FINANCIAL & STATUTORY REPORTS

2006

FINANCIAL & STATUTORY REPORTS
FOR CAPILANO HONEY LIMITED AND ITS CONTROLLED ENTITIES
FOR THE YEAR ENDED 30 JUNE 2006

CAPILANO HONEY LIMITED

A.B.N. 55 009 686 435

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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 2006.

DIRECTORS

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

- Donald G Keith *(Chairman until his retirement from the Board on 6 October 2005)*
- Trevor R Morgan *(Deputy Chairman until 6 October 2005; elected Chairman 7 October 2005)*
- Ian A Cane *(elected Deputy Chairman 7 October 2005)*
- Rosemary Doherty
- Phillip F McHugh
- Roger D Masters
- Gregory P Roberts *(appointed to the Board 7 October 2005)*
- Bernard J Ballantyne
- Warwick B Wilshire *(retired from the Board 30 June 2006)*
- Simon L Tregoning *(appointed to the Board 1 July 2006)*

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 profit of the consolidated entity for the year after income tax was $1,389,718.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AeIFRS)

As a result of the introduction of AeIFRS, the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AeIFRS is included in Note 2 to this report.

DISTRIBUTIONS

No dividend was paid during the year.

A fully franked dividend of five cents per share has been declared for the year ended 30 June 2006.

REVIEW OF OPERATIONS

Sales revenue of $75,853,689 for the consolidated entity was $3,541,495 below the previous year's result. An analysis of this sales decrease is as follows:-

	% increase / (decrease) of 2006 over 2005	*2006 $*	*2005 $*
Capilano Honey Limited	(5.6%)	72,926,068	77,271,173
Medihoney Pty Ltd	37.8%	2,927,621	2,124,011

The decrease in revenue for the parent entity was mainly a result of increased domestic competition, particularly in private label revenue.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There is at the date of this report no matter or circumstance which has arisen since 30 June 2006 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 2006.

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 from 1989 – 2005.	**Period: 1 July - 6 October 2005** 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. Mr Keith retired from the Board of Directors on 6 October 2005	D G Keith is a partner in a partnership which holds 57,920 shares.
Trevor Richard **MORGAN**	FAICD Commercial apiarist. Director since 1998.	**Period: 1 July – 6 October 2005** 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. **Period: 7 October 2005 – 30 June 2006** Chairman of Capilano Honey Limited Board, Chairman of Nomination Committee and a member of the Honey Supply & Industry Committee. Chairman of Capilano Beekeepers Ltd.	T R Morgan is a partner in a partnership which holds 13,260 shares.
Ian Alfred **CANE**	Commercial apiarist. Director since 1990.	**Period: 1 July – 6 October 2005** Chairman of Remuneration Committee and Member of the Honey Supply & Industry and Nomination Committees. **Period: 7 October 2005 – 30 June 2006** Deputy Chairman of Capilano Honey Limited, Chairman of the Remuneration Committee and a Member of the Honey Supply & Industry and Nomination Committees. Director of Medihoney Pty Ltd	I A Cane is a partner in a partnership which holds 24,235 shares.
Roger David **MASTERS**	B.Com, MBA, CA Managing Director since July 1996.	**1 July 2005 – 9 February 2006** 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. **9 February – 30 June 2006** Member of the Audit & Compliance and Honey Supply & Industry Committees. Executive Chairman 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 6,000 shares.
Bernard James **BALLANTYNE**	Independent Director since 1991.	**1 July 2005 – 9 February 2006** Independent Non-executive Director. Member of the Remuneration and Audit & Compliance Committees. Chairman of Medihoney Pty Ltd. Chairman of Capilano Labonte Inc. **9 February – 30 June 2006** Independent Non-executive Director. Member of the Remuneration and Audit & Compliance Committees. Director of Medihoney Pty Ltd. Chairman of Capilano Labonte Inc.	1

INFORMATION ON DIRECTORS (continued)

Director	***Qualifications/ Experience***	***Special Responsibilities***	***Shares held in Parent entity***
Rosemary **DOHERTY**	FAICD Commercial apiarist. Director since 2000.	**Period: 1 July – 6 October 2005** Member of the Audit & Compliance, Nomination, Remuneration and Honey Supply & Industry Committees. **Period: 7 October 2005 – 30 June 2006** Chairman of the Audit & Compliance and a Member of the 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.
Gregory Paul **ROBERTS**	Commercial apiarist. Appointed Director in October 2005.	**Period: 7 October 2005 – 30 June 2006** Appointed Director in October 2005. Member of the Honey Supply & Industry and Nomination Committees	G Roberts is a partner in a partnership which holds 16,000 shares.
Warwick Birdsall **WILSHIRE**	FAICD, JP (C.Dec) Managing Director from July 1984 to 30 June 1996. Independent Director from June 1996 – June 2006.	Independent Non-executive Director. Member of the Audit & Compliance and Remuneration Committees. Director of Medihoney Pty Ltd. Mr Wilshire retired from the Board on 30 June 2006	1
Simon Lucien **TREGONING**	B.Comm Appointed Independent Director in July 2006.	Appointed Independent Non-executive Director on 1 July 2006.	Nil

Company Secretary

Errol John **BAILEY**	CPA, FCIS, JP(C.Dec)	A Certified Practicing 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.

The particulars of directors' interests in shares are as at the date of this report. Directors retiring by rotation are Messrs Cane and Doherty, both being eligible, are offering themselves for re-election.

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	3	3	5	5	2	2	1	1
T R Morgan	13	13	16	16	4	4	1	1
R D Masters	13	13	14	14	6	6	1	1
B J Ballantyne	13	13	15	15	6	6	1	1
I A Cane	13	13	10	10	4	4	1	1
R Doherty	13	13	16	16	-	-	1	1
P F McHugh	13	13	7	7	-	-	1	1
G P Roberts	9	10	5	5	-	-	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 required under Section 41 of the Environmental Protection Act (QLD) 1994. Application for such a licence was lodged in 2005 and re-lodged following discussions with the Environmental Licence Authority.

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.

REMUNERATION REPORT

1. 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**

	No. of Meetings Attended	No. of Meetings Held (*)
Members of Remuneration Committee		
I A Cane (Chairman)	3	3
W B Wilshire	3	3
R Doherty	3	3
B J Ballantyne	3	3
By invitation:		
D G Keith	1	1
R D Masters	2	2
T R Morgan	3	3

- **Advisor**

The Committee has retained independent external expert 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.

2. 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.

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 to upper quartile 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 and the Medihoney Option Plan, both of which are subject to review and refinement on an ongoing basis, and in the Equity Participation Plan which terminated at 30 June 2006 .

- **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.

3. 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 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 terminated in June 2006 and no bonuses were paid to any Executive.

4. 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.

5. 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 2005, 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**

T R Morgan	Chairman (Non Executive – elected 7 October 2005)
D G Keith	Chairman (Non Executive – retired 6 October 2005)
I A Cane	Deputy Chairman (Non Executive – elected 7 October 2005))
R D Masters	Managing Director
R Doherty	Director (Non Executive)
P F McHugh	Director (Non Executive)
G P Roberts	Director (Non Executive)
W B Wilshire	Director (Independent Non Executive)
B J Ballantyne	Director (Independent Non Executive)

- **Details of Most Highly Remunerated Executives of the Consolidated Entity**

A Bond	Commercial Director – Medihoney Pty Ltd
A P Moloney	Scientific & Strategic Development Director – Medihoney Pty Ltd
K Fenton	Sales Director – Australia & Oceania
J Gill	General Manager - Operations
R Eustace	Business Development Manager
P McDonald	General Manager - International Business
R Rivalland	Financial Controller

- **Gross Remuneration of Directors and Executives**

	Cash salary and fees $	Incentive Plan $	Non monetary benefits $	Super-annuation $	Options $	Total $
Details of Directors						
D G Keith	19,204	-	-	1,728	-	20,932
T R Morgan	64,184	-	-	5,776	-	69,960
R D Masters	137,114	-	150,294	62,592	-	350,000
I A Cane	42,423	-	-	3,813	-	46,236
R Doherty	37,405	-	-	3,366	-	40,771
P F McHugh	37,405	-	-	3,366	-	40,771
G P Roberts	27,545	-	-	2,479	-	30,024
W B Wilshire	77,510	-	-	5,135	-	82,645
B J Ballantyne	123,621	-	-	5,135	-	128,756
TOTALS 2006	**566,411**	**-**	**150,294**	**93,390**	**-**	**810,095**

	Cash salary and fees $	Incentive Plan $	Non monetary benefits $	Super-annuation $	Options $	Total $
Details of Most Highly Remunerated Executives						
A Bond	153,593	-	-	13,823	-	167,416
A P Moloney	128,731	-	28,700	14,168	-	171,599
K Fenton	149,541	-	-	13,459	-	163,000
J Gill	87,794	-	20,500	53,700	-	161,994
R Eustace	94,492	-	15,600	9,908	-	120,000
P McDonald	102,752	-	-	9,248	-	112,000
R Rivalland	91,744	-	-	8,256	-	100,000
TOTALS 2006	**808,647**	**-**	**64,800**	**122,562**	**-**	**996,009**

The remuneration amounts listed above are gross earnings before tax.

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 $66,561. 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 $20,450. This amount has been included in the directors' and executive remuneration disclosure.

6. 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			
R D Masters, Managing Director, Capilano Honey Limited	180,000	20,000	200,000
Other Executives			
A P Moloney, Scientific & Strategic Development Director, Medihoney Pty Ltd	150,000	50,000	200,000
R B 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.

7. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

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	Executive Chairman	-
	NEDs	10,000

* 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 - 2006 $39,860; 2007 $37,920.

8. 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) ensuring remuneration is sufficiently attractive to retain key employees;
ii) providing a short term incentive;
iii) to achieve higher performance, an executive long term incentive, the value of which is significantly impacted by improvements in Capilano's total shareholder returns.

9. EMPLOYMENT CONTRACTS

The employment conditions of the Managing Director and the specified Executives are formalised in employment contracts. Employment contracts are not of a fixed term. Employment contracts specify a range of notice periods.

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 2006:

	$
Taxation Services	7,820
Review of Prospectus	2,500
	10,320

Report of the Directors

AUDITORS

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

AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 10 of the annual report.

Signed at Brisbane this SIXTEENTH day of AUGUST 2006, in accordance with a resolution of the directors.

T R Morgan, Director

R D Masters, Director

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

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Our Ref

Your Ref

Cranstoun & Hussein
Chartered Accountants & Business Advisers

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

Date

The Directors
Capilano Honey Limited
399 Archerfield Road
RICHLANDS QLD 4077

Auditors' Independence Declaration

As lead auditor for the audit of Capilano Honey Limited for the year ended 30 June 2006, 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.

Cranstoun & Hussein

CRANSTOUN & HUSSEIN
Chartered Accountants

J A Latif
A Member of the Firm

Brisbane, 16 August 2006

CORPORATE GOVERNANCE

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.

Audit & Compliance Charter

Committee Membership

- the Committee shall be appointed by the Board and shall comprise a majority of non-executive directors and may include the Managing Director
- there shall be a minimum of three members
- the Board shall appoint a Chairman who is not the Chairman of the Board.
- Membership of the Committee shall be reviewed by the Board annually

Meetings

- the Committee shall meet at least five times a year. Additional meetings may be held as the work of the Committee demands.
- a quorum shall consist of two members.
- the Chairman will call a meeting of the Committee if so requested by any member of the Committee, the External Auditor or by the Chairman of the Board.
- the Chairman of the Board and the Financial Controller shall attend each meeting by invitation of the Committee Chairman.
- as necessary or desirable the Chairman may invite other members of the Board of Directors, other management and representatives of the External Auditors or other external advisors to be present at any meeting of the Committee.
- the Committee shall meet at least twice a year with the External Auditors being at the completion of the full Financial Statements and the half-year Financial Statements and for part of that meeting to be without any management present.
- the Company Secretary shall act as secretary to the Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda, supported by explanatory documentation, and circulating it to Committee members prior to each meeting.
- the Secretary will also be responsible for keeping the minutes of Committee meetings and circulating them to Committee members and to the other members of the Board of Directors at the Board meeting immediately following the Committee meeting.

Objectives and Specific Responsibilities

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 Board, 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;
- 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; and the Committee; and
- the Committee review and assure compliance with BSX requirements for all Lodgments with BSX.

Authority

The Board authorises the Audit Committee within the scope of its responsibilities to:

- obtain Company documents and any information it requires from any employee (and all employees are directed to co-operate with any request made by the Audit Committee); and External parties.
- obtain outside legal or other independent professional advice.
- the Committee shall also have the ability to consult independent experts where they consider it necessary to carry out their duties

Reporting

- the Audit Committee should report to the Board after each Committee meeting summarising its activities and recommendations since the previous meeting.

Review of Charter

- this Charter will be reviewed annually by the Audit Committee to ensure its effectiveness and currency. Any proposed changes are to be recommended to the Board for approval.

CORPORATE GOVERNANCE

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.

Independent Audit Report to the Members

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Capilano Honey Limited (the Company) and Capilano Honey Limited and Controlled Entities (the consolidated entity) for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during the year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion 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 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 performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001,* Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

We read the other information in the annual report to determine whether it contained any material inconsistencies with the financial report.

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 financial report of Capilano Honey Limited is in accordance with:

a) the Corporations Act 2001, including:

  i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
  ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

Cranstoun + Hussein

CRANSTOUN & HUSSEIN
Chartered Accountants

J A Latif
A Member of the Firm

Brisbane, 16 August 2006

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 17 to 44, 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 2006 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 SIXTEENTH day of AUGUST 2006 in accordance with a resolution of the directors.

T R Morgan, Director

R D Masters, Director

Income Statements
For the year ended 30 June 2006

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Revenue	3	76,174,239	79,633,312	73,153,134	77,502,966
Other income	4	591,703	94,085	519,964	128,615
Finance costs	5(b)	(1,934,794)	(1,996,332)	(1,934,794)	(1,996,332)
Other expenses	5(a)	(72,854,892)	(80,908,059)	(68,088,474)	(77,308,323)
Share of net loss of associate accounted for using the equity method	12	-	(170,922)	-	-
Profit (loss) before income tax	5(b)	1,976,256	(3,347,916)	3,649,830	(1,673,074)
Income tax (expense) benefit	6	(586,538)	1,069,676	(1,091,120)	617,516
Profit (loss) attributable to members of CHL		**1,389,718**	**(2,278,240)**	**2,558,710**	**(1,055,558)**
Earnings per share (cents)	34	27.1	(44.4)		
Diluted earnings per share (cents)	34	27.1	(44.4)		
The above income statements should be read in conjunction with the accompanying notes.					

Balance Sheets
As at 30 June 2006

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT ASSETS					
Cash and cash equivalents		182,672	1,037,007	86,908	969,035
Trade and other receivables	8	13,321,799	9,868,396	12,785,681	9,480,810
Inventories	9	20,651,429	24,598,417	20,533,575	24,367,678
Other current assets	10	732,139	1,203,165	719,933	1,180,152
TOTAL CURRENT ASSETS		**34,888,039**	**36,706,985**	**34,126,097**	**35,997,675**
NON-CURRENT ASSETS					
Trade and other receivables	11	4,271,284	2,158,652	8,786,969	4,881,209
Investment accounted for using the equity method	12	-	-	-	-
Other financial assets	13	-	-	480,404	480,404
Property, plant and equipment	14	21,368,478	22,005,513	21,263,271	21,919,104
Intangible assets	15	653,174	768,976	621,708	746,280
Deferred tax assets	16	2,969,339	3,532,593	1,792,335	2,883,455
TOTAL NON-CURRENT ASSETS		**29,262,275**	**28,465,734**	**32,944,687**	**30,910,452**
TOTAL ASSETS		**64,150,314**	**65,172,719**	**67,070,784**	**66,908,127**
CURRENT LIABILITIES					
Trade and other payables	17	8,169,105	8,960,461	7,953,079	8,777,283
Short term borrowings	18	3,563,140	4,068,892	3,563,140	4,068,892
Short term provisions	19	256,770	-	256,770	-
TOTAL CURRENT LIABILITIES		**11,989,015**	**13,029,353**	**11,772,989**	**12,846,175**
NON-CURRENT LIABILITIES					
Long term borrowings	20	25,346,101	26,498,769	25,346,101	26,498,769
Long term provisions	21	650,941	580,685	587,726	523,627
TOTAL NON-CURRENT LIABILITIES		**25,997,042**	**27,079,454**	**25,933,827**	**27,022,396**
TOTAL LIABILITIES		**37,986,057**	**40,108,807**	**37,706,816**	**39,868,571**
NET ASSETS		**26,164,257**	**25,063,912**	**29,363,968**	**27,039,556**
EQUITY					
Issued capital	22	5,306,077	5,283,605	5,306,077	5,283,605
Reserves	23	2,694,920	2,749,995	2,773,478	2,773,478
Retained earnings		18,163,260	17,030,312	21,284,413	18,982,473
TOTAL EQUITY		**26,164,257**	**25,063,912**	**29,363,968**	**27,039,556**

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

For the year ended 30 June 2006

Consolidated	Share Capital		Reserves			Retained Earnings	Total
	Ordinary	Foundation	Asset Revaluation	Asset Replacement	Foreign Currency Translation		
	$	$	$	$	$	$	$
Balance at 1 July 2004	5,286,859	1	336,267	4,238,580	(21,432)	15,071,655	24,911,930
Shares issued during the period	159	-	-	-	-	-	159
Revaluation increments	-	-	2,437,211	-	-	-	2,437,211
Net loss attributable to members of CHL	-	-	-	-	-	(2,278,240)	(2,278,240)
Reserves transferred to Retained Earnings	-	-	-	(4,238,580)	-	4,238,580	-
Dividend under provided	-	-	-	-	-	(1,683)	(1,683)
Share application monies refunded	(3,414)	-	-	-	-	-	(3,414)
Adjustments from the translation of associates accounted for under the equity method	-	-	-	-	(2,051)	-	(2,051)
Balance at 30 June 2005	5,283,604	1	2,773,478	-	(23,483)	17,030,312	25,063,912
Shares issued during the period	22,472	-	-	-	-	-	22,472
Net profit attributable to members of CHL	-	-	-	-	-	1,389,718	1,389,718
Dividends provided for	-	-	-	-	-	(256,770)	(256,770)
Adjustments from the translation of foreign controlled entities	-	-	-	-	(55,075)	-	(55,075)
Balance at 30 June 2006	5,306,076	1	2,773,478	-	(78,558)	18,163,260	26,164,257

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

Parent Entity	Share Capital		Reserves		Retained Earnings	Total
	Ordinary	Foundation	Asset Revaluation	Asset Replacement		
	$	$	$	$	$	$
Balance at 1 July 2004	5,286,859	1	336,267	4,238,580	15,801,134	25,662,841
Shares issued during the period	159	-	-	-	-	159
Revaluation increments	-	-	2,437,211	-	-	2,437,211
Net loss attributable to members of CHL	-	-	-	-	(1,055,558)	(1,055,558)
Reserves transferred to Retained Earnings	-	-	-	(4,238,580)	4,238,580	-
Dividend under provided	-	-	-	-	(1,683)	(1,683)
Share application monies refunded	(3,414)	-	-	-	-	(3,414)
Balance at 30 June 2005	5,283,604	1	2,773,478	-	18,982,473	27,039,556
Shares issued during the period	22,472	-	-	-	-	22,472
Net profit attributable to members of CHL	-	-	-	-	2,558,710	2,558,710
Dividends provided for	-	-	-	-	(256,770)	(256,770)
Balance at 30 June 2006	5,306,076	1	2,773,478	-	21,284,413	29,363,968

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

Cash Flow Statements
For the year ended 30 June 2006

	Inflows (Outflows) Consolidated		Inflows (Outflows) Parent Entity	
	2006 $	2005 $	2006 $	2005 $
Cash flows from operating activities				
Receipts from customers	73,215,818	81,148,606	70,176,755	79,030,632
Payments to suppliers and employees	(69,147,742)	(78,853,976)	(64,416,944)	(75,207,636)
Interest received	211,681	208,756	211,122	208,524
Goods and Services tax received	1,675,100	1,503,096	1,706,703	1,546,239
Interest paid	(1,622,508)	(1,696,529)	(1,622,508)	(1,696,528)
Net cash generated from operating activities (Note 32)	**4,332,349**	**2,309,953**	**6,055,128**	**3,881,231**
Cash flows from investing activities				
Payment for property, plant and equipment	(1,435,742)	(2,274,672)	(1,406,342)	(2,222,748)
Payment for intangible assets	(13,157)	-	-	-
Proceeds from sale of property, plant and equipment	18,875	13,682	18,875	12,614
Repayment of other loan	157,990	150,873	157,990	150,873
Loans to associated entity	(2,278,704)	(33,769)	(2,278,704)	(33,769)
Loans to controlled entities	-	-	(1,793,128)	(1,616,458)
Net cash used in investing activities	**(3,550,738)**	**(2,143,886)**	**(5,301,309)**	**(3,709,488)**
Cash flows from financing activities				
Proceeds from share allotments	22,472	159	22,472	159
Proceeds from borrowings	-	353,840	-	353,840
Repayment of borrowings	(1,658,418)	(2,567,488)	(1,658,418)	(2,567,488)
Dividend paid	-	(258,292)	-	(258,292)
Net cash used in financing activities	**(1,635,946)**	**(2,471,781)**	**(1,635,946)**	**(2,471,781)**
Net decrease in cash held	(854,335)	(2,305,714)	(882,127)	(2,300,038)
Cash at the beginning of the financial year	1,037,007	3,342,721	969,035	3,269,073
Cash at the end of the financial year (Note 31)	**182,672**	**1,037,007**	**86,908**	**969,035**

The above cash flow statements should be read in conjunction with the accompanying notes

Notes to and Forming Part of the Financial Statements

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated entity of Capilano Honey Limited and controlled entities, and Capilano Honey Limited as an individual parent entity. Capilano Honey Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Capilano Honey Limited and controlled entities, and Capilano Honey Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AeIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

First-time Adoption of Australian equivalents to International Financial Reporting Standards

Capilano Honey Limited and controlled entities, and Capilano Honey Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AeIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AeIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Capilano Honey Limited to be prepared in accordance with AeIFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Refer to Note 37 for further details on changes in accounting policy.

Reconciliations of the transition from previous Australian GAAP to AeIFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) **Principles of consolidation**

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Capilano Honey Limited ("parent entity") as at 30 June 2006 and the results of all controlled entities for the year then ended. Capilano Honey Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits or losses of associates are recognised in the consolidated income statement, and its share of post acquisition movements in reserves are recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

(b) **Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(c) **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Control of the goods has passed to the buyer.

Interest

Control of the right to receive the interest payment.

Sale of non-current assets

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal. Any gain is recognised as other income and any loss as an expense.

Any related balance in the asset revaluation reserve is transferred to retained earnings on disposal.

(d) **Property plant and equipment**

Land and buildings

Land and buildings are valued at fair value (being the amount for which an asset could be exchanged between knowledgeable parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying value of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their net present values in determining recoverable amounts.

Depreciation

Depreciation is calculated so as to write off the net cost of each item of property, plant and equipment and motor vehicles over its useful life. Additions are depreciated from the date they are installed ready for use.

The principal rates of depreciation in use are:-

Buildings	2.50 - 10.00%	prime cost
Plant and equipment	5.00 - 40.00%	prime cost
Plant and equipment	7.50 - 20.00%	reducing balance
Motor vehicles	22.50%	reducing balance

(e) **Impairment**

At each reporting date, the consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over it recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(f) **Inventories**

All inventories including contracts in progress are valued at the lower of cost and net realisable value. Cost includes direct materials, direct labour and an appropriate proportion of fixed and variable factory overhead expenditure. Overheads are applied on the basis of normal operating capacity.

(g) **Income tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or non-allowable items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be claimed.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the consolidated entity and its constituent member entities as applicable, will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The consolidated entity has decided not to implement the tax consolidation regime.

(h) **Financial instruments**

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB139: Financial Instruments: Recognition and Measurement. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the consolidated entity's intention to hold these investments to maturity. Any held-to-maturity investments held by the consolidated entity are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(i) **Foreign currency**

Functional and presentation currency

The functional currency of each of the members of the consolidated entity is measured using the currency of the primary economic environment in which that member entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair value was determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

General commitments

Hedging in the form of foreign exchange contracts and options is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates on the Australian currency equivalent of sales denominated in foreign currencies.

Group controlled entities and associated entities

The financial results and position of foreign operations whose functional currency is different from the consolidated entity's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date
- Income and expenses are translated at average exchange rates for the period
- Equity and retained profits are translated at the exchange rates prevailing at the date of the transaction

Exchange differences arising on translation of foreign operations are transferred directly to the consolidated entity's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(j) **Employee benefits**

Wages and salaries and annual leave

Liabilities for wages and salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. Where annual leave is not expected to be taken within twelve (12) months, the expected future payments are discounted using interest rates attaching, as at the reporting date, to national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Long Service Leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates attaching, as at the reporting date, to national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(k) **Provisions**

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) **Intangible assets**

Trademarks and brand names are recorded in the accounts at acquisition cost. Trade marks and brand names, having a benefit or relationship to more than one accounting period, are deferred and amortised to the income statement using the straight line method of calculation over the period of time during which the benefits are expected to arise, but not exceeding twenty years. Carrying values are assessed at each balance date for impairment and any write down included in the income statement in the period determined.

(m) **Government grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met.

Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(n) **Cash and cash equivalents**

For the purpose of the Cash Flow Statement, cash includes cash on hand and in banks, and other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount within short-term borrowings in current liabilities on the balance sheet.

(o) **Earnings per share**

Basic earnings per share is determined by dividing the net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(p) **Comparatives**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current knowledge. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the consolidated entity.

Key Estimates

The consolidated entity assesses impairment at each reporting date by evaluating conditions specific to the consolidated entity that may lead to impairment of assets. When an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Key Judgements

The consolidated entity is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were actually recorded, such differences will impact the current and deferred tax positions in the period in which such determination is made.

Notes to and Forming Part of the Financial Statements

2. **FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AeIFRS)**

Consolidated	Year ended 30 June 2005 $	
Reconciliation of Net Loss		
Net loss after tax under Australian GAAP	1,795,158	
Key transitional adjustment		
Expensing of devaluation	45,068	
Expensing of market development costs	755,515	
Income tax expense – temporary differences	(317,501)	
Total transitional adjustments	483,082	
Net loss after tax under AeIFRS	**2,278,240**	
	30 June 2005 $	1 July 2004 $
Reconciliation of Total Equity		
Total equity under Australian GAAP	25,774,531	24,140,016
Retrospective adjustments to equity at 1 July 2004		
Recognition of deferred tax asset on intangibles	815,866	815,866
Recognition of deferred tax liability on revalued assets	(144,114)	(144,114)
Recognition of deferred tax – temporary differences	100,162	100,162
	771,914	771,914
(Increase) decrease in current year loss resulting from transition to AeIFRS	(483,082)	-
Recognition of deferred tax liability on revaluation	(1,044,519)	-
Revaluation decrements included in result for the period	45,068	-
Total equity under AeIFRS	25,063,912	24,911,930

Parent Entity	Year ended 30 June 2005 $	
Reconciliation of Net Loss		
Net loss after tax under Australian GAAP	1,104,144	
Key transitional adjustment		
Expensing of devaluation	45,068	
Income tax expense – temporary differences	(93,654)	
Total transitional adjustments	(48,586)	
Net loss after tax under AeIFRS	**1,055,558**	
	30 June 2005 $	1 July 2004 $
Reconciliation of Total Equity		
Total equity reporting under Australian GAAP	27,218,507	24,890,927
Retrospective adjustments to equity at 1 July 2004		
Recognition of deferred tax asset on intangibles	815,866	815,866
Recognition of deferred tax liability on revalued assets	(144,114)	(144,114)
Recognition of deferred tax – temporary differences	100,162	100,162
	771,914	771,914
(Increase) decrease in current year loss resulting from transition to AeIFRS	48,586	-
Recognition of deferred tax liability on revaluation	(1,044,519)	-
Revaluation decrements included in result for the period	45,068	-
Total equity under AeIFRS	27,039,556	25,662,841

Notes to and Forming Part of the Financial Statements

		Consolidated		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
3.	**REVENUE**				
	Sales revenue	75,853,689	79,395,184	72,926,068	77,271,173
	Interest received	211,681	208,756	211,122	208,524
	Sundry	108,869	29,372	15,944	23,269
		76,174,239	**79,633,312**	**73,153,134**	**77,502,966**
4.	**OTHER INCOME**				
	Net foreign exchange gains	575,987	89,340	504,248	123,354
	Profit on disposal of property, plant and equipment	15,716	4,745	15,716	5,261
		591,703	**94,085**	**519,964**	**128,615**
5.	**OPERATING PROFIT**				
(a)	**Other expenses**				
	Raw material and consumables	43,334,836	52,994,254	41,758,737	51,888,012
	Change in inventories of finished goods and work in progress	(2,096,979)	1,334,939	(1,984,092)	1,278,481
	Employee benefits	9,302,992	8,674,416	8,150,676	7,966,938
	Depreciation of property, plant & equipment	2,069,614	1,813,753	2,059,012	1,808,286
	Amortisation of intangibles	128,960	167,147	124,572	124,572
	Transportation costs	1,936,203	1,754,139	1,826,664	1,690,789
	Factory Costs	1,866,178	1,971,602	1,821,967	1,933,701
	Marketing & promotion	8,804,872	8,652,127	7,880,688	8,270,538
	Other	7,508,216	3,545,682	6,450,250	2,347,006
		72,854,892	**80,908,059**	**68,088,474**	**77,308,323**
(b)	Profit (loss) before income tax expense includes the following specific expenses:				
	Expenses				
	Borrowing costs				
	Borrowing expenses	290,558	271,068	290,558	271,068
	Interest and finance charges paid	1,622,508	1,696,529	1,622,508	1,696,529
	Prospectus expenses	21,728	28,735	21,728	28,735
		1,934,794	1,996,332	1,934,794	1,996,332
	Research & Development	39,614	186,337	9,723	81,705
	Revaluation decrement of land and buildings	-	45,068	-	45,068
6.	**INCOME TAX**				
a)	**Income tax expense (benefit)**				
	Current Tax	-	-	-	-
	Deferred tax	586,538	(1,069,676)	1,091,120	(617,516)
		586,538	(1,069,676)	1,091,120	(617,516)
	Deferred income tax (benefit) expense included in the income tax expense comprises:				
	Decrease (increase) in deferred tax assets	791,407	(1,471,695)	1,301,446	(799,067)
	(Decrease) increase in deferred tax liabilities	(204,869)	402,019	(210,326)	181,551
		586,538	(1,069,676)	1,091,120	(617,516)

	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
6. INCOME TAX (continued)				
b) Numerical reconciliation of income tax expense (benefit) to prima facie tax payable				
Profit (loss) before income tax expense (benefit)	1,976,256	(3,347,916)	3,649,830	(1,673,074)
Tax at the Australian rate tax of 30% (2005 – 30%)	592,876	(1,004,375)	1,094,949	(501,922)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Amortisation of intangibles	1,316	-	-	-
Entertainment	9,097	4,327	7,917	3,567
Legal Expenses	4,438	8,167	4,438	6,797
Share of net profit of associates	-	51,276	-	-
Under (over) provision in prior years	(16,184)	(129,071)	(16,184)	(125,958)
Sundry items	(5,005)	-	-	-
Income tax expense (benefit)	586,538	(1,069,676)	1,091,120	(617,516)
c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Current Tax	-	-	-	-
Net deferred tax – debited directly to equity	-	1,044,519	-	1,044,519
	-	1,044,519	-	1,044,519
d) Tax losses				
Deferred tax assets include a benefit representing income tax losses as follows:				
Realisation of the benefit shall depend upon:				
a) the ability of the consolidated entity and the parent entity to derive future assessable income of a nature and of sufficient amount to enable the benefit to be realised;				
b) the ability of the consolidated entity and the parent entity to continue to comply with the conditions for deductibility imposed by law; and				
c) an expectation that legislation will not change in a manner which would adversely affect the consolidated entity's and the parent entity's ability to realise the benefit.				
Unused tax losses	13,005,720	15,744,147	9,262,443	13,696,740
Potential tax benefit @ 30%	3,901,715	4,723,244	2,778,733	4,109,022

Notes to and Forming Part of the Financial Statements

		Parent Entity	
		2006	2005
		$	$
7.	**DIVIDENDS**		
	Ordinary shares		
	A fully franked dividend of 5 cents has been declared for the year ended 30 June 2006 (2005 – nil)	256,770	-
	Franked dividends		
	Franking credits available for subsequent financial years	2,385,744	2,495,788
	The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking debits that will arise from the payment of dividends recognised as a liability at the reporting date.		

		Consolidated		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
8.	**CURRENT ASSETS – TRADE AND OTHER RECEIVABLES**				
	Trade debtors	12,903,302	9,398,792	12,385,776	9,026,984
	Other debtors	252,425	311,615	233,833	295,837
	Other loan	166,072	157,989	166,072	157,989
		13,321,799	**9,868,396**	**12,785,681**	**9,480,810**
9.	**INVENTORIES**				
	Raw materials and stores	15,318,263	17,168,272	15,318,263	17,168,272
	Work in progress	193,129	274,248	193,129	274,248
	Finished goods	5,140,037	7,155,897	5,022,183	6,925,158
		20,651,429	**24,598,417**	**20,533,575**	**24,367,678**
	Cost of goods sold				
	Honey levies	496,926	450,353	493,898	448,991
	Other	50,215,290	59,719,421	48,654,383	58,661,017
	Total cost of goods sold	50,712,216	60,169,774	49,148,281	59,110,008
10.	**OTHER CURRENT ASSETS**				
	Prepayments	**732,139**	**1,203,165**	**719,933**	**1,180,152**
11.	**NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES**				
	Loans to controlled entities	-	-	4,515,685	2,722,557
	Loans to associates	4,006,300	1,727,596	4,006,300	1,727,596
	Other loan	264,984	431,056	264,984	431,056
		4,271,284	**2,158,652**	**8,786,969**	**4,881,209**

Notes to and Forming Part of the Financial Statements

12. **INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity (refer Note 13). Information relating to the associated entity is set out below.

Name of Company	Principal Activity	Country of Incorpor-ation	Ownership Interest		Consolidated carrying amount		Parent entity amount	
			2006 %	2005 %	2006 $	2005 $	2006 $	2005 $
Unlisted investments								
Capilano Labonte Inc	Honey packing	Canada	50	50	-	-	480,402	480,402

	Consolidated 2006 $	Consolidated 2005 $
Movements in carrying amounts of investments in associates		
Carrying amounts at the beginning of the financial year	-	172,973
New investment during the year	-	-
Share of losses from ordinary activities after income tax	-	(170,922)
Share of movement in foreign currency translation reserve	-	(2,051)
Carrying amounts at the end of the financial year	**-**	**-**
Results attributable to associates		
Loss from ordinary activities before related income tax	-	(259,744)
Income tax saving	-	88,822
Loss from ordinary activities after related income tax	-	(170,922)
Accumulated losses attributable to associates at the beginning of the financial year	(456,919)	(285,997)
Accumulated losses attributable to associates at the end of the financial year	(456,919)	(456,919)
Reserves attributable to associates		
Foreign Currency Translation Reserve		
Balance at the beginning of the financial year	(23,483)	(21,432)
Share of movement in foreign currency translation reserve	-	(2,051)
Balance at the end of the financial year	(23,483)	(23,483)
Share of associates' expenditure commitments		
Lease commitments	87,751	275,405
Summary of the performance and financial position of associates		
The aggregate losses, assets and liabilities of associates are:		
Loss after related income tax expense	514,658	490,961
Assets	6,446,206	5,429,599
Liabilities	7,162,614	5,578,707
Revenue	12,236,572	12,502,707
Cumulative share of losses not recognised	331,889	74,560

		Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
13	**OTHER FINANCIAL ASSETS**				
	Other financial assets comprise of available-for-sale financial assets				
	Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturing dates attached to these investments.				
	The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of fair value estimates is significant. As a result all unlisted investments are reflected at cost.				
(a)	Available-for-sale financial assets included in the financial statements comprise:				
	Shares in controlled entities (note 13(b))	-	-	2	2
	Shares in associated entities (note 12)	-	-	480,402	480,402
		-	-	480,404	480,404

(b) Investment in the controlled entities are unlisted and comprise:-

	Country of Incorporation	Class of Share	2006 % holding	2006 Cost $	2005 % holding	2005 Cost $
Medihoney Pty Ltd	Australia	Ordinary	100	1	100	1
Honey Corporation of Australia Pty Ltd	Australia	Ordinary	100	1	100	1
Medihoney Europe Ltd	England	Ordinary				
				2		2

Medihoney Europe Ltd is a wholly owned controlled entity of Medihoney Pty Ltd and is included in the books of that company at a cost of $1.00.

		Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
14.	**PROPERTY, PLANT AND EQUIPMENT**				
	Land and buildings				
	Freehold land – independent valuation 2005	1,282,000	1,282,000	1,282,000	1,282,000
	Buildings – Cost	3,234	-	3,234	-
	Buildings – independent valuation 2005	8,518,000	8,518,000	8,518,000	8,518,000
	Less				
	Accumulated depreciation	270,393	-	270,393	-
		8,250,841	8,518,000	8,250,841	8,518,000
	Total land and buildings	**9,532,841**	**9,800,000**	**9,532,841**	**9,800,000**
	Plant and equipment				
	Cost	24,526,469	23,069,559	24,486,085	23,031,379
	Less				
	Accumulated depreciation	12,859,975	11,183,540	12,843,120	11,177,592
	Total plant and equipment	**11,666,494**	**11,886,019**	**11,642,965**	**11,853,787**
	Motor vehicles				
	Cost	4,552	27,961	4,552	27,961
	Less				
	Accumulated depreciation	4,552	26,813	4,552	26,813
	Total motor vehicles	**-**	**1,148**	**-**	**1,148**
	Capital work in progress	**169,143**	**318,346**	**87,465**	**264,169**
		21,368,478	**22,005,513**	**21,263,271**	**21,919,104**

Notes to and Forming Part of the Financial Statements

		Consolidated		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
14.	**PROPERTY, PLANT AND EQUIPMENT (continued)**				
(a)	**Reconciliations**				
	Reconciliations of the movements in carrying amounts for each class of property, plant and equipment are set out below:				
	Freehold land				
	Carrying amount at beginning of year	1,282,000	797,400	1,282,000	797,400
	Revaluation increment	-	484,600	-	484,600
	Carrying amount at end of year	1,282,000	1,282,000	1,282,000	1,282,000
	Buildings				
	Carrying amount at beginning of year	8,518,000	5,764,412	8,518,000	5,764,412
	Additions	3,234	9,832	3,234	9,832
	Depreciation	(270,393)	(208,306)	(270,393)	(208,306)
	Revaluation increment	-	2,952,062	-	2,952,062
	Carrying amount at end of year	8,250,841	8,518,000	8,250,841	8,518,000
	Plant and Equipment				
	Carrying amount at beginning of year	11,886,019	10,709,781	11,853,787	10,697,300
	Additions	1,582,016	2,790,241	1,579,812	2,763,473
	Disposals	(2,033)	(8,937)	(2,033)	(7,323)
	Depreciation	(1,799,508)	(1,605,066)	(1,788,601)	(1,599,663)
	Carrying amount at end of year	11,666,494	11,886,019	11,642,965	11,853,787
	Motor Vehicles				
	Carrying amount at beginning of year	1,148	1,494	1,148	1,494
	Additions	-	-		-
	Disposals	(1,126)	-	(1,126)	-
	Depreciation	(22)	(346)	(22)	(346)
	Carrying amount at end of year	-	1,148	-	1,148
	Capital works in progress				
	Carrying amount at beginning of year	318,346	843,746	264,169	814,184
	Net movement	(149,203)	(525,400)	(176,704)	(550,015)
	Carrying amount at end of year	169,143	318,346	87,465	264,169
	Valuations				
	The independent valuation of the consolidated entity's freehold land and buildings carried out in July 2005 was on the basis of open market values for existing use. The revaluation surplus net of applicable deferred income tax was credited to an asset revaluation reserve in shareholders equity.				
(b)	If land and buildings were stated at historical cost, amounts disclosed would be as follows:				
	Freehold land				
	Cost	797,400	797,400	797,400	797,400
	Less: accumulated depreciation	-	-	-	-
	Carrying amount at end of year	**797,400**	**797,400**	**797,400**	**797,400**
	Buildings				
	Cost	7,453,969	7,450,735	7,453,969	7,450,735
	Less: accumulated depreciation	2,072,532	1,884,797	2,072,532	1,884,797
	Carrying amount at end of year	**5,381,437**	**5,565,938**	**5,381,437**	**5,565,938**

		Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
15.	**INTANGIBLE ASSETS**				
	Trademarks and brandnames	3,979,005	3,965,848	3,932,452	3,932,452
	Less: accumulated amortisation	3,325,831	3,196,872	3,310,744	3,186,172
		653,174	**768,976**	**621,708**	**746,280**
(a)	**Reconciliation**				
	Intangibles				
	Carrying amount at beginning of year	768,976	896,344	746,280	870,852
	Additions	13,157	-	-	-
	Amortisation	(128,959)	(127,368)	(124,572)	(124,572)
	Carrying amount at end of year	**653,174**	**768,976**	**621,708**	**746,280**
16.	**TAX**				
(a)	**Liabilities**				
	Current income tax	-	-	-	-
	Non-current Deferred tax liability	-	-	-	-
(b)	**Assets**				
	Deferred tax assets comprise:				
	Provisions	393,405	365,890	367,321	336,313
	Future income tax benefits attributable to tax losses	3,901,715	4,723,244	2,778,733	4,109,022
	Tax allowances relating to property plant and equipment	(915,420)	(978,986)	(915,420)	(978,986)
	Revaluation adjustments taken directly to equity	(1,188,633)	(1,188,633)	(1,188,633)	(1,188,633)
	Intangible assets	845,437	815,866	844,098	815,866
	Other	(67,165)	(204,788)	(93,764)	(210,127)
		2,969,339	3,532,593	1,792,335	2,883,455
(c)	**Reconciliations**				
	(i) Gross movements				
	The overall movement in deferred tax assets is as follows:				
	Opening balance	3,532,593	3,507,437	2,883,455	3,310,458
	(Charge) credit to income statement	(563,254)	1,069,675	(1,091,120)	617,516
	Charge to equity	-	(1,044,519)	-	(1,044,519)
	Closing balance	2,969,339	3,532,593	1,792,335	2,883,455
	(ii) Changes in temporary differences				
	The movement in deferred tax assets for each temporary difference during the year is as follows:				
	Provisions				
	Opening balance	365,890	390,836	336,313	369,499
	(Charge) credit to income statement	27,515	(24,946)	31,008	(33,186)
	Closing balance	393,405	365,890	367,321	336,313
	Tax allowances relating to property, plant and equipment				
	Opening balance	(978,986)	(1,094,740)	(978,986)	(1,094,740)
	(Charge) credit to income statement	63,566	115,754	63,566	115,754
	Closing balance	(915,420)	(978,986)	(915,420)	(978,986)
	Revaluation adjustments taken directly to equity				
	Opening balance	(1,188,633)	(144,114)	(1,188,633)	(144,114)
	Charge to equity	-	(1,044,519)	-	(1,044,519)
	Closing balance	(1,188,633)	(1,188,633)	(1,188,633)	(1,188,633)
	Intangible assets				
	Opening balance	815,866	815,866	815,866	815,866
	(Charge) credit to income statement	29,571	-	28,232	-
	Closing balance	845,437	815,866	844,098	815,866
	Other				
	Opening balance	(204,788)	(6,566)	(210,127)	(7,909)
	(Charge) credit to income statement	137,623	(198,222)	116,363	(202,218)
	Closing balance	(67,165)	(204,788)	(93,764)	(210,127)

Notes to and Forming Part of the Financial Statements

		Consolidated		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
17.	**TRADE AND OTHER PAYABLES**				
	Unsecured				
	Beekeeper creditors	3,880,958	4,328,823	3,880,958	4,328,823
	Trade creditors	1,789,882	2,900,391	1,687,923	2,796,949
	Other creditors	1,826,199	1,093,819	1,747,517	1,054,095
	Employee entitlements	672,066	637,428	636,681	597,416
		8,169,105	**8,960,461**	**7,953,079**	**8,777,283**
18.	**SHORT TERM BORROWINGS**				
	Secured (note 25)				
	Commercial bills	1,000,000	750,000	1,000,000	750,000
	Hire purchase	408,734	495,321	408,734	495,321
	Bank loans	-	486,589	-	486,589
	Total secured liabilities	1,408,734	1,731,910	1,408,734	1,731,910
	Unsecured				
	Deposit fund (note 24)	1,489,671	1,688,863	1,489,671	1,688,863
	Beekeeper retains	664,735	648,119	664,735	648,119
		3,563,140	**4,068,892**	**3,563,140**	**4,068,892**
19.	**SHORT TERM PROVISIONS**				
	Dividends (note 7)	256,770	-	256,770	-
20.	**LONG TERM BORROWINGS**				
	Secured (note 25)				
	Commercial bills	20,875,000	25,000,000	20,875,000	25,000,000
	Bank loans	4,203,327	-	4,203,327	-
	Hire purchase	213,134	622,038	213,134	622,038
	Total secured liabilities	25,291,461	25,622,038	25,291,461	25,622,038
	Unsecured				
	Deposit fund (note 24)	48,933	156,002	48,933	156,002
	Beekeeper retains	5,707	720,729	5,707	720,729
		25,346,101	**26,498,769**	**25,346,101**	**26,498,769**
21.	**LONG TERM PROVISIONS**				
	Employee entitlements	**650,941**	**580,685**	**587,726**	**523,627**

		Parent Entity	
		No. of Shares	2006 $
22.	**ISSUED CAPITAL**		
(a)	**Foundation Share**		
	Balance 1 July 2005	1	1
	Movements	-	-
	Balance 30 June 2006	**1**	**1**

On 14 May 2004 Capilano Beekeepers Ltd ('CBL') was issued a Foundation Share in CHL. This 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

Notes to and Forming Part of the Financial Statements

		Parent Entity	
		No. of Shares	2006 $
22.	**ISSUED CAPITAL (continued)**		
(b)	**Ordinary Shares**		
	Balance 1 July 2005	5,128,790	5,283,604
	Share Issues	6,617	22,472
	Share application monies refunded	-	
	Balance 30 June 2006	**5,135,407**	**5,306,076**
	Total contributed equity	**5,135,408**	**5,306,077**

8 ordinary shares were issued to new shareholders that had successfully applied for a honey supply agreement.

6,609 ordinary shares were issued to existing shareholders in order to ensure compliance with the required shares to hives ratio.

- Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.
- Ordinary shares are entitled to 25% of the total number of votes which are able to be cast in relation to special resolutions of CHL.

23. **RESERVES**

Nature and purpose of reserve

Asset revaluation

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets.

Asset replacement

The amount standing to the credit of the asset replacement reserve resulted from prior periods allocations of retained profits for the purpose of replacement of assets in future periods.

Foreign currency translation

The gain or loss generated on translating the financial report of the equity accounted associate and foreign controlled entity into Australian Dollars at the appropriate rates.

		Consolidated		Parent Entity	
		2006 $	2005 $	2006 $	2005 $
24.	**PAYABLES MATURITY ANALYSIS - DEPOSIT FUND**				
	Debts Payable				
	Not later than one year	1,489,671	1,688,863	1,489,671	1,688,863
	Later than one year but not later than two	48,650	146,349	48,650	146,349
	Later than two years but not later than three	283	9,653	283	9,653
		1,538,604	**1,844,865**	**1,538,604**	**1,844,865**

The Capilano Deposit Fund (Unsecured Deposit Notes) was created under a Trust Deed dated 17 May 1993. Trust Company of Australia Limited is the Trustee. Deposits have been received pursuant to the issue of a Prospectus dated 17 October 2005.

25. **SECURED BORROWINGS**

The hire purchase, loans and commercial bills amounting to $26,700,195 (2005: $27,353,949) are secured by a registered mortgage debenture over all the assets of the company and a guarantee and indemnity provided by the company and Medihoney Pty Ltd.

26. **CONTINGENT LIABILITIES**

The Directors are not aware of any significant contingent liabilities at the date of this report.

		Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
27.	**COMMITMENTS**				
	Capital expenditure commitments				
	Contracted for but not provided for or payable: -				
	Not longer than one year	15,730	21,485	15,730	21,485
	Operating lease commitments				
	Future operating lease rentals not provided for in the financial statements or payable:				
	Not longer than one year	44,471	49,592	44,471	49,592
	Longer than one year but not longer than two years	27,274	22,211	27,274	22,211
	Longer than two years but not longer than five years	40,917	36,554	40,917	36,554
		112,662	**108,357**	**112,662**	**108,357**
28.	**AUDITOR'S REMUNERATION**				
	Remuneration of the auditor of the parent entity for:				
	- auditing or reviewing the financial report	75,500	73,500	73,500	73,500
	- audit of the share register	1,750	1,750	1,750	1,750
	- taxation services	7,820	7,450	6,870	6,500
	- due diligence services	2,500	2,500	2,500	2,500
	Remuneration of other auditor of subsidiaries for:				
	- auditing or reviewing the financial report of subsidiaries	8,000	7,700	-	-
29.	**RELATED PARTIES**				
	Directors and specified executives:				
	Disclosure relating to directors and key management personnel are included in note 36.				
	Directors who are apiarists trade with the company on the same trading conditions as other shareholders. In view of these arrangements no quantification has been made of the total sum of transactions.				
	Controlling Entity:				
	The ultimate controlling entity is CBL. Information relating to the controlling entity is set out in note 22.				
	Wholly Owned Group:				
	The wholly owned group consists of CHL and its wholly owned controlled entites.				
	Information relating to the controlled entities is set out in note 13(b).				
	Aggregate amounts receivable from entities in the wholly owned group at balance date:				
	Non Current Receivable (loans)	-	-	4,515,685	2,722,557
	Associated Entity:				
	The interest held in the associated entity is disclosed in Note 12.				
	Aggregate amounts included in the determination of profit before income tax that resulted from transactions with the associated entity.				
	Sales to associated entity	5,794,353	5,567,904	5,794,353	5,567,904
	Purchases from associated entity	-	736,875	-	736,875
	Interest revenue	130,217	80,113	130,217	80,113
	Aggregate amounts receivable from associated entities				
	Current receivables (trade debtors)	676,517	1,406,983	676,517	1,406,983
	Non-current receivables (loans)	4,006,300	1,727,596	4,006,300	1,727,596

The parent entity has guaranteed the borrowings of the equity accounted associate, to a maximum of $488,000, by way of a standby letter of credit included in Note 33. At balance date no amounts had been drawn against the standby letter of credit.

30. SEGMENT REPORTING

a) **Primary reporting – geographical segments**

	30 June 2006				
Primary reporting – geographical segments	Australia $	Canada $	Europe $	Intersegment $	Consolidated $
Sales revenue	75,532,276	-	437,813	(116,400)	75,853,689
Other revenue	320,403	-	147	-	320,550
Total segment revenue	**75,852,679**	**-**	**437,960**	**(116,400)**	**76,174,239**
Segment result	**3,048,845**	**-**	**(1,026,089)**	**(46,500)**	**1,976,256**
Unallocated revenue less unallocated expenses	-	-	-	-	-
Share of net losses of associates	-	-	-	-	-
Profit before income tax					1,976,256
Income tax expense					(586,538)
Profit after income tax					1,398,718
Segment assets	63,176,093	-	974,221	-	64,150,314
Segment liabilities	37,803,761	-	2,341,427	(2,159,131)	37,986,057
Investment in associate	-	-	-	-	-
Acquisitions of non current segment assets	1,447,589	-	1,310	-	1,448,899
Depreciation and amortisation expense	2,192,705	-	5,869	-	2,198,574
Other non cash income	605,525	-	547	(14,369)	591,703
Other non cash expenses	-	-	-	-	-

	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	238,128	-	-	-	238,128
Total segment revenue	**79,923,928**	**-**	**185,565**	**(476,181)**	**79,633,312**
Segment result	**(2,207,992)**	**-**	**(840,987)**	**(128,015)**	**(3,176,994)**
Unallocated revenue less unallocated expenses	-	-	-	-	-
Share of net losses of associates	-	(170,922)	-	-	(170,922)
Loss before income tax					(3,347,916)
Income tax benefit					1,069,676
Loss after income tax					(2,278,240)
Segment assets	64,401,291	-	771,428	-	65,172,719
Segment liabilities	40,049,577	-	1,364,184	(1,304,954)	40,108,807
Investment in associate	-	-	-	-	-
Acquisitions of non current segment assets	2,254,460	-	20,212	-	2,274,672
Depreciation and amortisation expense	1,939,387	-	41,513	-	1,980,900
Other non cash income	92,454	-	1,631	-	94,085
Other non cash expenses	45,068	-	-	-	45,068

Secondary reporting – business segments

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

b) **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.

c) **Accounting Policies**

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amounts of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities include deferred income taxes.

d) **Intersegment Transfers**

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the consolidated entity at an arm's length. These transfers are eliminated on consolidation.

		Consolidated		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
31.	**RECONCILIATION OF CASH**				
	For the purpose of the statements of cash flows, cash includes cash on hand and at banks and investments in the money market, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheet as follows:				
	Cash and cash equivalents	**182,672**	**1,037,007**	**86,908**	**969,035**
32.	**RECONCILIATION OF NET CASH GENERATED FROM OPERATING ACTIVITIES TO PROFIT (LOSS) AFTER INCOME TAX.**				
	Profit (loss) after income tax	1,389,718	(2,278,240)	2,558,710	(1,055,558)
	Depreciation	2,069,614	1,813,753	2,059,012	1,808,286
	Amortisation	128,960	127,875	124,572	124,572
	Profit on sale of equipment	(15,716)	(4,745)	(15,716)	(5,261)
	Revaluation decrements	-	45,068	-	45,068
	Provision for doubtful debts	-	-	-	-
	(Decrease) increase in deferred tax payable	563,255	(1,069,676)	1,091,121	(617,516)
	Share of loss of associates	-	170,922	-	-
	Exchange differences on translation of foreign operations	(55,074)	-	-	-
	Change in assets and liabilities				
	(Increase) decrease in assets				
	Trade debtors	(3,504,509)	1,100,804	(3,358,792)	1,174,056
	Other debtors	14,806	364,815	30,930	352,427
	Inventory	3,946,989	1,953,474	3,834,103	2,009,931
	Prepayments	471,024	(395,881)	460,219	(390,077)
	Goods & Services Tax received	44,382	(32,727)	31,078	(16,430)
	Increase (decrease) in liabilities				
	Trade creditors	(1,110,509)	618,923	(1,109,026)	598,783
	Other creditors	732,381	19,219	693,422	2,530
	Beekeeper creditors	(447,865)	(38,957)	(447,865)	(38,957)
	Employee entitlements	104,893	(84,674)	103,360	(110,623)
	Net cash generated from operating activities	**4,332,349**	**2,309,953**	**6,055,128**	**3,881,231**

		2006 $	2005 $
33.	**FINANCING ARRANGEMENTS**		
	Total facilities		
	Unrestricted access was available at balance date to the following lines of credit:		
	Multi-Option (refer note below)	20,000,000	30,300,000
	Fixed bill facility	11,875,000	-
	Letters of credit	588,000	588,000
	Hire purchase	1,612,000	1,612,000
	Trade Finance Facility	-	500,000
		34,075,000	**33,000,000**
	Used at balance date		
	Multi-Option	14,203,327	25,750,000
	Fixed bill facility	11,875,000	-
	Letters of Credit	-	-
	Hire purchase	621,868	1,117,360
	Trade Finance Facility	-	486,589
		26,700,195	**27,353,949**
	Unused at balance date		
	Multi-Option	5,796,673	4,550,000
	Fixed bill facility	-	
	Letters of credit	588,000	588,000
	Hire purchase	990,132	494,640
	Trade Finance Facility	-	13,411
		7,374,805	**5,646,051**

The Multi-Option facility comprises bills, debtor financing and trade finance.

The total facility includes bank guarantees required as part of the secured loan agreement. The facilities are secured by a registered mortgage debenture over all the assets of Capilano Honey Limited and a guarantee and indemnity provided by the company and Medihoney Pty Ltd.

Interest is charged at variable rates.

		2006 $	2005 $
34.	**EARNINGS PER SHARE (EPS)**		
	Weighted average number of ordinary shares outstanding during the period used in calculation of basic and diluted EPS	5,129,867	5,128,790
	Earnings used in the calculation of basic and diluted EPS	1,389,718	(2,278,240)

35. **FINANCIAL INSTRUMENTS**

(a) **Financial Risk Management**

The consolidated entity's financial instruments consist mainly of deposits with banks, local money market instruments, accounts receivable and payable, loans to and from subsidiaries and the associate, bills, leases and derivatives.

The main purpose of non-derivative financial instruments is to raise finance for consolidated entity operations. Derivatives are used by the consolidated entity for hedging purposes. Such instruments may include forward exchange and currency option contracts. The consolidated entity does not speculate in the trading of derivative instruments.

The main risks the consolidated entity is exposed to through its financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk.

Foreign currency risk

The consolidated entity is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the consolidated entity's measurement currency. A committee of senior executives of the consolidated entity meet on a regular basis to analyse currency exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating debt. At 30 June 2006 approximately 98% of consolidated entity debt is floating. Management continuously monitors the debt profile of the consolidated entity in the context of the most recent economic conditions.

a) **Financial Risk Management (continued**

Liquidity risk

The consolidated entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk

The maximum exposure to credit risk at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

b) **Financial Instruments**

i. Derivative Financial Instruments

Derivative financial instruments are used by the consolidated entity to hedge exposure to exchange risk associated with foreign currency transactions. Transactions for hedging purposes are undertaken without the use of collateral as only reputable institutions with sound financial positions are dealt with.

Forward exchange contracts

The consolidated entity enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the consolidated entity against unfavourable exchange rate movements for both contracted and anticipated future sales and purchases undertaken in foreign currencies.

At balance date, there was no outstanding forward exchange contract in respect of the consolidated entity.

Foreign currency options

From time to time the consolidated entity enters into arrangements with options to sell US dollars and buy Australian dollars. These options provide a guaranteed rate for settlement which is more favourable at the time of booking than the standard forward outright rate. A contingency obliges the company to deal further options at a contingent rate should the spot rate fall below the contingent rate.

At 30 June 2006 the consolidated entity held target forwards with a face value of US$7,800,000 at a contract rate of 0.7369.

ii. Net Fair Values

The net fair values of:

- unlisted investments have not been established, as detailed in note 13.
- other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value.
- forward exchange contracts are the recognised unrealised gain or loss at balance date determined from the current forward exchange rates for contracts with similar maturities.
- foreign currency options are not brought to account as they do not meet the recognition criteria under AASB 139 “Financial Instruments: Recognition and Measurement”.
- other assets and liabilities approximate their carrying values.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than forward exchange contracts and foreign currency options.

Financial assets where the carrying amount exceeds net fair values have not been written down as the consolidated entity intends to hold these assets to maturity.

iii. Interest Rate Risk

The consolidated entity’s exposure to interest rate risk, which is the risk that a financial instrument’s value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities is as follows:

2006	Weighted Average Interest Rate	Floating Interest Rate $	Fixed Interest maturing in less than 1 year $	Fixed Interest maturing in 1 - 5 years $	Non-interest Bearing $	Total $
Financial assets						
Cash	3.26%	114,475	-	-	68,197	182,672
Receivables	-	-	-	-	13,155,727	13,155,727
Other loan	5.64%	-	166,072	4,271,284	-	4,437,356
Total financial assets		**114,475**	**166,072**	**4,271,284**	**13,223,924**	**17,775,755**
Financial liabilities						
Commercial bills	5.99%	21,875,000	-	-	-	21,875,000
Hire purchase	7.01%	-	408,734	213,134	-	621,868
Capilano Deposit Fund	4.82%	1,538,604	-	-	-	1,538,604
Beekeeper creditors		-	-	-	3,880,958	3,880,958
Beekeeper retains	2.90%	670,442	-	-	-	670,442
Bank loans	6.49%	4,203,327	-	-	-	4,203,327
Trade & sundry creditors		-	-	-	3,616,081	3,616,081
Total financial liabilities		**28,287,373**	**408,734**	**213,134**	**7,497,039**	**36,406,280**

2005	Weighted Average Interest Rate	Floating Interest Rate $	Fixed Interest maturing in less than 1 year $	Fixed Interest maturing in 1 - 5 years $	Non-interest Bearing $	Total $
Financial assets						
Cash	5.25%	985,956	-	-	51,051	1,037,007
Receivables	-	-	-	-	9,710,407	9,710,407
Other loan	5.53%	-	157,989	2,158,652	-	2,316,641
Total financial assets		**985,956**	**157,989**	**2,158,652**	**9,761,458**	**13,064,055**
Financial liabilities						
Commercial bills	5.69%	25,750,000	-	-	-	25,750,000
Hire purchase	6.92%	-	495,321	622,038	-	1,117,359
Capilano Deposit Fund	4.65%	1,844,865	-	-	-	1,844,865
Beekeeper creditors		-	-	-	4,328,823	4,328,823
Beekeeper retains	3.50%	1,368,848	-	-	-	1,368,848
Bank loans	6.97%	-	486,589	-	-	486,589
Trade & sundry creditors		-	-	-	3,994,210	3,994,210
Total financial liabilities		**28,963,713**	**981,910**	**622,038**	**8,323,033**	**38,890,694**

36. KEY MANAGEMENT PERSONNEL COMPENSATION

a) Names and positions held of key management personnel in office at any time during the financial year are:

D G Keith	Chairman (Non Executive)	Chairman (Non Executive – retired 6 October 2006
T R Morgan	Chairman (Non Executive)	Chairman (Non Executive – elected 7 October 2006
I A Cane	Deputy Chairman (Non Executive)	Deputy Chairman (Non Executive – elected 7 October 2006)
R Doherty	Director (Non Executive)	
P F McHugh	Director (Non Executive)	
R D Masters	Managing Director	
G P Roberts	Director (Non Executive)	
B J Ballantyne	Director (Independent Non Executive)	
W B Wilshire	Director (Independent Non Executive)	
A Bond	Commercial Director – Medihoney Pty Ltd	
A P Moloney	Scientific & Strategic Development Director – Medihoney Pty Ltd	
K Fenton	Sales Director – Australia / Oceania	
J Gill	General Manager - Operations	
R Eustace	Business Development Manager	
P McDonald	General Manager - International Business	
R Rivalland	Financial Controller	

b) Compensation practices

- **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.

  The determination of TEC includes three basic principles:

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

36. **KEY MANAGEMENT PERSONNEL COMPENSATION (continued)**

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 to upper quartile 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 and the Medihoney Option Plan, both of which are subject to review and refinement on an ongoing basis, and in the Equity Participation Plan which terminated at 30 June 2006.

- **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.

- **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 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 terminated in June 2006 and no bonuses were paid to any Executive.

c) **Key Management Personnel Compensation**

	Short Term Benefits			*Post employment*	*Equity*	
2006	*Cash salary and fees* $	*Incentive Plan* $	*Non monetary benefits* $	*Super-annuation* $	*Options* $	*Total* $
D G Keith	19,204	-	-	1,728	-	20,932
T R Morgan	64,184	-	-	5,776	-	69,960
I A Cane	42,423	-	-	3,813	-	46,236
R Doherty	37,405	-	-	3,366	-	40,771
P F McHugh	37,405	-	-	3,366	-	40,771
R D Masters	137,114	-	150,294	62,592	-	350,000
G P Roberts	27,545	-	-	2,479	-	30,024
B J Ballantyne	123,621	-	-	5,135	-	128,756
W B Wilshire	77,510	-	-	5,135	-	82,645

36. **KEY MANAGEMENT PERSONNEL COMPENSATION (continued)**

2006	*Short Term Benefits* Cash salary and fees $	Incentive Plan $	Non monetary benefits $	*Post employment* Super-annuation $	*Equity* Options $	Total $
A Bond	153,593	-	-	13,823	-	167,416
A P Moloney	128,731	-	28,700	14,168	-	171,599
K Fenton	149,541	-	-	13,459	-	163,000
J Gill	87,794	-	20,500	53,700	-	161,994
R Eustace	94,492	-	15,600	9,908	-	120,000
P McDonald	102,752	-	-	9,248	-	112,000
R Rivalland	91,744	-	-	8,256	-	100,000
TOTALS 2006	**1,375,058**	**-**	**215,094**	**215,952**	**-**	**1,806,104**

The remuneration amounts listed above are gross earnings before tax.

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 ended 30 June 2006 was $66,561. This amount has been included in the above report.

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 30 June 2006 was $20,450. This amount has been included in the above report.

2005	*Short Term Benefits* Cash salary and fees $	Incentive Plan $	Non monetary benefits $	*Post employment* Super-annuation $	*Equity* Options $	Total $
D G Keith	71,330	-	-	6,420	-	77,750
T R Morgan	42,516	-	-	3,826	-	46,342
I A Cane	39,109	-	-	3,520	-	42,629
R Doherty	37,405	-	-	3,366	-	40,771
P F McHugh	37,405	-	-	3,366	-	40,771
R D Masters	220,931	-	84,375	30,194	-	335,500
B J Ballantyne	97,060	-	-	5,135	-	102,195
W B Wilshire	67,060	-	-	5,135	-	72,195
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	13,500	-	4,954	-	73,500
TOTALS 2005	**1,397,738**	**13,500**	**142,096**	**136,919**	**-**	**1,690,253**

The remuneration amounts listed above are gross earnings before tax.

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 ended 30 June 2005 was $40,000. This amount has been included in the above report.

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 ended 30 June 2005 was $10,000. This amount has been included in the above report.

d) Compensation 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**
R D Masters, Managing Director, Capilano Honey Limited	180,000	20,000	200,000
A P Moloney, Scientific & Strategic Development Director – Medihoney Pty Ltd	150,000	50,000	200,000
R B 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.

36. **KEY MANAGEMENT PERSONNEL COMPENSATION (continued)**

e) **Shareholdings in Capilano Honey Limited**

2006	***Balance 1 July 2005***	***Purchased***	***Sold***	***Balance 30 June 2006***
D G Keith	57,920	-	-	57,920
T R Morgan	13,260	-	-	13,260
I A Cane	24,235	-	-	24,235
R Doherty	13,800	-	-	13,800
P F McHugh	34,676	-	-	34,676
R D Masters	4,001	2,000	-	6,001
G P Roberts	16,000	-	-	16,000
B J Ballantyne	1	-	-	1
W B Wilshire	1	-	-	1
J Gill	500	-	-	500
Total	**164,394**	**2,000**	**-**	**166,394**

37. **CHANGE IN ACCOUNTING POLICY**

a) The consolidated entity has adopted the following Accounting Standards for application on or after 1 January 2005:

- AASB 132: Financial Instruments: Disclosure and Presentation; and
- AASB 139: Financial Instruments: Recognition and Measurement

The changes resulting from the adoption of AASB 132 relate primarily to increase disclosures required under the Standard and do not affect the value of amounts reported in the financial statements.

There were no material changes on adoption of AASB 139. The consolidated entity has elected not to adjust comparative information resulting from the introduction of AASB 139 as permitted under the transitional provisions of this Standard. As such, previous Australian Accounting Standards have been applied to comparative information.

b) The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

There would be no significant changes or material impacts had these standards been adopted.

AASB Amendment	AASB Standard Affected	Application Date of the Standard	Application Date for the Group
2004-3	AASB 1: First-time Adoption of AIFRS	1 January 2006	1 July 2006
	AASB 101: Presentation of Financial Statements	1 January 2006	1 July 2006
	AASB 124: Related Party Disclosure	1 January 2006	1 July 2006
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	1 January 2006	1 July 2006
2005-5	AASB 1: First-time Adoption of AIFRS	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Recognition and Measurement	1 January 2006	1 July 2006
2005-6	AASB 3: Business Combinations	1 January 2006	1 July 2006
2005-9	AASB 132: Financial Instruments: Recognition and Measurement	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Disclosure and Presentation	1 January 2006	1 July 2006
2005-10	AASB 139: Financial Instruments: Recognition and Measurement	1 January 2007	1 July 2007
	AASB 101: Presentation of Financial Statements	1 January 2007	1 July 2007
	AASB 114: Segment Reporting	1 January 2007	1 July 2007
	AASB 117: Leases	1 January 2007	1 July 2007
	AASB 133: Earnings per share	1 January 2007	1 July 2007
	AASB 132: Financial Instruments: Disclosure and Presentation	1 January 2007	1 July 2007
	AASB 1: First-time Adoption of AIFRS	1 January 2007	1 July 2007
	AASB 4: Insurance Contracts	1 January 2007	1 July 2007
	AASB 1023: General Insurance Contracts	1 January 2007	1 July 2007
	AASB 1038: Life Insurance Contracts	1 January 2007	1 July 2007
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates	1 January 2006	1 July 2006
	AASB 7: Financial Instruments: Disclosure	1 January 2007	1 July 2007
	AASB 119: Employee Benefits: December 2004	1 January 2007	1 July 2007

All other pending Standards issued between the previous financial report and the current reporting dates have no application to either the parent or consolidated entity:

AASB Amendment	AASB Standard Affected
2005-2	AASB 1023: General Insurance Contracts
2005-4	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation
2005-9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation

Shareholders' Information

As at 31 July 2006

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	47,458
1,001 – 5,000			280	808,760
5,001 – 10,000			174	1,288,366
10,001 – 100,000			156	2,847,491
100,001 and over			1	143,332
			735	5,135,407

d) **Shareholders holding less than a marketable parcel**

There are 47 shareholders holding 673 shares which the company considers to be less than a marketable parcel of shares (value $500), when using a value of $3.52 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	143,332	2.79
2.	Baker Beekeeping Pty Ltd	58,343	1.14
3.	D G, L R, J M, H M, K H 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.	Berne No 132 Nominees Pty Ltd	47,724	0.93
8.	W & J Millington	46,100	0.90
9.	E N Peadon	44,667	0.87
10.	Brazil Enterprises Pty Ltd	41,449	0.81
		597,346	11.65

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.