francis McHUGH	Commercial apiarist. Director since 1993.	Chairman of the Honey Supply & Industry Committee and Member of the Nomination Committee.	P F McHugh holds 34,676 shares.
Warwick Birdsall WILSHIRE	FAICD, JP (C.Dec) Managing Director from July 1984 to 30 June 1996. Appointed Independent Director in June 1996.	Independent Non-executive Director. Member of the Audit & Compliance and Remuneration Committees. Director of Medihoney Pty Ltd.	1

COMPANY SECRETARY

Errol John BAILEY	CPA, FCIS, JP(C.Dec)	A Certified Practising Accountant and a Fellow of Chartered Secretaries Australia, Mr Bailey has extensive experience in corporate administration and finance, gained during more than twenty five years in management positions. Mr Bailey is also Company Secretary of Medihoney Pty Ltd and Medihoney (Europe) Ltd.
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REPORT OF THE DIRECTORS

The particulars of directors' interests in shares are as at the date of this report. Directors retiring by rotation are Messrs Keith and Morgan. Mr Morgan being eligible, is offering himself for re-election. Mr Keith, although eligible, is not offering himself for re-election and will retire at the conclusion of the 2005 Annual General Meeting.

Meetings of Directors

The number of directors meetings held (including meetings of committees of directors) and number of meetings attended by each of the directors of the company during the financial year were:

Directors	Directors Meetings of the Company		Committee Meetings of Directors		Directors Meetings of Controlled Entities		General Meetings of the Company	
	No. of Meetings Attended	No. of Meetings Held (*)	No. of Meetings Attended	No. of Meetings Held (*)	No. of Meetings Attended	No. of Meetings Held (*)	No. of Meetings Attended	No. of Meetings Held (*)
D.G. Keith	12	13	17	17	6	6	1	1
T. R. Morgan	13	13	15	15			1	1
R.D. Masters	13	13	16	16	6	6	1	1
B.J. Ballantyne	12	13	13	15	6	6	1	1
I.A. Cane	13	13	11	11			1	1
R. Doherty	13	13	12	12			1	1
P. McHugh	13	13	9	9			1	1
W.B. Wilshire	13	13	15	15	6	6	1	1

(*) Reflects the number of meetings held during the time the director held office during the year, or while he/she was a Member of a Board Committee. Number of Meetings attended includes attendance by invitation.

Environmental Regulations

The consolidated entity's operations are subject to environmental regulations under legislation in Queensland and Victoria in relation to its honey packing and construction, installation and plant maintenance operations.

Senior management of the parent entity is responsible for monitoring compliance with environmental regulations.

Based upon the results of inquiries made, the directors are not aware of any significant breaches during the period covered by this report. They have been made aware of the following non-compliance:

- Richlands - PET and Packaging Operations
Environmental Licence Authority required under Section 41 of the Environmental Protection Act (QLD) 1994. Application for such a licence has been lodged and the licence should be granted before December 2005.

Compliance with the requirements of environmental regulations was substantially achieved across all other operations with no other instances of non-compliance in relation to requirements noted.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.



REPORT OF THE DIRECTORS

REMUNERATION REPORT

Capilano Remuneration Committee

• Role

The Committee is responsible for reviewing the remuneration of executive management and the Board, executive incentive plans and reporting to the Board on these matters.

The responsibilities of the Committee include:

- (i) Formulation of remuneration policy. This involves ensuring that the policy:
 - attracts, retains, develops and motivates executives of the calibre appropriate to deliver Capilano's strategic goals and objectives;
 - reflects a clear relationship between remuneration and individual and Capilano performance;
 - is internally consistent; and
 - contributes to the overall integrity of the Capilano remuneration system.
- (ii) Recommending remuneration for directors and executives, including fixed remuneration, short and long term incentives and terms of service.

• Memberships and Meetings

Members of Remuneration Committee	No. of Meetings Attended	No. of Meetings Held (*)
I.A. Cane (Chairman)	4	4
W.B. Wilshire	4	4
R. Doherty	4	4
B.J. Ballantyne	3	4
By invitation:		
D.G. Keith	4	4
R.D. Masters	4	4
P. McHugh	2	2
T. R. Morgan	2	2

• Advisor

The Committee has retained independent external remuneration advisors RPC Group Pty Ltd to advise Capilano on executive remuneration matters, market remuneration data, short and long term incentive plans, non executive director remuneration and share participation plans.

Capilano's Remuneration Policy

• Reward Philosophy

Capilano's remuneration philosophy is that:

- (i) remuneration should emphasise performance;
- (ii) the balance between fixed and variable remuneration should reflect market conditions and the extent to which the role contributes directly to performance;
- (iii) individual objectives reflect the need to deliver sustainable outcomes for shareholders; and
- (iv) short and long term incentives link to individual's and Capilano's performance.

Capilano aims to achieve a mix of total remuneration (fixed and variable) that is consistent with high performance organisations, maximises the motivational impact for employees, and best aligns the interest of Capilano employees and shareholders.

• Reward Principles

The purpose of the remuneration policy is to ensure that salary packages offered by Capilano are sufficient to attract and retain the managing director, executives and employees with abilities and skills appropriate to the needs of the company measured as Total Employment Cost (TEC), and non executive directors as recommended to shareholders in general meeting.

TEC includes all costs associated with employment, including but not limited to PAYG salary, provision of motor vehicles, FBT, superannuation, and any other approved expenditure but excluding on costs. Fringe benefits or non-deductible expenditure shall be grossed up to include the tax effect as part of the cost of providing such benefits in a salary package.





REPORT OF THE DIRECTORS

The determination of TEC includes three basic principles:

1. external parity;
2. internal parity; and
3. reward for achievement.

1. External Parity

The principle of external parity means that Capilano's salary package values should be competitive and comparable with packages available from other companies of similar size, for jobs with similar content and level of responsibility. The Australian Institute of Management (AIM) conducts a comprehensive annual survey of up to 300 Australian companies which provides extensive remuneration details for a wide variety of management and supervisory positions. The information is statistically analysed and consolidated in a reference manual titled "AIM National Salary Survey" and this manual is used by Capilano as a basis for comparison.

In general, Capilano salary packages should be comparable with the median or average value in the range recorded in the AIM Salary Survey for positions with similar job content and responsibility. (Note: median is the mid point in a range of values and average is the arithmetic mean of all values in the range.)

2. Internal Parity

The principle of internal parity means that within the management structure of Capilano, similar TECs apply for jobs with similar contents and level of responsibility. It is however still important that during salary planning and review, individual judgments be made in cases where there are different levels of complexity between jobs which are similar, varying numbers of subordinates, specialist skills and qualifications, and where length of service or other factors may be relevant.

3. Reward for Achievement

Management and supervisory personnel should have the opportunity to earn incentive payments geared to achievement of annual results exceeding targets and improvements in long term shareholder prosperity. These principles are applied in the form of the Annual Incentive Plan, the Equity Participation Plan and the Medihoney Option Plan, which are subject to review and refinement on an ongoing basis.

• Annual Review

TECs are determined to apply for the period of each financial year commencing on 1 July. Authority and responsibility for reviews are as follows:

- a) Managing Director – reviewed by the Board with advice from the Board Remuneration Committee;

- b) Senior Executives report to the Managing Director – reviewed by the Managing Director and subject to endorsement by the Board Remuneration Committee; and

- c) All other salaried staff – reviewed by Functional Managers (Heads of Departments) and subject to approval by the Managing Director.

- d) Non-Executive Directors – reviewed by the Board with advice from the Board Remuneration Committee and external remuneration consultants and recommended by the Board to shareholders in general meeting.

• Capilano Total Reward Structure

The Remuneration Committee is responsible for reviewing and recommending remuneration arrangements for the directors, the Managing Director and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of such officers on an annual basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient whilst controlling costs for Capilano.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' remuneration to the company's financial and operational performance.

In addition, the following plans are in place:

• Incentive Plans

Incentive plans established by the directors enable executives and key employees to earn bonus payments as rewards for the achievement of business performance and growth targets. The incentive plans assist in motivating, retaining and recruiting skilled and talented people.

• Short Term (Annual)

The Managing Director, Executive Officers and key employees participate in a performance-based annual incentive plan approved by the Board whereby they can earn annual bonuses based on the achievement of operational targets during a financial year. Operational targets include achievement of specified results by individual employees within their areas of responsibility, coupled with overall business results.

• Long Term

The Board has also established a Long Term Incentive Plan for the Managing Director and eligible Senior Executives

REPORT OF THE DIRECTORS

to reward them for successful achievement of long-term business growth targets. The Plan is based on overall growth in profitability over periods of not less than five years. The Plan commenced in 2000 and no bonuses have yet accrued or been paid to any Executive.

Capilano Employee Share Plans for Future Consideration

Capilano has no broad based share plans for the benefit of employees. Now that Capilano is a publicly listed company, the Board believes it is appropriate for this to be reviewed and subject to this review may recommend the introduction of an employee plan at some time in the future.

Directors and Executives Remuneration Disclosure

Directors' Benefits

Since the end of the previous financial year, no director of the company has received or become entitled to receive a benefit (other than a benefit included in the directors and executives remuneration disclosure below, the pro rata payment of or entitlement to such a benefit for the period since 30 June 2004, a fixed salary as a full time employee, or normal payments for the supply of honey by directors who are also beekeepers) by reason of a contract made by the company, an entity which the company controlled, or a body corporate that is related to the company with the director or with a firm of which he is a member, or with an entity in which he has a substantial financial interest, except as stated below.

Details of Directors (all specified directors)

D G Keith	Chairman (Non Executive)
T R Morgan	Deputy Chairman (Non Executive)
R D Masters	Managing Director
P F McHugh	Director (Non Executive)
I A Cane	Director (Non Executive)
R Doherty	Director (Non Executive)
W B Wilshire	Director (Independent Non Executive)
B J Ballantyne	Director (Independent Non Executive)

Details of Most Highly Remunerated Executives and Specified Executives of the Parent Entity

A Bond	General Manager Capilano Labonte Inc,
K Fenton	National Sales Manager
J Gill	General Manager - Operations
R Eustace	Business Development Manager
P McDonald	General Manager - International Business
R Rivalland	Financial Controller (appointed 1 November 2004)
A Bleakley	Financial Controller (until 31 October 2004)

Other Specified Executives of the Consolidated Entity

A P Moloney	Chief Executive Officer – Medihoney Pty Ltd
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Gross Remuneration of Specified Directors and Specified Executives

	Primary			Post employment	Equity	Total
	Cash salary and fees \$	Incentive Plan \$	Non monetary benefits \$	Super-annuation \$	Options \$	
Details of Directors (all specified directors)						
D G Keith	71,330	-	-	6,420	-	77,750
I A Cane	39,109	-	-	3,520	-	42,629
R D Masters	220,931	-	84,375	30,194	-	335,500
P F McHugh	37,405	-	-	3,366	-	40,771
T R Morgan	42,516	-	-	3,826	-	46,342
R Doherty	37,405	-	-	3,366	-	40,771
W B Wilshire	67,060	-	-	5,135	-	72,195
B J Ballantyne	97,060	-	-	5,135	-	102,195
TOTALS 2005	612,816	-	84,375	60,962	-	758,153

The total remuneration of directors for the year ended 30 June 2004 is set out below.

TOTALS 2004	619,603	80,625	73,131	49,449	-	822,808
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REPORT OF THE DIRECTORS

	Primary			Post employment	Equity	Total
	Cash salary and fees \$	Incentive Plan \$	Non monetary benefits \$	Superannuation \$	Options \$	
Details of Most Highly Remunerated Executives and Specified Executives						
A Bond	144,037	-	-	12,963	-	157,000
A P Moloney	142,846	-	9,118	13,037	-	165,001
K Fenton	143,853	-	-	12,947	-	156,800
J Gill	114,281	-	33,003	14,015	-	161,299
R Eustace	88,529	-	15,600	9,371	-	113,500
P McDonald	96,330	-	-	8,670	-	105,000
R Rivalland	55,046	-	-	4,954	-	60,000
A Bleakley	33,639	-	-	3,028	-	36,667
TOTALS 2005	818,561	-	57,721	78,985	-	955,267

The total remuneration of most highly remunerated executives and specified executives for the year ended 30 June 2004 is set out below. The current year includes executives who may not be included in the comparatives.

TOTALS 2004	521,348	195,332	49,695	119,470	-	885,845
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The remuneration amounts listed above are gross earnings before tax.

Andrew Bond is employed by CHL as the General Manager of the associate entity.

B J Ballantyne has a consulting arrangement for the provision of business and corporate planning services. The amount paid by the company for the provision of these services for the year was \$40,000. This amount has been included in the directors' and executive remuneration disclosure.

W B Wilshire has a consulting arrangement with the company for the provision of business and corporate planning services. The amount paid by the company for the provision of these services for the year was \$10,000. This amount has been included in the directors' and executive remuneration disclosure.

Options

Remuneration – Share Options

Options over unissued shares of a controlled entity, Medihoney Pty Ltd, at the date of this report are as follows:

	Options issued 2001	Options issued 2004	Total options issued
Directors			
RD Masters, Managing Director, Capilano Honey Limited	180,000	20,000	200,000
Other Executives			
AP Moloney, Chief Executive Officer, Medihoney Pty Ltd	150,000	50,000	200,000
RB Eustace, Business Development Manager	60,000	-	60,000
P McDonald, General Manager - International Business	-	50,000	50,000
Total options issued	390,000	120,000	510,000

The options have been issued over ordinary shares of Medihoney Pty Ltd at no consideration under an Executive Option Plan. The options vest progressively between three (3) and five (5) years after the date of issue and may be exercised at \$1 per share up to 30 June 2007 subject to the occurrence of specified future events and performance requirements.

As there is no active market for these shares, no value has been ascribed to these options.

REPORT OF THE DIRECTORS

Non-executive Director Remuneration (NED)

The Board's focus is on long-term strategic direction and overall performance of Capilano. As a consequence, NED remuneration is not directly related to short-term results, rather, it is related to long-term performance and market place parity.

• Policy

Fees and payments to NEDs are determined with regard to the need to maintain appropriately experienced and qualified Board members and in accordance with competitive pressures in the market place. The remuneration policy is designed:

- 1) to attract and retain NEDs;
- 2) to motivate NEDs to achieve Capilano's objectives; and
- 3) to align the interests of NEDs with the long term interests of shareholders.

The Board seeks the advice of RPC Group Pty Ltd as independent remuneration consultants to ensure NED fees are reasonable and in line with the market.

• Directors' Fees

No increase is being sought for director's fees. Fees by position are as follows:

Organisation	Position	Directors' Fees \$
Capilano Honey Limited	Chairman	71,330
	Deputy Chairman	6,815*
	Independent NEDs	57,060 each
	Beekeeper NEDs	37,405 each
Medihoney Pty Ltd	Chairman	-
	NED	-

* In addition to the amount payable as a NED.

Superannuation Guarantee contribution – existing amount of \$30,770 will remain unchanged.

Directors and Officers Liability Insurance – 2005 \$38,459; 2006 \$39,860.

Linking Total Reward to Performance

The Capilano reward strategy is designed to provide superior rewards to employees with the best relative performance. For those employees this means:

- i) fixed remuneration at a higher market percentile than the median which is the Capilano standard;
- ii) a greater level of short term incentive;
- iii) potentially an allocation in executive long term incentive, the value of which is significantly impacted by improvements in Capilano's total shareholder returns.

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid or were payable to the external auditors during the year ended 30 June 2005:

	\$
Taxation Services	11,800
Review of Prospectus	2,500
Total	14,300

Auditors

Cranstoun & Hussein continue in office in accordance with the Corporations Act 2001.

Signed at Brisbane this NINETEENTH day of AUGUST 2005, in accordance with a resolution of the directors.

D.G. Keith
D G Keith, Director

R D Masters
R D Masters, Director





David J Cranstoun
Yusef Hussein
Andrew J Cranstoun
John Feddema
Masood Ayoob
Junaide A Latif
Paul A Copeland

Level 2
102 Adelaide Street
Brisbane

GPO Box 563
Brisbane
Queensland 4001

Telephone (07) 3229 5100
International +617 3229 5100
Facsimile (07) 3221 6027


Email info@cah.com.au
Website www.cah.com.au
ABN 11 603 627 400

Our Ref

Your Ref

Date

Cranstoun & Hussein
Chartered Accountants & Business Advisers

 A member of KS International
An Association of Independent
Accountants throughout the World

Auditors' Independence Declaration

As lead auditor for the audit of Capilano Honey Limited for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Capilano Honey Limited and the entities it controlled during the period.

J A Latif
Principal

Brisbane
19 August 2005

➤ The Board of Directors

As a result of a corporate re-structure adopted by shareholders in May 2004, Capilano Honey Limited (CHL) was listed on the Bendigo Stock Exchange. Prior to this event a new company called Capilano Beekeepers Ltd (CBL) was formed. The issued shares in CBL are redeemable preference shares, are not tradeable and can only be held by beekeepers who are parties to Honey Supply Agreements with CHL. CBL acquired voting control of CHL by virtue of a Foundation Share issued by CHL to CBL.

• Board Composition

The constitution of CHL provides that as long as the Foundation Share is on issue, the Board of CHL will be comprised of the Beekeeper Directors elected by shareholders to the Board of CBL and Independent Directors who may be appointed by all the Directors in office acting jointly.

• Number and appointment of Directors

The number of Directors (not including alternate Directors) is required to be the number, not being less than 5 nor more than 8, which the Board may from time to time determine provided that the Board may not reduce the number below the number of Directors in office at the time of the reduction.

The Board shall comprise Beekeeper Directors, Independent Directors and may include a Managing Director. The number of Beekeeper Directors shall exceed the number of non-Beekeeper Directors by at least one, so that the number of Beekeeper Directors shall be not less than 3 nor more than 5 and the maximum number of non-Beekeeper Directors shall be 3.

• Power to appoint Directors

The Beekeeper Directors shall be those persons elected by the shareholders as Directors of CBL.

Independent Directors may be appointed by all the Directors in office acting jointly. Each Independent Director so appointed shall hold office for a fixed period of 2 years and at the expiration of that period may be re-appointed or replaced or the position left vacant at the discretion of the other Directors.

A person appointed as an Independent Director shall have skills and experience appropriate to the company's needs but shall not be a supplier of honey to the company or CBL, nor an employee or a customer of the company or CBL, whilst occupying the position of Independent Director.

Independent Directors appointed in accordance with this rule shall not be subject to retirement by rotation nor taken into account in determining rotational retirement of the other Directors.

Retirement of Beekeeper Directors

The Constitution of CBL provides that at every annual general meeting, one third of the Beekeeper Directors or, if their number is not a multiple of 3, then the number nearest to but not less than one third must retire from office. A Director must retire from office at the conclusion of the third annual general meeting after which the Director was elected or re-elected. A retiring Director if eligible may stand for re-election.

A Managing Director is not subject to retirement by rotation.

• Board Chairman and Deputy Chairman

The Board Chairman and Deputy Chairman are elected by the Directors.

➤ The Capilano Group Board Charter

The Directors have formally adopted this Board Charter as a comprehensive document defining the role, purpose, functions, obligations and responsibilities of the Board and individual Directors.

The Corporations Act establishes that the Directors are ultimately accountable for all matters relating to the conduct of the company's affairs. The company's constitution further defines the obligations and powers of the Board. The Board recognises the distinction between its role of governance and the actual management of the company's businesses conducted by the executive management team under the leadership and direction of the Managing Director.

➤ Core Purpose

The core purpose of the Board is to guide the affairs of the Company so as to best serve the interests of and continuously add value for its shareholders.





CORPORATE GOVERNANCE

Board Functions

Strategic Plan	to define strategic direction for the business and ensure that suitable strategic analysis is undertaken and business plans prepared and regularly reviewed and performance monitored
Chief Executive	to appoint a skilled and talented Chief Executive and ensure that he or she is adequately rewarded for results achieved
Shareholder Prosperity	to adopt appropriate policies to reward shareholders for their supply of honey and capital investment in the company including honey supply agreements and honey pricing, bonuses, premiums, dividends, retained earnings and market value of shares
Meetings	to meet regularly and with sufficient frequency to fulfil the Core Purpose
Corporate Culture	to encourage an appropriate culture for CHL and monitor corporate conduct for good fit
Listing Rules	to monitor lodgement and disclosure requirements and to ensure compliance with all listing rules of the Bendigo Stock Exchange
Board Structure	to consider changes to Board structure when appropriate to improve the Board's ability to achieve the Core Purpose
Management Resources	to ensure that the company maintains a management team of skilled and talented executives whose rewards reflect their contributions to company achievements
Information	to review the content, style and frequency of reports provided by management and request changes when required
Risk Management	to ensure that adequate risk identification and risk management functions are in place and regularly monitored
Financial Performance	to establish financial performance objectives and regularly review operational results
Annual Budgets	to approve annual operating budgets and capital investment budgets
Funding	to ensure that the company has access to adequate funds to provide working capital and investment capital
Operational Policies	to establish policies to guide management in key operational areas including quality, safety, security, foreign currency management and remuneration
Board Committees	to review annually the functions and membership of Board Committees
Financial Statements & Audit	to ensure that the statutory financial statements are prepared in accordance with all relevant standards and regulations and that the annual audit is conducted ethically, professionally and independently of management and the Board
Statutory Compliance	to regularly review the operation of the Corporate Compliance Program and compliance sign-offs from senior management
Report to Shareholders	to maintain suitable reporting to shareholders through the Annual General Meeting, Annual Report, District Meetings, newsletters and circulars and establish dialogue through regular contact by Beekeeper Services Manager, Directors and other management people.
Community Obligations	to recognise that the company has community, industry and social obligations and ensure that appropriate policies are in place to guide the company's conduct so that it is, and is seen to be a responsible corporate citizen

Board Committees

The effectiveness of the Board is enhanced by the establishment of appropriate Board Committees. They distribute the Board's workload and enable more detailed consideration to be given to important matters, and where sensitive issues have to be considered, the appropriate Committee can give independent consideration. The Board has appointed the following Committees:

Remuneration	This Committee is responsible for reviewing and recommending executive management remuneration and incentive plans and reporting to the Board on these matters.
Honey Supply & Industry	This Committee advises the Board on matters related to honey supply and the industry generally.
Nomination	This Committee advises the Board of suitable candidates with the qualification, skills and expertise for appointment to any vacancy occurring from time to time.

CORPORATE GOVERNANCE

Audit & Compliance

The objectives and specific responsibilities of this Committee are to ensure that:

- the systems of control which management have established are effective to safeguard the Company's assets.
- the Company's operations are conducted in accordance with its Constitution and all relevant laws and regulations.
- the accounting records are properly maintained;
- the financial information provided to the shareholders and others is reliable;
- an avenue of communication exists between the External Auditors and the Board;
- the Board is provided with an assessment of the External Auditor's performance;
- the professional independence of the External Auditors is assured;
- the external audit plan is approved and the proposed External Auditor's fees approved in conjunction with management; and
- the Committee meets with the External Auditors at least at the completion of the annual audit and the half yearly review of the Company's accounts to confirm the financial statements, address any queries and receive the Auditor's evaluation of management's presentation of the financial accounts, policies and procedures.

Obligations and Responsibilities of Directors

The Board expects all Directors to demonstrate a high standard of personal integrity, skill and diligence and to participate in educational opportunities when appropriate to enhance the performance of their duties.

The Board has adopted the following Code of Conduct, which applies to all Directors.

1. A director must act honestly, in good faith and in the best interests of the company as a whole.
2. A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
3. A director must use the powers of office for a proper purpose, in the best interests of the company as a whole.
4. A director must recognise that the primary responsibility is to the company's shareholders as a whole but should, where appropriate, have regard for the interests of all stakeholders of the company.
5. A director must not make improper use of information acquired as a director.
6. A director must not take improper advantage of the position of director.
7. A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the company.
8. A director has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the board of directors.

9. Confidential information received by a director in the course of the exercise of directorial duties remains the property of the company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by that company, or the person from whom the information is provided, or is required by law.

10. A director should not engage in conduct likely to bring discredit upon the company.

11. A director has an obligation, at all times, to comply with the spirit, as well as the letter, of the law and with the principles of this code.

Assessment of Board, Director and Management Performance

The Board conducts an annual self-assessment of its performance. This is a formal procedure in which all Directors individually review the Board's performance in each defined area of Board function. Results are collated and an average score determined in discussion at a Board meeting. The resulting assessment of performance is used as a basis for planning to improve outcomes in any areas where achievement is below the optimum.

A personal, individual self-assessment of performance is carried out annually by each Director. This is a formal, confidential process which Directors use as a basis for planning individual needs for further study or skill development where appropriate.

The Managing Director's performance is reviewed annually by the Board. The performance of senior Management Executives is reviewed annually by the Managing Director and the Board, comparing results achieved against agreed Key Performance Indicators.



CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	2005 \$	2004 \$
Revenue from operating activities	79,395,184	83,848,288
Revenue from outside the operating activities	339,074	2,153,756
Total Revenue from ordinary activities	79,734,258	86,002,044
Borrowing cost expense	(1,996,332)	(1,746,496)
Other expenses from ordinary activities	(80,114,337)	(83,950,825)
Share of net loss of associate accounted for using the equity method	(170,922)	(285,997)
(Loss) profit from ordinary activities before income tax	(2,547,333)	18,726
Income tax benefit	752,175	24,671
Net (loss) profit attributable to members of CHL	(1,795,158)	43,397
Net exchange differences on translation of financial report of associate accounted for using the equity method	(2,051)	(21,432)
Net increase in asset revaluation reserve	3,436,662	-
Total changes in equity attributable to members of CHL other than those resulting from transactions with owners as owners	1,639,453	21,965
Earnings per share	(35.0) cents	0.8 cents
Diluted earnings per share	(35.0) cents	0.8 cents

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

MOVEMENT IN RETAINED EARNINGS

FOR THE YEAR ENDED 30 JUNE 2005

	2005 \$	2004 \$
Retained profits at the beginning of the financial year	14,155,627	14,368,153
Transfer from asset replacement reserve	4,238,580	-
Under provision of 2004 dividend	(1,683)	-
Net profit attributable to members of CHL	(1,795,158)	43,397
Dividend provided for	-	(255,923)
Retained profits at the end of the financial year	16,597,366	14,155,627



DISCUSSION & ANALYSIS

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

1. Total group sales revenue was \$79.4 million, a decrease of \$4.4 million (5.3%) on 2004.
2. Domestic retail sales totalled \$41.9 million compared with \$45.7 million in 2004.
3. Domestic bulk sales decreased by \$3.3 million to \$9.3 million in 2005.
4. Export bulk sales increased by \$0.5 million to \$8.6 million in 2005.
5. Retail packed export sales of \$12.6 million was up \$0.6 million on the previous year.
6. Australian shareholder raw honey prices decreased by an average of 38.3% over the whole year in response to increased receipts, declining world honey prices and changes in the domestic market. This reduced actual honey purchase costs by over \$24.0 million for the year, but also triggered \$7.0 million of write downs in the value of raw honey already on hand.
7. Operating loss before income tax was \$2,547,333. The major factors contributing to the loss for the year were:
 - higher than forecast receipts of domestic honey
 - lower sales volumes on the domestic retail market and conversely higher volumes on the export bulk market
 - a dramatic fall in world selling prices resulting in an erosion of export bulk margins and pressure on pricing in other markets
 - the high value of honey on hand at 30 June 2004 resulting in higher cost of goods sold in 2005 (including inventory valuation decrements).
 - delays in achieving the Medihoney sales volumes
8. Operating profit before income tax includes depreciation and amortisation expense of \$2.0 million.

DISCUSSION & ANALYSIS

MOVEMENT IN RETAINED EARNINGS

1. No dividend has been declared for 2005.
2. A transfer of \$4.2 million from the asset replacement reserve to retained profits has occurred following the purchase of assets over a number of years, principally poly drums and IBC's.





CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	Notes	Consolidated	
		2005 \$	2004 \$
CURRENT ASSETS			
Cash		1,037,007	3,342,721
Receivables	1	9,868,396	11,546,660
Inventories	2	24,598,417	26,551,891
Other	3	1,203,165	807,283
TOTAL CURRENT ASSETS		36,706,985	42,248,555
NON-CURRENT ASSETS			
Receivables		2,158,652	2,030,205
Investment accounted for using the equity method		-	172,973
Other financial assets		-	-
Property, plant & equipment	4	22,005,513	18,116,833
Intangibles	5	1,524,491	896,344
Deferred tax assets	6	3,487,697	2,735,523
TOTAL NON-CURRENT ASSETS		29,176,353	23,951,878
TOTAL ASSETS		65,883,338	66,200,433
CURRENT LIABILITIES			
Payables	7	8,323,033	7,723,848
Interest-bearing liabilities	8	4,068,892	4,188,186
Provisions	9	637,428	1,053,903
TOTAL CURRENT LIABILITIES		13,029,353	12,965,937
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	8	26,498,769	28,588,987
Provisions		580,685	505,493
TOTAL NON-CURRENT LIABILITIES		27,079,454	29,094,480
TOTAL LIABILITIES		40,108,807	42,060,417
NET ASSETS		25,774,531	24,140,016
EQUITY			
Contributed equity	10	5,283,605	5,286,860
Reserves		3,893,560	4,697,529
Retained profits		16,597,366	14,155,627
TOTAL EQUITY		25,774,531	24,140,016

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

DISCUSSION & ANALYSIS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. Receivables decreased by \$1.7 million from 2004 due to the earlier receipt of customer payments.
2. Inventories decreased in value by \$2.0 million. The decrease in dollars is mostly due to the \$1.40 reduction in the average cost of raw honey on hand, offset partially by an increase in raw honey tonnes on hand.
3. Other current assets, consisting entirely of prepayments, have increased by \$0.4 million.
4. The written down value of property, plant and equipment increased by \$3.9 million to \$22.0 million at year end principally as a result of the revaluation of land and buildings from cost to fair value.
5. Intangibles increased by \$0.6 million over 2004 and include capitalised market development costs for Medihoney (Europe) Ltd.
6. Deferred tax assets amount to \$3.5 million. This amount is based on a company tax rate of 30%.
7. Payables increased by \$0.6 million to \$8.3 million.
8. Current and non-current interest-bearing liabilities combined, decreased by \$2.2 million during the year, largely due to a reduction in working capital.
9. Current provisions of \$0.6 million consist of a provision for employee benefits.
10. Contributed equity remained at \$5.3 million.
11. Net asset backing per share is \$5.03 in 2005 compared to \$4.70 at June 2004.





CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Inflows (Outflows) Consolidated	
		2005 \$	2004 \$
Cash flows from operating activities			
Receipts from customers	1	81,148,606	87,411,243
Payments to suppliers and employees	1	(78,057,113)	(89,166,447)
Interest received		208,756	214,126
Goods & Services tax received	2	1,503,096	1,323,569
Interest paid		(1,696,529)	(1,414,187)
Net cash generated from (used in) operating activities		3,106,816	(1,631,696)
Cash flows from investing activities			
Payment for property, plant & equipment		(2,274,672)	(1,436,518)
Purchase of intangible asset		(794,787)	(1,337)
Payments for investment in associated entity		-	(480,402)
Payments for investment in controlled entity		-	-
Proceeds from sale of property, plant & equipment		11,606	23,178
Repayment of other loan		150,873	62,113
Loans to associated entity		(33,769)	(1,693,827)
Loans to controlled entities		-	-
Net cash used in investing activities	3	(2,940,749)	(3,526,793)
Cash flows from financing activities			
Proceeds from share allotments		159	67
Proceeds from borrowings		353,840	12,304,854
Repayment of borrowings		(2,567,488)	(6,472,068)
Dividend paid		(258,292)	(1,025,747)
Net cash (used in) provided by financing activities		(2,471,781)	4,807,106
Net decrease in cash held	4	(2,305,714)	(351,383)
Cash at the beginning of the financial year		3,342,721	3,694,104
Cash at the end of the financial year	5	1,037,007	3,342,721

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



DISCUSSION & ANALYSIS

CONSOLIDATED STATEMENT OF CASH FLOWS

1. Net cash generated from operating activities for the year was \$3.1 million, an improvement of \$4.7 million over 2004. Receipts from customers were \$3.1 million higher than payments to suppliers.
2. Cash generated from operating activities includes a net goods & services tax (GST) refund of \$1.5 million in respect of amounts paid to suppliers and assets purchased during the year.
3. Cash used in investing activities was \$2.9 million. These funds were used as follows:
 - Investment in plant and equipment \$2.2 million
 - Investment in intangibles \$0.8 million
4. Net cash decreased by \$ 2.3 million during the year, as follows:-

Net decrease in borrowings	\$ (2.2 million)
Less - cash provided by operating activities	\$ 3.1 million
- payment of dividend in October 2004	\$ (0.3 million)
- cash absorbed in investing entities	\$ (2.9 million)
Net cash decrease	\$ (2.3 million)
5. Cash held at 30 June 2005 was \$1.0 million.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The general purpose financial statements have been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

1. SEGMENT REPORTING

30 June 2005

Primary reporting – geographical segments	Australia \$	Canada \$	Europe \$	Intersegment \$	Consolidated \$
Sales revenue	79,685,800	-	185,565	(476,181)	79,395,184
Other revenue	339,074	-	-	-	339,074
Share of net losses of associates	-	(170,922)	-	-	(170,922)
Total segment revenue	80,024,874	(170,922)	185,565	(476,181)	79,563,336
Segment result	(2,153,569)	(170,922)	(94,827)	(128,015)	(2,547,333)
Unallocated revenue less unallocated expenses					-
Loss from ordinary activities before income tax savings					(2,547,333)
Income Tax Savings					752,175
Loss from ordinary activities after income tax savings					(1,795,158)
Segment assets	64,589,597	-	1,293,741	-	65,883,338
Segment liabilities	40,049,577	-	1,364,184	(1,304,954)	40,108,807
Investment in associate	-	-	-	-	-
Acquisitions of non current segment assets	2,263,815	-	805,644	-	3,069,459
Depreciation and amortisation expense	1,939,387	-	41,513	-	1,980,900
Other non cash income	(2,669)	-	-	-	(2,669)

30 June 2004

Primary reporting – geographical segments	Australia \$	Canada \$	Europe \$	Intersegment \$	Consolidated \$
Sales revenue	83,848,288	-	-	-	83,848,288
Other revenue	2,153,756	-	-	-	2,153,756
Share of net losses of associates	-	(285,997)	-	-	(285,997)
Total segment revenue	86,002,044	(285,997)	-	-	85,716,047
Segment result	304,723	(285,997)	-	-	18,726
Unallocated revenue less unallocated expenses					-
Profit from ordinary activities before income tax expense					18,726
Income Tax Expense					24,671
Profit from ordinary activities after income tax expense					43,397
Segment assets	66,027,460	-	-	-	66,027,460
Segment liabilities	42,060,417	-	-	-	42,060,417
Investment in associate	-	172,973	-	-	172,973
Acquisitions of non current segment assets	1,437,855	-	-	-	1,437,855
Depreciation and amortisation expense	1,691,892	-	-	-	1,691,892
Other non cash income	(15,522)	-	-	-	(15,522)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Segment Reporting (continued)

Secondary reporting – business segments

The consolidated entity operates predominantly in the one industry, that being the processing and sale of honey.

Equity Accounted Investments

The consolidated entity owns 50% of Capilano Labonte Inc, a honey packer located in Canada, which is accounted for using the equity method and is allocated to the Canada segment.

2. Dividends

The 2004 final ordinary dividend of five cents per share, which was provided for in the 2004 accounts, was paid during the year absorbing \$258,292 in cash.

No dividend has been declared for the 2005 year.

The balance of the franking account as at the end of the financial year amounts to \$2,606,484 (2004 \$2,496,510).

3. Full Financial Report

Further financial information can be obtained from the full financial report which is available free of charge on request from the company. A copy may be requested by phoning (07) 3712 8282.





DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 32 to 39, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and consolidated entity;
2. the Group Financial Controller has declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



Signed at Brisbane this NINETEENTH day of AUGUST 2005
in accordance with a resolution of the directors.

D G Keith, Director

R D Masters, Director

INDEPENDENT AUDIT REPORT TO THE MEMBERS

Scope

The concise financial report and directors' responsibility

The concise financial report comprises the consolidated statement of financial performance, consolidated statement of financial position, consolidated statement of cash flows, discussion and analysis of and notes to the financial statements, and the directors' declaration for Capilano Honey Limited for the year ended 30 June 2005.

The directors of the company are responsible for the preparation of the financial report in accordance with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

Audit approach

We conducted an independent audit of the concise financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We have also performed an independent audit of the full financial report of the Company for the financial year ended 30 June 2005. Our audit report on the full financial report was signed on 19 August 2005 and was not subject to any qualification.

We formed our audit opinion on the basis of these procedures, which included:

- testing that the information included in the concise financial report is consistent with the information in the full financial report
- examining, on a test basis, information to provide evidence supporting the amounts, discussions and analysis and other disclosures in the concise financial report which were not directly derived from the full financial report, and
- reviewing the overall presentation of information in the concise financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit Opinion

In our opinion, the concise financial report of Capilano Honey Limited complies with Accounting Standard AASB 1039: Concise Financial Reports.

Cranstoun & Hussein

CRANSTOUN & HUSSEIN

Chartered Accountants

J A Latif

J A Latif

A Member of the Firm

Brisbane, 19 August 2005





SHAREHOLDERS' INFORMATION

AS AT 31 JULY 2005

CHL listed on the Bendigo Stock Exchange on 18 June 2004.

a) Classes of Shares

There is one Foundation Share on issue, which is held by the ultimate parent entity CBL.

All other shares are ordinary shares in the company.

b) Voting Rights

Ordinary shares entitle their holder to one vote per share, either in person or by proxy, at a meeting of the company.

However, the Foundation Share provides:

- CBL with 75% of the total number of votes which are able to be cast in relation to special resolutions of CHL;
- CBL with the power to pass or veto any ordinary resolution put to a shareholders meeting of CHL;
- For the elected CBL Beekeeper Directors to be appointed as Beekeeper Directors of CHL.

c) Distribution of Shareholdings

The number of shareholders, by size of holding are:

	Foundation Share		Ordinary Shares	
	Number of Holders	Number of Shares	Number of Holders	Number of Shares
1 - 1,000	1	1	124	33,163
1,001 - 5,000			279	801,728
5,001 - 10,000			175	1,301,484
10,001 - 100,000			161	2,892,284
100,001 and over			1	100,121
			740	5,128,790

d) Shareholders holding less than a marketable parcel

There are 70 shareholders holding 793 shares which the company considers to be less than a marketable parcel of shares (value \$500), when using a value of \$4.00 per share, being the weighted average traded price of the last 5 share trades on the Bendigo Stock Exchange.

e) Ten largest shareholders

The names of the ten largest holders of quoted shares are:

	Number of Ordinary Shares	Percentage of Ordinary Shares
1. Benalto Holdings Pty Ltd	100,121	1.95
2. Baker Beekeeping Pty Ltd	58,343	1.14
3. D G, L R, J M, H M, K J Keith & M M McCrystal	57,920	1.13
4. Hughston & Sons Pty Ltd	55,024	1.07
5. Gundagai Bee Farms Pty Ltd	51,629	1.01
6. M A & B K Klingner	51,158	1.00
7. E N Peadon	44,667	0.87
8. R J & LR Blackwell	42,640	0.83
9. Brazil Enterprises Pty Ltd	41,449	0.81
10. M & M R Nelson	40,000	0.78
	542,951	10.59

f) Company Secretary

Mr Errol J Bailey.

g) Registered Office

399 Archerfield Road, Richlands Qld 4077.
Telephone (07) 3712 8282.

h) Register of Securities

The Register of Securities is held at 399 Archerfield Road, Richlands Qld 4077.



CONDENSED FINANCIAL HISTORY 1996 - 2005

\$000's except as noted

Year ended 30 June	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Group total sales revenue	79395	83848	87815	61160	59431	59473	55445	55034	59539	46903
Earnings before interest and tax, premiums, interim bonus and loyalty payments	(850)	1433	7306	2331	6421	4741	1195	3944	3937	3102
Interest expense	1697	1414	1138	852	931	1068	944	793	487	530
Profit before tax, premiums, interim bonus and loyalty payments	(2547)	19	6168	1479	5490	3673	251	3151	3450	2572
Loyalty bonus payment - Quota & Over Quota Honey	-	-	-	-	-	-	-	930	353	-
Interim bonus payment - Quota & Over Quota Honey	-	-	2026	864	729	-	-	-	-	-
Operating profit before tax	(2547)	19	4142	615	4761	3673	251	2221	3097	2572
Income tax attributable to operating profit	752	(24)	1756	(1060)	(343)	758	(2034)	(1414)	52	520
Operating profit after tax	(1795)	43	2386	1675	5104	2915	2285	3636	3045	2052
Number of issued shares (000's)	5129	5132	5132	5132	5132	5132	5102	5064	5136	5109
Earnings per Share (cents)	(35.0)	0.8	46.5	32.6	99.5	56.8	44.8	71.8	59.3	40.2
Dividend per Share (unfranked) (cents)	-	-	-	-	17.0	17.0	5.0	15.0	15.0	15.0
Dividend per Share (franked) (cents)	-	5.0	20.0	15.0	-	-	-	-	-	-
Dividend: Times Covered	-	0.17	2.33	2.18	5.85	3.34	8.96	4.79	3.95	2.61
Total dividend paid	-	256	1026	769	872	872	255	776	768	784
Bonus - year end appropriation	-	-	-	1032	1565	-	-	-	-	-
Bonus - per kilogram (cents)	-	-	-	7.0	10.0	-	-	-	-	-
Total retained profit at 30 June	16597	14156	14368	13007	13125	10456	8413	5946	5179	4896
Net assets at 30 June	25775	24140	24374	23013	23130	20462	18311	16161	13501	11155
Net asset backing per issued share (NAB)	\$5.03	\$4.70	\$4.75	\$4.48	\$4.51	\$4.00	\$3.59	\$3.19	\$2.63	\$2.18
Average Traded Price (ATP) *	\$4.73	\$2.87	\$2.53	\$2.55	\$2.78	-	-	-	-	-
Dividend Yield (Based on ATP)	-	1.7%	7.9%	5.9%	6.1%	-	-	-	-	-
Total Debt Percentage of Total Assets	60.9%	63.5%	59.8%	53.2%	51.6%	55.8%	56.8%	61.9%	60.6%	60.7%
Total Honey Price + Dividend + Retained Earnings (cents/kg)	\$2.87	\$4.38	\$4.40	\$2.28	\$2.05	\$1.93	\$1.86	\$1.79	-	-
Movement Year on Year \$	-\$1.51	-\$0.02	\$2.12	\$0.23	\$0.13	\$0.07	\$0.07	\$0.03	-	-
Movement Year on Year %	-34.4%	-0.44%	92.64%	11.15%	6.71%	3.58%	4.07%	1.85%	-	-
Five Year Average	15.11%	22.73%	23.63%	5.47%	4.94%	6.88%	6.81%	4.40%	-	-
Number of full time equivalent employees as at 30 June	133	126	122	121	123	N/A	N/A	N/A	N/A	N/A

N/A - not available

* ATP - based on weighted average of traded prices over twelve months to 30 June, excluding nominated transactions between buyer and seller. Where necessary, values have been adjusted for share issues and share buy-backs.

ATTENDANCE FORM

Office Use Only: Slip no No. of shares

Slip no No. of shares

Please complete this form to formally indicate whether or not you are attending the AGM and/or Annual Dinner. The purpose of this is to finalise arrangements with the venue and to speed up registration.

Shareholder No:

Name

Address

I/we propose to attend the following functions:

THURSDAY, 6 OCTOBER 2005

- MANAGEMENT PRESENTATION**

12.00 noon:

A presentation to update shareholders on company activities including local and export sales, marketing, finance and manufacturing, followed by informal discussions.

Insert number attending and list names below
- CAPILANO BEEKEEPERS LTD (CBL)**

Annual General Meeting

3.00pm: Registration

3.30pm: Annual General Meeting

Insert number attending and list names below
- ANNUAL DINNER**

7.00pm: Annual Dinner

Special Dietary Requirements: _____

Insert number attending and list names below

FRIDAY, 7 OCTOBER 2005

- CAPILANO HONEY LIMITED (CHL)**

Annual General Meeting

9.00am: Registration

10.00am: Annual General Meeting

Insert number attending and list names below

PLEASE LIST NAMES OF THOSE ATTENDING:

Please return this form by fax on (07) 3712 8287 or in the enclosed "reply paid" envelope, no later than 5.00pm on Friday, 23 September 2005

05



PROXY FORM

Capilano Honey Limited
ACN 009 686 435

Office Use Only: Slip no No. of shares

Slip no No. of shares

Shareholder Number: _____

I/We, (the undersigned) _____
(please print full name)

Of _____
(please print full address)

Being a member/s of Capilano Honey Limited HEREBY APPOINT _____
(refer to "Instructions for appointment of Proxy" detailed below) (please print full name)

Of _____
(please print full address)

or failing him/her, the Chairman of the Meeting, as my proxy to attend and exercise _____ of my votes *(refer note 1)* on my behalf at the Annual General Meeting of the Company to be held on 7 October, 2005 at 10.00am and at any adjournment thereof.

Instructions for voting on Resolution:

- To vote FOR put an "X" in the "FOR" column.
- To vote AGAINST put an "X" in the AGAINST column.
- To give your proxy discretion to vote For or Against the Resolution as they see fit, put an "X" in the "At discretion" column
- To ABSTAIN from voting put an "X" in the ABSTAIN column - this will have the same effect as if no vote was recorded at all and will be disregarded completely in calculating votes "FOR" or "AGAINST".

RESOLUTION	For	Against	At Discretion <small>Refer Note 2</small>	Abstain
Remuneration Report included in the Report of the Directors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature of shareholder/s _____ Date: _____

Note 1: If only one proxy is appointed, please insert the word "ALL" in the space before "of my votes". If the space is not completed, all of your votes will be conferred on your proxy. If you desire to appoint two proxies to exercise differing proportions of your votes, a further form may be obtained from the Company Secretary.

Note 2: By marking 'at discretion', you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest.

INSTRUCTIONS FOR APPOINTMENT OF PROXY

(Please read this information and explanatory notes over page before completing this form)

1. A shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote for them. A proxy need not be a shareholder of the company.
2. Proxies can be directed on how to vote by inserting an "X" in the appropriate box against each resolution, otherwise the proxies will vote as they see fit, or abstain from voting.
3. The proxy form must be signed personally by the shareholder or their attorney. If a proxy is given by a corporation it must be executed in accordance with the corporation's constitution.
4. In the case of a partnership, all partners must sign the proxy form unless the company has written advice to the contrary.
5. If the proxy is signed under power of attorney then the signatory declares that they have no notice of revocation of the power of attorney. A certified copy of the relevant power of attorney authorising that person to sign must be enclosed with this proxy form.
6. Shareholder/s' signatures do not require witnessing.
7. **For this proxy form to be valid, it must be received at the Registered Office of the company not less than forty-eight (48) hours before the start of the Annual General Meeting (see Rule 98). Accordingly, all proxy forms must be received at 399 Archerfield Road (PO Box 66, Richlands Q 4077) or by facsimile (07) 3712 8287 no later than 10.00am on Wednesday 5 October 2005.**



EXPLANATORY NOTES - PROXY FORMS

Please note that a Proxy Form gives any shareholder unable to attend the Annual General Meeting the opportunity to record their vote on any matter which becomes the subject of a poll at the Annual General Meeting. (For an explanation of the meaning of the word "poll", please refer to the explanatory note below.)

Rules 87 and 91 of the company's Constitution, reproduced below for information, outline the circumstances and manner in which a poll is conducted.

Rule 87

"A poll may be demanded by:

- (a) the chairman;*
- (b) at least 5 shareholders present entitled to vote on the resolution;*
- (c) by a member or members present with at least 5% of the votes that may be cast on the resolution on a poll; or*
- (d) the Foundation Shareholder."*

Rule 91

"Subject to these rules and in particular rules 25, 26 and 72 and subject to any rights or restrictions for the time being attached to any class or classes of shares, at meetings of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney or a representative of a member that is a corporation and, subject to the Act on a show of hands every person present who is a member or a representative of a member that is a corporation shall have one vote, and on a poll every member present in person or by proxy or by attorney or a representative of a member that is a corporation shall have one vote for each share held."

It should be noted that a proxy can only be used in those instances where a poll is demanded in accordance with the Rules; in all other circumstances resolutions are decided on a show of hands of the shareholders present at the meeting.

However, as has customarily been the case at previous General Meetings and to afford all shareholders the opportunity to have their vote recorded, the Chairman will, in accordance with Rule 10.9(a) above, declare at the commencement of the Annual General Meeting, that all resolutions shall be the subject of a poll.

If you are unable to attend the Annual General Meeting, but wish to exercise your right to vote, please complete and return the Proxy Form to reach us by 10.00am on 5 October 2005. If you wish to do so, please assist the person you nominate

as your proxy by directing them to vote in the manner in which you require. You can do this by placing an "X" in the appropriate "FOR", "AGAINST" or "ABSTAIN" space on the Proxy Form.

The person you appoint as your proxy need not be a shareholder of the company, but **MUST** be a person who will be attending the meeting. If any further explanation of this very important matter is required, please do not hesitate to contact me in writing or by phone.

E.J. Bailey
Company Secretary.

(Note: A "poll" is the situation which occurs when the votes of all shareholders present at a meeting, either personally or by proxy, are counted, and each share held by a shareholder is given one vote. For example if shareholder "A" holds 5,000 shares and he is present at the meeting, and shareholder "B" who holds 6,000 shares is not present, but has appointed person "C" as his proxy, shareholder "B" has 6,000 'votes' compared to shareholder "A"'s 5,000. Appointing a proxy is therefore of **paramount importance**, as it gives all shareholders the opportunity to exercise their democratic right to vote, and the votes are recorded in direct proportion to the number of shares they hold. (In the above example, if "A" and "B" were the only shareholders voting, "B", though the proxy he has given to "C", could defeat "A" on any issue if he so directed his proxy.))



CONTACT DETAILS

Registered Office & Head Office:

399 Archerfield Road
 Richlands Qld 4077
 Telephone: (07) 3712 8282
 Fax: (07) 3712 8286

Branches:

Queensland

399 Archerfield Road
 PO Box 66
 Richlands Qld 4077
 Telephone: (07) 3712 8282
 Fax: (07) 3712 8286

Victoria

Capilano Street
 PO Box 49
 Maryborough VIC 3465
 Telephone: (03) 5461 0700
 Fax: (03) 5461 0777

Email:

honey@capilano.com.au

Websites:

www.capilano.com.au
 www.medihoney.com

Capilano Group:

Capilano Beekeepers Ltd
 Capilano Honey Limited
 Medihoney Pty Ltd
 Medihoney (Europe) Ltd
 Honey Corporation of Australia Pty Ltd
 Capilano Labonte Inc.

399 Archerfield Road
 PO Box 66
 Richlands Qld 4077
 Telephone: (07) 3712 8282
 Fax: (07) 3712 8286

Bankers:

National Australia Bank Limited

Auditors:

Cranstoun & Hussein,
 Chartered Accountants





CAPILANO

Honey Limited

399 Archerfield Road PO Box 66 Richlands Qld Australia 4077 Telephone +(61 7) 3712 8282 Facsimile +(61 7) 3712 8286
Email honey@capilano.com.au Website www.capilano.com.au