



AUSTRALIA'S NO.1 HONEY, NATURALLY!



annual report 2007

07



2007 annual general meeting

The **2007 Annual General Meeting** will be held at

CROWNE PLAZA ROYAL PINES RESORT
Ross Street, Ashmore (Gold Coast)
Queensland 4214

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



➤ SCHEDULE OF EVENTS

Thursday, 4 October 2007

7.00pm **Annual Capilano Group Dinner**

Friday, 5 October 2007

9.00am **Management Presentation**

To update shareholders on Capilano Group activities including local and export sales, marketing, finance and manufacturing, followed by informal discussions.

11.30am **Annual General Meeting – Capilano Beekeepers Ltd**

*NOTE: Only shareholders of CBL are eligible to attend this meeting
Registration from 8.30am*

12.30pm **Lunch**

A light lunch will be provided

1.30pm **Annual General Meeting – Capilano Honey Limited**

Registration from 1.00pm

For further details please refer to:

Notice of Meeting *page 2*

Attendance Form *page 37 (if attending the AGM please complete and return this form
by 26 September 2007)*

Proxy Form *page 39 (if unable to attend the AGM please complete and return
by 1.30pm on 3 October 2007)*





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notice of meeting



Notice is hereby given that the thirty-fifth Annual General Meeting of shareholders of Capilano Honey Limited ('CHL') ACN 009 686 435 will be held at the Crowne Plaza Royal Pines Resort, Ross Street, Ashmore QLD 4214 on Friday 5 October 2007 commencing at 1.30pm.

→ Agenda

1. Ordinary Business

• Financial Statements and Reports

To receive and consider the Financial Statements, Director's Declaration and the Reports of the Directors and the Auditors for the year ended 30 June 2007.

2. Special Business

• RESOLUTION - Remuneration Report included in the Report of the Directors

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

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

The Remuneration Report is included in the 'Report of the Directors' on page 15 of this Annual Report.

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

However the company need not disregard any such vote if:

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

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

Dated this SEVENTEENTH day of AUGUST 2007

By Order of the Board

Errol J Bailey
Company Secretary



THIS IS AN IMPORTANT DOCUMENT

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

INSTRUCTIONS

If you are unable to attend the meeting and wish to vote, you are requested to complete the Proxy Form on page 39 of this Annual Report.

If you are planning to attend the meeting please complete the Attendance Form on page 37 of this Annual Report.

NOTES

Information about the resolutions appears in the Explanatory Memorandum.

Voting on the resolutions will be by means of a poll in which shareholders are entitled to one vote per share. In accordance with the company's Constitution, a member who is entitled to attend and cast a vote at the meeting is entitled to appoint a proxy.

A proxy need not be a member of the Company. A member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

If you wish to appoint a proxy and are entitled to do so, then complete and return the attached proxy form.

A corporation may elect to appoint a representative in accordance with the Corporations Act 2001 in which case the Company will require written proof of the representative's appointment which must be lodged with or presented to the Company before the meeting.

Foundation Share

The company may not pass any ordinary resolution without the affirmative vote of the Foundation Shareholder.

The Foundation Share is held by Capilano Beekeepers Ltd.

➤ **ORDINARY BUSINESS - Financial Statements and Reports**

The Corporations Act 2001 requires that the report of the Directors, the Auditors' report and the financial report be laid before the Annual General Meeting. In addition, the Company's Constitution provides for such reports and statements to be received and considered at the meeting. Apart from the matters involving remuneration which are required to be voted upon, neither the Corporations Act 2001 nor the Company's Constitution requires a vote of shareholders at the Annual General Meeting on such reports or statements. However, shareholders will be given ample opportunity to raise questions with respect to these reports and statements at the meeting.

Following consideration of these reports the chairman will give shareholders a reasonable opportunity to ask questions about or comment on the management and audit of the Company.

➤ **RESOLUTION – To adopt the Remuneration Report in the Report of the Directors**

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

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

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

➤ **Appointment of Directors Acknowledged**

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





chairman's report



The past financial year has been highlighted by some significant operational changes that will allow Capilano to concentrate on developing its core business of packing and marketing honey as efficiently and profitably as possible.

The changes included the sale of the wholly owned subsidiary Medihoney Pty Ltd ('Medihoney') and operational changes resulting in all retail liquid products being packed in the Brisbane facility, and bulk industrial packing and creamed honey production being done in the Maryborough facility.

Overview of Results

It is pleasing to report a Net Profit after Tax of \$1.9 million for the group, despite the intense competition in the market place and unfavourable exchange rates during the year.

Current accounting standards require that for a dividend to be paid it must be accounted for in the same year. Since the final result was unclear until the sale of Medihoney was finalised on 30 June no dividend was declared.

Capilano and its suppliers began the year with the expectation of higher levels of production than those of recent years impacted by drought conditions. While this may have occurred for a few fortunate suppliers there was less honey produced locally than expected. The average price paid for quota honey was \$2.20 per kilogram for the year, an increase of 20¢ per kilogram over the previous year and it reflects the lower than expected production level.



Sale of Medihoney

The sale of Medihoney on 30 June 2007 resolves the capital raising objective previously advised to shareholders regarding the continued development of the Medihoney business. Despite its potential and good revenue growth over the period, this development has impacted our financial resources and overall group results. In recognition of this and our acknowledgement of the need for significant further investment to develop the business to its full potential, your Board considered the future of the Medihoney business and Capilano shareholders was best served by the sale of the business.

Medihoney was sold to Comvita Limited, a New Zealand company who specialise in the medical honey field, for an amount recovering our investment.

The combined resources of Medihoney and Comvita Limited will enable the development of the medical honey business to its full potential. The sale price included the issue of 1,560,765 ordinary Comvita shares to Capilano representing approximately 8% of the issued ordinary shares in Comvita. This provides the opportunity for Capilano shareholders to share in the future success of the medical honey business.

Challenges

The challenges and changes continue in the Australian market place.

The biggest impact on our business and the honey industry as a whole has been the transfer of profit from packers to the two major supermarkets as a result of their push to capture a greater share of the market for their own brands i.e. Private Label and the emergence of one supermarket devoted exclusively to Private Label. We now have a situation where our largest customers are also our largest competitors. This has seen a significant reduction in the contribution to company profits from this area of our business.

In respect of our overseas markets, the major factor affecting our returns for this year has been the considerable increase in the value of the Australian dollar against other currencies, particularly the \$US. This has made all overseas business less profitable this year.

Future Prospects

While Capilano has been very successful in the past at introducing innovative and interesting new packaging for its honey products that have been well received by customers, it has not taken long for other packers and marketers including the supermarket's own brands, to copy our new innovations.

The introduction of new packaging and labelling for our upside down range of packs will again differentiate our products from the others on the supermarket shelves. These combined with a new consumer friendly and convenient pack, soon to be released, should attract a whole new user group to honey. These packaging initiatives along with marketing initiatives outlined below will go along way to re-energising our brand and creating renewed interest in the honey category.

Capilano's increasing presence in overseas markets is planned to continue and will contribute to future revenue and profit growth. The likelihood of success has been enhanced through the investment in our Canadian joint venture, Capilano Labonté Inc. (CLI), and a significant consumer market share has been built in Canada in a short period of time as a result. Strong relationships have been forged with our Canadian customers and our reliability in supplying supermarkets with innovative, quality products has underpinned our success.

The marketing alliances we have in place with Australia Zoo, Wildlife Warriors and the family of Steve Irwin, together with the our marketing sponsorship for the upcoming 'Bee Movie' from DreamWorks, will assist greatly in building brand recognition in our markets and in particular the North American market.

The contribution to profit from our Joint Venture in Argentina with HoneyMax is expected to continue growing enhancing our ability to supply blends to our industrial customers' needs worldwide. This facility is also critical to ensuring continued security of supply to our customers regardless of local Australian climatic conditions.

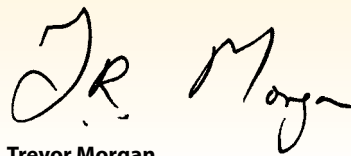
Acknowledgements

The Board is appreciative of our supplier shareholders who continue to produce a very high quality product for the company to market. This has occurred despite some severe adverse weather conditions for an extended period that have made it very difficult for them. The combination of bushfires and floods in other areas has tested the endurance of some of our suppliers.

The importance of good Quality Assurance systems, both at factory and supplier level can never be underestimated in ensuring our ability to be a successful marketer of a high quality product. Those suppliers who have already embraced a program such as B-Qual are to be congratulated. Other suppliers need to consider the benefits and I encourage them to implement such a program as soon as possible.

The Board has worked well together during the last year in what has been a challenging and difficult year for them. I thank them for their commitment and dedication to Capilano.

I would also like to thank all our staff and management for their considerable efforts during the last year.



Trevor Morgan
Chairman





board of directors



Trevor R. Morgan
FAICD

*Chairman
Non-Executive Director
Commercial Apiarist
Age 52
(Appointed and elected
Director 1998, Deputy
Chairman 2004 and
Chairman 2005)*

Mr Morgan has been a Director since 1998, was Deputy Chairman from 2004 – 2005 and was elected Chairman in 2005. He is a second generation beekeeper with over 30 years experience in honey production. He has been widely involved in industry matters for many years at both State and National level, serving on the South Australian Apiarist Association executive for more than ten years, including two years as President. He is a Fellow of the Australian Institute of Company Directors and holds a Company Directors' Advanced Diploma.



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

*Managing Director
Age 52
(Appointed Director 1996)*

Mr Masters was appointed Managing Director in 1996. He has a Bachelor of Commerce Degree, a Masters Degree in Business Administration and is an Associate of the Institute of Chartered Accountants. He has had a distinguished career in senior management with significant experience in finance, marketing and business development.

Mr Masters is also a Director of Capilano Labonté Inc. and was Executive Chairman of Medihoney Pty Ltd, and a Director of Medihoney (Europe) Ltd until their sale on 30 June 2007.



Ian A. Cane

*Deputy Chairman
Non Executive Director
Commercial Apiarist
Age 49
(Elected Director 1990, Deputy
Chairman 2000 – 2004 and
2005)*

Mr Cane has been a Director since 1990, was Deputy Chairman from 2000 – 2004 and was re-elected to that position in 2005. He is a third generation beekeeper with extensive experience in honey production. Mr Cane is a qualified carpenter and joiner and has conducted his own business in the building industry.

Mr Cane was also a Director of Medihoney Pty Ltd, until its sale on 30 June 2007.



Phillip F. McHugh

*Non-Executive Director
Commercial Apiarist
Age 50
(Elected Director 1993)*

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



Rosemary Doherty
FAICD

*Non-Executive Director
Commercial Apiarist
Age 57
(Elected Director 2000)*

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



Gregory P. Roberts

*Non-Executive Director
Commercial Apiarist
Age 58
(Elected Director 2005)*

Mr Roberts was elected a Director of CBL in October 2005 and was subsequently appointed a Director of CHL. He is a third generation beekeeper and has been widely involved in industry matters at both State and National levels. Mr Roberts has served as President of the NSW Apiarist' Association, National President of the Federal Council of Australian Apiarists Association, National Chairman to the Australian Honey Bee Industry Council and the apiary industry's representative with Animal and Plant Health Australia. Mr Roberts will retire from office at the 2007 AGM in October.



Bernard J. Ballantyne

*Independent
Non-Executive Director
Age 60
(Appointed Director 1991)*

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

Mr Ballantyne is also Chairman of Capilano Labonté Inc and was a Director of Medihoney Pty Ltd, until its sale on 30 June 2007.



Simon L. Tregoning
B.Com

*Independent
Non-Executive Director
Age 59
(Appointed Director 2006)*

Mr Tregoning is a Director on the Boards of Australian Cooperative Foods (Dairy Farmers), St Luke's Hospital Complex, Philemon (Waterthin's Biscuits), and is Chairman, Canberra Chilled Foods. He was formerly Vice-President, Kimberly-Clark Corporation. He has had broad FMCG experience in Australia, Africa, and most of Asia. Earlier he was General Manager of various downstream divisions of Esso Australia Ltd.

Mr Tregoning was also a Director of Medihoney Pty Ltd, until its sale on 30 June 2007.





review of operations 2006-2007



The year 2007 has been one of adjustment to the significant operational and structural changes occurring in our industry, mentioned by the Chairman in this Annual Report and outlined to shareholders in the Half Year Report.

On the supply side we have increased packer numbers competing for a share in the honey market, while on the buyer side the supermarket retailers have launched new private labels, becoming another face of competition. The private label market has expanded to an estimated 37% of the honey category from 29% last year, a very significant change. New packers compete strongly for the private label business, driving down returns for the industry. There has been significant discounting in the private label segment by the supermarket retailers in order to obtain market share, made easier by the lower buying prices they are offered in the new environment. The retailer discounting drives down the value of the honey category.

Our Group results are shown below:

(\$,000s)	2005	2006	2007
Revenue	79,633	76,174	69,269
Earnings before Interest & Tax	(1,651)	3,599	3,562
Net Profit after tax	(2,278)	1,390	1,875

The decrease in Capilano revenue results from the transfer of customers from branded business to the private label offerings and the impact of the exchange rate movement on export sales.

The reported group profit includes the current year loss for Medihoney Pty Ltd of A\$1.8 million offset by an amount of A\$3.8 million arising on the sale of Medihoney Pty Ltd to Comvita Limited, recovering the losses previously recognised during the product and market development phase of the business. We believe Comvita, a healthcare company, will allow a faster development of the healthcare products in a way that allows us to share in its future potential. For example, Comvita recently

announced its marketing clearance from the US Food and Drug Administration (FDA) to sell a patented honey-based advanced wound care dressing for the management of wounds and burns in the USA.

Our parent company profit of A\$567,000 was affected by the switch of customers to private label, adverse exchange rate movement and higher honey costs due to the impact of the severe drought.

As mentioned, our profit has been adversely affected by the exchange rate movement which has moved 15% over the past year, hitting an 18 year high against the US dollar. This has a negative impact straight to the bottom line given our total export sales are in the order of A\$22.5 million.

Honey receivals fell from an initial forecast of 16,532 tonnes in July 2006 to 10,512 tonnes by June 2007 as a consequence of the worsening drought. While this level of receivals still represents a surplus to our domestic and export retail requirements, the timing of receivals against sales means shortages within blends can occur without careful management of our stocks. In order to protect ourselves from potential intra-season shortages, honey cost rose from an average of \$2.00/kg to \$2.20/kg, equivalent to an increased cost of A\$2.1 million for the year. Our quota system currently exposes us to a surplus, a competitive disadvantage our competitors do not have, where they buy according to their needs. That surplus is sold into the export bulk commodity market and prices received in this segment remain below the average cost of honey in stock. The issue of matching the buying price paid for honey with the margins received in the segments in which it is sold is being addressed in the buying price mechanism.

The growth of private label honey products has been helped by a lack of difference between them and our branded products. The innovations provided by Capilano and, in one case, the dominant colours of our label have been incorporated in the private label product. Much of our marketing effort this year has been in re-establishing the point of difference in our products, namely:

- Bringing to market a premium upside down pack as a differentiating feature from packs currently in private label; involves re-design, equipment re-tooling and body sleeve design;
- Finalisation of a unique packaging concept including product, sub-branding, packaging and launch programs;
- Finalisation of marketing and royalty program with Steve Irwin Management Company and the development of labels and artwork for USA markets;
- Preparation for the re-launch of the floral range in new upside down packs & labels;
- Completion and implementation of consumer market research focus group project results.

While the new points of difference will help consumers in making a choice between Capilano's existing products and private label, we aim to introduce honey to a new user group in a wider range of food applications through a new-concept pack. Like the packaging innovations that Capilano have developed before, the aim is to have a serving method better than current application. It has been a technically challenging process at all levels of product, equipment and label application design.

In respect of a more efficient use of our factories and equipment, the change in location of retail and bulk packing operations in 2007 has produced considerable savings of over A\$800,000 per year. The supermarket retailers have re-designed their logistical systems and distribution centre locations. We now bear the cost of carrying inventory in order to meet order lead times. Transport and freight costs were taken into account in that decision which still produced significant savings. However, the retail packing of creamed honey business in Maryborough retains our ability to pack on that site.

	2005	2006	2007
Shareholders' Equity (\$,000s)	25,064	26,164	28,098
Return on Equity	(9.1%)	5.3%	6.7%
Earnings per Share (cents)	(44.4)	27.1	36.4

Net Asset Backing as at 30 June 2007 was \$5.45/share while the average traded price of shares was \$3.86 over the last 10 days of the financial year.

	2005	2006	2007
Current Ratio	2.82	2.91	3.58
Debt (Total Liabilities / Total Assets)	62%	59%	58%
Interest Cover (EBIT D&A / Interest)	0.19	3.57	3.58
Net Assets (\$'000s)	25,064	26,164	28,098
Total Assets (\$'000s)	65,173	64,150	67,399

The current ratio and debt ratio are both conservative and are better than last year. The debt ratio has been maintained while holding possibly our largest end of year honey stock position at a value of A\$16.4 million. This position has been taken to support supply in conditions of drought in Australia and consequent shortages, together with potential rising prices in Canada.

Our cash flow has been fairly neutral given the increase in raw material inventories at year end in anticipation of drought. Interest bearing debt net of cash has increased by \$367,000 over the year.

Offshore

Our presence in Canada is through the Capilano Labonté brand and Private Label. We have the second largest market share, including our private label and branded supply. Based on AC Nielsen figures (MAT) our brand shows the strongest growth of +113% nationally. In Quebec, our brand has the highest growth and second largest brand share. On the West coast our brand has the second largest brand share at 9.8%, behind the market leader with 12.1%, and Private Label with 62.6%. At the same time our growth is 129% compared with the market leader declining at -8%. Capilano Labonté has shown strong growth across all regions and is now a prominent player nationally. In the first half year we faced intense price competition for our market which was met head on.

Our launch into the USA market was initiated in November, 2006 into one region using a new Australian themed line-up positioned as a new, unique, innovative addition to the 'mainstream' honey segment. Capilano now has listings in selected stores for five products, including our 'Aussie', 'Coastal' and 'Outback' blends. A number of consumer education promotions have been conducted, including an in-store sampling campaign supported by point of sale advertising. Included in the US market initiatives is a launch of a Steve Irwin pack through our sponsorship agreement with the Irwin family. Proceeds from this pack will support Steve Irwin's conservation projects and Terri & Bindi Irwin will be promoting the pack and its cause nationally via US media.





review of operations 2006-2007



Offshore *continued*

In our other export markets revenues were down, affected by the weakening of the US dollar. Capilano brand export retail sales volume was up 21% on last year.

Our sales from Capilano-Argentina increased during 2007, supplying industrial customers in Europe. The joint venture arrangement makes a positive financial contribution to the Group, although it was also negatively affected by the exchange rate movement. Capilano-Argentina has also provided a back up for the supply of industrial customers in Australia if required.

Outlook

The outlook for Capilano is shaped by the significant changes in the market that have taken place especially in the last eighteen months. The honey industry has looked to Capilano to keep stability in the market through buying the Australian crop surplus and subsidising its cost through the domestic market. This was possible when low packer numbers existed and higher margins were possible in the non-branded product segments. It is no longer the case when non-branded sales represent 37% of the retail market and we are competing with a number of new packers on price to win low margin business put out to tender annually.

The seasonality of honey production and sales presents unique challenges during the course of a year but even in the current drought, supply will exceed domestic demand. Capilano can no longer shoulder the burden of oversupply when competing with other packers who have no such restriction.

The expectation that honey buying price can exceed the returns on the product in low margin segments cannot be met.

The honey market is a mature market and Capilano has retained mostly a one-product focus. Private label programs transfer profits that were once earned by Capilano to the supermarket. This loss of profits in the private label segment has put a huge hole in the return to beekeepers and shareholders. It undermines our performance.

Meanwhile, our net asset base has grown to \$28.0 million as at 30 June 2007. Legislative developments resulted in our public listing, allowing non beekeeper shareholders to acquire shares. Our net asset backing per share is A\$5.45 compared with an average traded share price of A\$3.86 in June 2007. However, control of Capilano rests with the beekeepers through a Foundation Share held by Capilano Beekeepers Ltd (CBL).

Performance, together with the level of CBL control, impacts on the share price and liquidity of shares.

We have addressed the private label impact on our honey market with a number of marketing initiatives undertaken in the last 18 months to improve the performance of our branded product. This includes introducing globally, an increased point of difference across all our branded stock through packaging innovations, the creation of a unique pack to enable the introduction of honey to new user groups and subsequently allowing new applications to cater for shifting consumer demographics.

The challenge of matching the returns from honey sales from high and low margin market segments with its purchase price is an issue Capilano cannot avoid in the future if it is to improve its performance.

Capilano may also need to challenge the notion that it is 'just a honey company' if it wants to provide shareholder returns commensurate with its asset backing.

Roger Masters
Managing Director






concise financial reports



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This concise report has been derived from the full financial report for the year ended 30 June 2007. The full financial report and auditor's report is available free of charge on request.

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



report of the directors

Your directors present their report on the consolidated entity consisting of Capilano Honey Limited ("CHL") and the entities it controlled at the end of or during the year ended 30 June 2007.

Directors

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

- Trevor R Morgan (*Chairman*)
- Ian A Cane (*Deputy Chairman*)
- Rosemary Doherty
- Phillip F McHugh
- Roger D Masters
- Gregory P Roberts
- Bernard J Ballantyne
- Simon L Tregoning

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 \$1,874,862.

Distributions

The ordinary dividend of five cents per share for the 2006 accounts was paid during the year absorbing \$257,552 in cash.

No dividend has been provided for or declared for the year ended 30 June 2007.



Review of Operations

Sales revenue of \$68,989,637 for the consolidated entity was \$6,864,052 below the previous year's result. An analysis of this sales decrease is as follows:-

	% increase / (decrease) of 2007 over 2006	2007 \$	2006 \$
Capilano Honey Limited	(10.8%)	65,067,580	72,926,068
Medihoney Pty Ltd	34.0%	3,922,057	2,927,621

The decrease in revenue for the parent entity was mainly a result of the lower export commodity bulk sales.

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 2007 that has significantly affected or may significantly affect:-

- the operations of the consolidated entity;
- the results of those operations; or
- the state of affairs of the consolidated entity in financial years subsequent to 30 June 2007.

Significant Changes

Medihoney Pty Ltd was sold on 30 June 2007 realising a gain on sale of \$3,815,507.

There were no other 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.

Information on Directors

Director	Qualifications/Experience	Special Responsibilities	Shares held in Parent entity
Trevor Richard MORGAN	FAICD Commercial apiarist. Director since 1998.	Chairman of Capilano Honey Limited, 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.	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 until its sale on 30 June 2007.	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.	Member of the Audit & Compliance and Honey Supply & Industry Committees. Vice-President of Capilano Labonté Inc. Executive Chairman of Medihoney Pty Ltd and Director of Medihoney (Europe) Ltd until their sale on 30 June 2007.	R D Masters holds 1 share. He is also the beneficiary of an entity holding 11,000 shares.
Bernard James BALLANTYNE	Independent Director since 1991.	Independent Non-executive Director. Member of the Remuneration and Audit & Compliance Committees. Chairman of Capilano Labonté Inc. Director of Medihoney Pty Ltd until its sale on 30 June 2007.	B J Ballantyne holds 1 share.
Rosemary DOHERTY	FAICD Commercial apiarist. Director since 2000.	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 20,104 shares. He is also the beneficiary of an entity holding 14,572 shares.
Gregory Paul ROBERTS	Commercial apiarist. Director since 2005.	Member of the Honey Supply & Industry and Nomination Committees.	G Roberts is a partner in a partnership which holds 16,000 shares.
Simon Lucien TREGONING	B.Comm Independent Director since July 2006.	Period: 1 July – 5 October 2006 Independent Non-executive Director. Period: 6 October 2006 – 30 June 2007 Independent Non-executive Director, Member of the Audit & Compliance and Remuneration Committee. Director of Medihoney Pty Ltd until its sale on 30 June 2007.	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 was also Company Secretary of Medihoney Pty Ltd and Medihoney (Europe) Ltd until their sale on 30 June 2007.
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report of the directors

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 (*)
T Morgan	14	14	18	18	8	8	2	2
R Masters	14	14	16	16	8	8	2	2
B Ballantyne	14	14	16	16	8	8	2	2
I Cane	14	14	12	12	8	8	2	2
R Doherty	14	14	18	18	1	1	2	2
P McHugh	14	14	8	8	1	1	2	2
G Roberts	14	14	8	8	1	1	2	2
S Tregoning	13	14	11	14	6	8	1	2

(*) 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.

Compliance with the requirements of environmental regulations was achieved across all operations.

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

Members of Remuneration Committee	No. of Meetings Attended	No. of Meetings Held
I Cane (Chairman)	4	4
S Tregoning	2	3
R Doherty	4	4
B Ballantyne	4	4
By invitation:		
R Masters	4	4
T Morgan	4	4
S Tregoning	1	1



• 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 are linked 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 interests 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.



report of the directors

I. 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.)

II. 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.

III. 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 which is subject to review and refinement on an ongoing basis.

• Annual Review

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

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

- c) All other salaried staff – reviewed by Functional Managers (Heads of Departments) and subject to approval by the Managing Director.
- d) Non-Executive Directors – reviewed by the Board with advice from the Board Remuneration Committee and external remuneration consultants and recommended by the Board to shareholders in general meeting.

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.



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 2006, 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.

• Details of Directors

T Morgan	Chairman (Non Executive)
I Cane	Deputy Chairman (Non Executive)
R Doherty	Director (Non Executive)
P McHugh	Director (Non Executive)
G Roberts	Director (Non Executive)
B Ballantyne	Director (Independent Non Executive)
S Tregoning	Director (Independent Non Executive)
R Masters	Managing Director

• Details of Most Highly Remunerated Executives and Key Management Personnel

A Bond	Commercial Director – Medihoney Pty Ltd
R Eustace	Business Development Manager
J Gill	General Manager – Operations (Until 1 December 2006)
P McDonald	General Manager - International Business
A Moloney	Scientific & Strategic Development Director – Medihoney Pty Ltd (Until 30 June 2007)
R Rivalland	Financial Controller

• Gross Remuneration of Directors

	Cash salary and fees \$	Incentive Plan \$	Non monetary benefits \$	Super-annuation \$	Total \$
T Morgan	53,498	-	-	24,251	77,749
I Cane	-	-	-	67,126	67,126
R Doherty	37,405	-	-	3,366	40,771
P McHugh	-	-	-	40,771	40,771
G Roberts	37,405	-	-	3,366	40,771
B Ballantyne	57,060	-	-	65,585	122,645
S Tregoning	-	-	-	70,222	70,222
R Masters	127,895	85,000	139,609	99,996	452,500
TOTALS 2007	313,263	85,000	139,609	374,683	912,555

The remuneration amounts listed above are gross earnings before tax.

B Ballantyne, I Cane and S Tregoning have consulting arrangements for the provision of business services to companies within the group.





report of the directors

• Details of Most Highly Remunerated Executives and Key Management Personnel

	Cash salary and fees \$	Incentive Plan \$	Non monetary benefits \$	Super-annuation \$	Total \$
A Bond	165,302	67,500	-	14,878	247,680
R Eustace	115,596	12,000	-	10,404	138,000
J Gill	43,864	16,300	2,250	69,580	131,994
P McDonald	110,275	11,200	9,800	9,925	141,200
A Moloney	135,180	67,160	30,000	15,000	247,340
R Rivalland	110,092	10,000	-	9,908	130,000
TOTALS 2007	680,309	184,160	42,050	129,695	1,036,214

The remuneration amounts listed above are gross earnings before tax.

J Gill and A Moloney left the employ of the company during the course of the year.

A provision of \$275,965 for incentive payments to Key Management Personnel in accordance with the Remuneration Policy has been made in the year ended 30 June 2007. No allocation has been made against specific employees as at the date of this report. This amount is the maximum that could be payable once the allocation has been determined.

6. Options

• Remuneration – Share Options

Options over unissued shares of a controlled entity, Medihoney Pty Ltd, were not exercised and lapsed on the sale of Medihoney Pty Ltd as follows:

	Options issued 2001	Options issued 2004	Options lapsed 2007	Total options issued
Directors				
R Masters	180,000	20,000	(200,000)	Nil
Other Executives				
A Moloney	150,000	50,000	(200,000)	Nil
R Eustace	60,000	-	(60,000)	Nil
P McDonald	-	50,000	(50,000)	Nil
Total options issued	390,000	120,000	(510,000)	Nil



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 directors’ 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 Beekeeper NED.
 Superannuation Guarantee contribution – existing amount of \$30,770 will remain unchanged.
 Directors and Officers Liability Insurance - 2007 \$37,920; 2008: \$29,220.

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 in accordance with APES 110: Code Of Ethics for Professional Accountants set by the Accounting Professional and Ethics Board.

The following fees for non-audit services were paid or were payable to the external auditors during the year ended 30 June 2007:

	\$
Taxation Services	13,515
Review of Prospectus	2,500
	<hr/>
	16,015

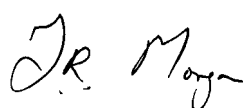
AUDITORS

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 2007 has been received and can be found on page 20 of the annual report.

Signed at Brisbane this SEVENTEENTH day of AUGUST 2007, 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
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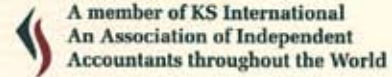
Email info@cah.com.au
Website www.cah.com.au
ABN 11 603 627 400

Our Ref

Your Ref

Date

Cranstoun & Hussein
Chartered Accountants & Business Advisers



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 2007, 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, 17 August 2007

• 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 qualifications, skills and expertise for appointment to any vacancy occurring from time to time.

Audit & Compliance The Charter of this committee is detailed below

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.





corporate governance

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 and the appointed audit firm has audit partner rotation in place that complies with the provisions of the Corporations Act.

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.

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.



➤ **Obligations and Responsibilities of Directors**

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

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

1. A director must act honestly, in good faith and in the best interests of the company as a whole.
2. A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
3. A director must use the powers of office for a proper purpose, in the best interests of the company as a whole.
4. A director must recognise that the primary responsibility is to the company's shareholders as a whole but should, where appropriate, have regard for the interests of all stakeholders of the company.
5. A director must not make improper use of information acquired as a director.
6. A director must not take improper advantage of the position of director.
7. A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the company.
8. A director has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the board of directors.
9. Confidential information received by a director in the course of the exercise of directorial duties remains the property of the company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by that company, or the person from whom the information is provided, or is required by law.
10. A director should not engage in conduct likely to bring discredit upon the company.
11. A director has an obligation, at all times, to comply with the spirit, as well as the letter, of the law and with the principles of this code.

➤ **Assessment of Board, Director and Management Performance**

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

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

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





consolidated income statement

for the year ended 30 June 2007

	Note	Consolidated	
		2007 \$	2006 \$
Revenue	2	69,268,619	76,174,239
Other income	3	3,817,897	591,703
Finance costs		(1,971,519)	(1,934,794)
Other expenses		(69,188,693)	(72,854,892)
Profit before income tax		1,926,304	1,976,256
Income tax expense		(51,442)	(586,538)
Profit attributable to members of CHL		1,874,862	1,389,718
Earnings per share (cents)		36.4	27.1
Diluted earnings per share (cents)		36.4	27.1

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

Discussion and Analysis

- The consolidated net profit after income tax attributable to members of CHL is \$0.5 million higher than the result of 2006 and includes:
 - gain on sale of Medihoney Pty Ltd of \$3.8 million,
 - a Medihoney trading loss of \$1.8 million to the group result,
 - net foreign exchange losses of \$0.5 million as the Australian dollar appreciated by up to 15% against other currencies, and
 - honey purchase price increases of 10% which consumed an additional \$2.1 million due to severe drought conditions.
- Domestic honey supply decreased by 24% as the drought conditions worsened and competition for honey increased.
- The decrease in revenue was mainly a result of the lower export commodity bulk sales.
- The income tax expense of \$51,442 is calculated based on the 2007 profit before income tax, adjusted for permanent tax differences. As a result of the ability to recoup past tax benefits, no income tax is payable in respect of the 2007 year.



consolidated balance sheet

as at 30 June 2007

07

	Consolidated	
	2007 \$	2006 \$
CURRENT ASSETS		
Cash and cash equivalents	296,036	182,672
Trade and other receivables	16,952,791	13,321,799
Inventories	23,375,640	20,651,429
Other current assets	956,513	732,139
TOTAL CURRENT ASSETS	41,580,980	34,888,039
NON-CURRENT ASSETS		
Trade and other receivables	3,194,803	4,271,284
Property, plant and equipment	20,543,391	21,368,478
Intangible assets	497,097	653,174
Deferred tax assets	1,582,470	2,969,339
TOTAL NON-CURRENT ASSETS	25,817,761	29,262,275
TOTAL ASSETS	67,398,741	64,150,314
CURRENT LIABILITIES		
Trade and other payables	9,209,349	8,169,105
Short term borrowings	2,394,798	3,563,140
Short term provisions	-	256,770
TOTAL CURRENT LIABILITIES	11,604,147	11,989,015
NON-CURRENT LIABILITIES		
Long term borrowings	27,091,026	25,346,101
Long term provisions	604,964	650,941
TOTAL NON-CURRENT LIABILITIES	27,695,990	25,997,042
TOTAL LIABILITIES	39,300,137	37,986,057
NET ASSETS	28,098,604	26,164,257
EQUITY		
Issued capital	5,366,344	5,306,077
Reserves	2,749,995	2,694,920
Retained earnings	19,982,265	18,163,260
TOTAL EQUITY	28,098,604	26,164,257

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

Discussion and Analysis

- The profit generated for the year increased equity by \$1.9 million.
- Inventories increased by \$2.7m due to a combination of price and volume changes. Domestic honey prices increased by 10% over the year.
- Receivables increased in value by \$3.6 million. The net increase related to the proceeds from the sale of Medihoney Pty Ltd.
- Trade payables increased in value by \$1.0 million as a result of the increased inventory purchases in the latter months of the financial year.
- Long and short term borrowings increased by a combined \$0.57 million in order to fund the increased inventory.
- Deferred tax assets of \$1.58 million are based on the company tax rate of 30%.
- Issued capital increased to \$5.36 million and net tangible asset backing per share is \$5.05 in 2007 compared with \$4.39 at June 2006



consolidated statement of changes in equity

for the year ended 30 June 2007

Consolidated	Share Capital		Reserves		Retained Earnings	Total
	Ordinary	Foundation	Asset Revaluation	Foreign Currency		
	\$	\$	\$	\$	\$	\$
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
Shares issued during the period	60,267	-	-	-	-	60,267
Net profit attributable to members of CHL	-	-	-	-	1,874,862	1,874,862
Under provision of prior year dividend	-	-	-	-	(782)	(782)
Adjustments from the translation of foreign controlled entities	-	-	-	55,075	(55,075)	-
Balance at 30 June 2007	5,366,343	1	2,773,478	(23,483)	19,982,265	28,098,604

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



consolidated cash flow statement

for the year ended 30 June 2007

07

	Inflows (Outflows)	
	Consolidated	
	2007 \$	2006 \$
Cash flows from operating activities		
Receipts from customers	70,478,129	73,215,818
Payments to suppliers and employees	(70,421,748)	(69,147,742)
Interest received	270,704	211,681
Goods and Services tax received	1,458,222	1,675,100
Interest paid	(1,636,442)	(1,622,508)
Net cash generated from operating activities	148,865	4,332,349
Cash flows from investing activities		
Payment for property, plant and equipment	(1,457,678)	(1,435,742)
Payment for intangible assets	(27,494)	(13,157)
Proceeds from sale of property, plant and equipment	2,390	18,875
Repayment of other loan	166,071	157,990
Loans to associated entity	901,912	(2,278,704)
Loans to controlled entities	-	-
Net cash used in investing activities	(414,799)	(3,550,738)
Cash flows from financing activities		
Proceeds from share allotments	60,267	22,472
Proceeds from borrowings	576,583	-
Repayment of borrowings	-	(1,658,418)
Dividend paid	(257,552)	-
Net cash used in financing activities	379,298	(1,635,946)
Net increase (decrease) in cash held	113,364	(854,335)
Cash at the beginning of the financial year	182,672	1,037,007
Cash at the end of the financial year	296,036	182,672

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

Discussion and Analysis

- The consolidated entity generated cash from operating activities of \$148,865. An increased investment in inventory in preparation for the year ahead was responsible for the decrease in cash generated over the previous year.
- The cash generated from operating activities includes a net GST refund of \$1.5 million in respect of amounts paid to suppliers during the year.
- Cash generated from operating activities, a reduction in the loan to the associated entity and an increase in borrowings were used to fund the investment of \$1.5 million in plant and equipment.
- Cash held at 30 June 2007 was \$0.3 million.





notes to the consolidated financial statements

1. Basis of Preparation of the Concise Financial Report

The concise financial report is an extract from the full financial report for the year ended 30 June 2007. The concise financial report has been prepared in accordance with Accounting Standard AASB 1039: Concise Financial Reports, and the Corporations Act 2001.

The financial statements, specific disclosures and other information included in the concise financial report are derived from and are consistent with the full financial report of CHL. The concise financial report cannot be expected to provide as detailed an understanding of the financial performance, financial position and financing and investing activities of CHL as the full financial report.

The financial report of CHL complies with all International Financial Reporting Standards (IFRS) in their entirety. The presentation currency used in this concise financial report is Australian dollars.

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

	Consolidated	
	2007 \$	2006 \$
2. Revenue		
Sales revenue	68,989,637	75,853,689
Interest received	270,704	211,681
Sundry	8,278	108,869
	69,268,619	76,174,239
3. Other Income		
Gain on disposal of controlled entity (Note 6)	3,815,507	-
Net foreign exchange gains	-	575,987
Profit on disposal of property, plant and equipment	2,390	15,716
	3,817,897	591,703
4. Dividends		
Ordinary shares		
No dividend has been provided for or declared for the year ended 30 June 2007 (2006 – 5 cents)	-	256,770
Franked dividends		
Franking credits available for subsequent financial years	2,385,409	2,385,409

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.



notes to the consolidated financial statements

07

5. Segment Reporting	30 June 2007			
	Primary reporting – geographical segments	Australia \$	Europe \$	Intersegment \$
Sales revenue	68,249,197	1,019,066	(278,526)	68,989,737
Other revenue	278,671	211	-	278,882
Total segment revenue	68,527,868	1,019,277	(278,526)	69,268,619
Segment result	3,164,478	(1,236,467)	(1,707)	1,926,304
Unallocated revenue less unallocated expenses	-	-	-	-
Profit before income tax				1,926,304
Income tax expense				(51,442)
Profit after income tax				1,874,862
Segment assets	67,398,741	-	-	67,398,741
Segment liabilities	39,300,137	-	-	39,300,137
Acquisitions of non current segment assets	1,468,396	-	-	1,468,396
Depreciation and amortisation expense	2,294,678	7,746	-	2,302,424
Other non cash income	3,726,837	-	-	3,726,837
Other non cash expenses	455,154	13,854	380	469,388
	30 June 2006			
Primary reporting – geographical segments	Australia \$	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	-	-	-	-
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
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	-	-	-	-

Secondary reporting – business segments

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



notes to the consolidated financial statements

	Consolidated	
	2007 \$	2006 \$
6. Disposal of Entities		
On 30 June 2007 the controlled entity Medihoney Pty Ltd was sold to Comvita Limited. Aggregate details of this transaction are:		
Disposal price (settled 3 July 2007)	6,000,000	-
Shares in Comvita Limited (*)	5,500,000	-
Cash consideration	500,000	-
	6,000,000	-
<i>(*) 1,560,765 ordinary shares issued at A\$3.52 (rounded) per share</i>		
Assets and liabilities held at disposal date		
Investment in controlled entity	-	-
Receivables	590,302	-
Inventories	432,955	-
Property, Plant & equipment	82,358	-
Intangibles	48,508	-
FITB	1,335,427	-
Prepayments	20,981	-
Payables	(326,038)	-
	2,184,493	-
Net gain on disposal	3,815,507	-
	6,000,000	-

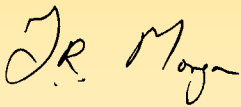


directors' declaration

The directors of the company declare that the concise financial report of Capilano Honey Limited and Controlled Entities for the financial year ended 30 June 2007, as set out on pages 26 to 32.

- a. complies with Accounting Standard AASB 1039: Concise Financial Reports; and
- b. is an extract from the full financial report for the year ended 30 June 2007 and has been derived from and is consistent with the full financial report of Capilano Honey Limited and Controlled Entities.

Signed at Brisbane this SEVENTEENTH day of AUGUST 2007 in accordance with a resolution of the Board of Directors.



T R Morgan, Director



R D Masters, Director





independent audit report to the members

Report on the concise financial report

The accompanying concise financial report of Capilano Honey Limited and Controlled Entities (the consolidated entity) comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended and related notes, derived from the audited financial report of Capilano Honey Limited and Controlled Entities for the year ended 30 June 2007, and the discussion and analysis. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' responsibility for the concise financial report

The directors are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039: Concise Financial Reports and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation of the concise financial report; selecting and applying the appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Capilano Honey Limited and Controlled Entities for the year ended 30 June 2007. Our audit report on the financial report for the year was signed on 17 August 2007 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039: Concise Financial Reports and whether the discussion and analysis complies with the requirements laid down in AASB 1039: Concise Financial Reports.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion, the concise financial report including the discussion and analysis of Capilano Honey Limited and Controlled Entities for the year ended 30 June 2007 complies with Accounting Standard AASB 1039: Concise Financial Reports.

Cranstoun + Hussein
CRANSTOUN & HUSSEIN
Chartered Accountants

J A Latif

A Member of the Firm
Brisbane, 17 August 2007



shareholders' information

07

as at 31 July 2007

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	123	51,407
1,001 – 5,000			274	798,690
5,001 – 10,000			161	1,179,105
10,001 – 100,000			142	2,545,977
100,001 and over			2	575,882
			702	5,151,061

d) Shareholders holding less than a marketable parcel

There are 36 shareholders holding 531 shares which the company considers to be less than a marketable parcel of shares (value \$500), when using a value of \$3.80 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. Berne No 132 Nominees Pty Ltd	444,254	8.62
2. Benalto Holdings Pty Ltd	131,628	2.56
3. Baker Beekeeping Pty Ltd	58,343	1.13
4. DG, LR, JM, HM, KH Keith & MM McCrystal	57,920	1.12
5. Hughston & Sons Pty Ltd	55,024	1.07
6. Gundagai Bee Farms Pty Ltd	51,629	1.00
7. W & J Millington	51,600	1.00
8. Brazil Enterprises	41,449	0.80
9. M & MR Nelson	40,000	0.78
10. J & N Sloss	38,260	0.74
	970,107	18.83

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.





notes



attendance form

07

Office Use Only: Slip no No. of shares

Slip no No. of shares

Shareholder No:

Name

Address

I/we propose to attend the following functions:

Insert number attending
and list names below

Thursday, 4 October 2007

7.00pm Annual Capilano Group Dinner

Special Dietary Requirements: _____

Friday, 5 October 2007

9.00am Management Presentation

To update shareholders on Capilano Group activities including local and export sales, marketing, finance and manufacturing, followed by informal discussions.

**11.30am Annual General Meeting
CAPILANO BEEKEEPERS LTD**

Registration from 8.30am

CBL Shareholders only

12.30pm Light Lunch

**1.30pm Annual General Meeting
CAPILANO HONEY LIMITED**

Registration from 1.00pm

Please list names of those attending:

.....

.....

.....

.....

Complete and return this form by fax on (07) 3712 8287 or to PO Box 66, Richlands QLD 4077 by 26 September 2007





proxy form

CAPILANO HONEY LIMITED

ACN 009 686 435

Office Use Only: Slip no No. of shares

Slip no No. of shares

Shareholder Number: _____

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

of _____
(please print full address)

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

of _____
(please print full address)

or failing him/her, the Chairman of the Meeting, as my proxy to attend and exercise _____ of my votes *(refer note 1)* on my behalf at the Annual General Meeting of the Company to be held on 5 October 2007 at 1.30pm and at any adjournment thereof.

Instructions for voting on Resolution:

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



SPECIAL BUSINESS	FOR	AGAINST	AT DISCRETION	ABSTAIN
To adopt the Remuneration Report included in the Report of the Directors (Refer Note 2)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature of shareholder/s _____ Date: _____

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

Note 2: If you appoint a director or leave the proxy open (thereby appointing the Chairman) and mark 'at discretion', you acknowledge that the Chairman / Director may exercise your proxy even if he has an interest in the outcome of the resolution. Votes cast by him other than as proxy holder will be disregarded because of that interest.

Note 3: For this proxy form to be valid, it must be received at the Registered Office of the company not less than forty-eight (48) hours before the start of the Annual General Meeting (see Rule 98). Accordingly, all proxy forms must be received at 399 Archerfield Road (PO Box 66), Richlands Q 4077 or by facsimile (07) 3712 8287 no later than 1.30pm on Wednesday, 3 October 2007.

Please find on reverse of this page Instructions for Appointment of Proxy and Explanatory Notes – Proxy Forms.



appointment of proxy & explanation notes

INSTRUCTIONS FOR APPOINTMENT OF PROXY

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

1. A shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote for them. A proxy need not be a shareholder of the company.
2. Proxies can be directed on how to vote by inserting an "X" in the appropriate box against each resolution, otherwise the proxies will vote as they see fit, or abstain from voting.
3. The proxy form must be signed personally by the shareholder or their attorney. If a proxy is given by a corporation it must be executed in accordance with the corporation's constitution.
4. In the case of a partnership, all partners must sign the proxy form unless the company has written advice to the contrary.
5. If the proxy is signed under power of attorney then the signatory declares that they have no notice of revocation of the power of attorney. A certified copy of the relevant power of attorney authorising that person to sign must be enclosed with this proxy form.
6. Shareholder/s' signatures do not require witnessing.

EXPLANATORY NOTES - PROXY FORMS

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

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

Rule 87

"A poll may be demanded by:

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

Rule 91

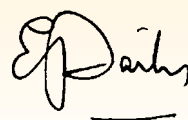
"Subject to these rules and in particular rules 25, 26 and 72 and subject to any rights or restrictions for the time being attached to any class or classes of shares, at meetings of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney or a representative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

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

However, as has customarily been the case at previous General Meetings and to afford all shareholders the opportunity to have their vote recorded, the Chairman will, in accordance with Rule 87(a) above, declare at the commencement of the Annual General Meeting, that all resolutions shall be the subject of a poll.

If you are unable to attend the Annual General Meeting, but wish to exercise your right to vote, please complete and return the Proxy Form to reach us by 1.30pm on 3 October 2007. If you wish to do so, please assist the person you nominate as your proxy by directing them to vote in the manner in which you require. You can do this by placing an "X" in the appropriate FOR, AGAINST, AT DISCRETION or ABSTAIN space on the Proxy Form.

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



E.J. Bailey
Company Secretary.



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



contact details

07

Registered Office	399 Archerfield Road
Head Office	Richlands Qld 4077
Queensland Branch	Telephone: (07) 3712 8282 Fax: (07) 3712 8286
Victoria	Capilano Drive PO Box 49 Maryborough VIC 3465 Telephone: (03) 5461 0700 Fax: (03) 5461 0777
Email	honey@capilano.com.au
Websites	www.capilano.com.au
Capilano Group of Companies	Capilano Beekeepers Ltd Capilano Honey Limited Honey Corporation of Australia Pty Ltd Capilano Labonté Inc. 399 Archerfield Road PO Box 66 Richlands Qld 4077 Telephone: (07) 3712 8282 Fax: (07) 3712 8286
Bankers	National Australia Bank Limited
Auditors	Cranstoun & Hussein Chartered Accountants





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