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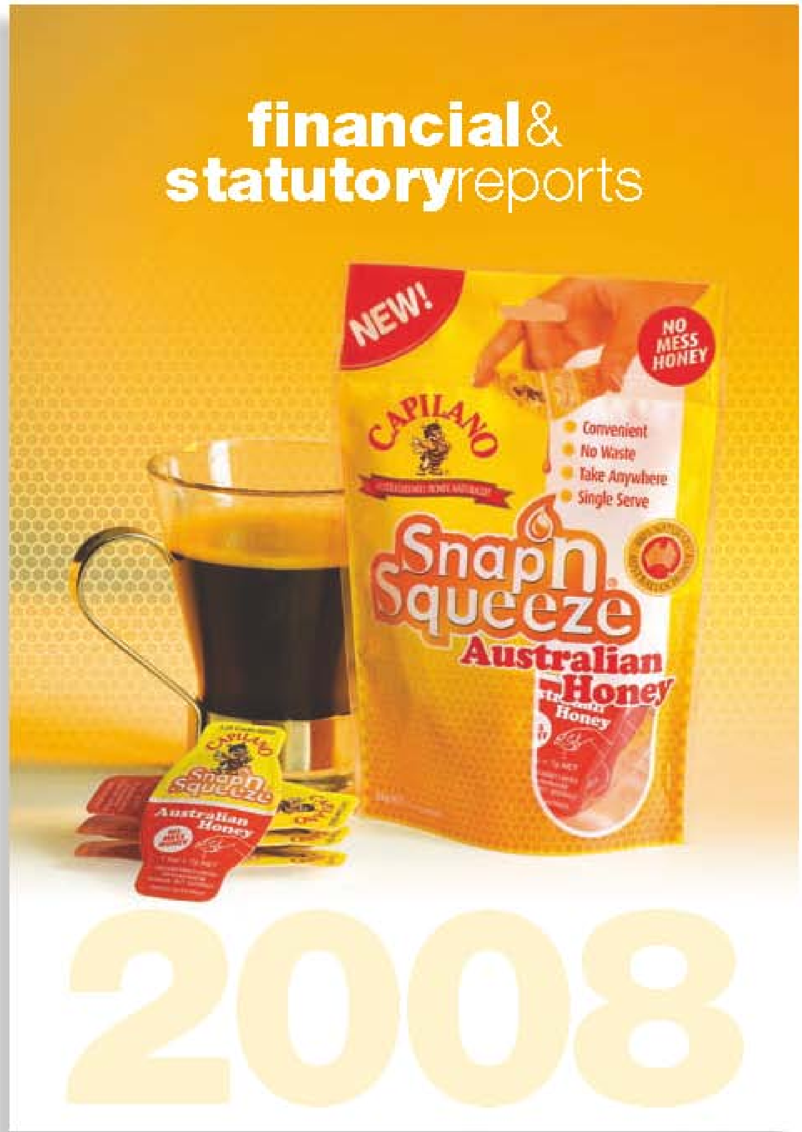

FINANCIAL & STATUTORY REPORTS FOR
CAPILANO HONEY LIMITED AND ITS CONTROLLED ENTITIES
FOR THE YEAR ENDING **30 JUNE 2008**

Table of Contents

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 2008.

→ DIRECTORS

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

- Bernard J Ballantyne (Retired from the Board on 30 June 2008)
- Peter Barnes (Elected to the Board on 5 October 2007)
- Ian A Cane (Deputy Chairman until his resignation from the Board on 3 November 2007)
- Rosemary Doherty
- James (Brett) Lochran Heading (Appointed to the Board on 1 July 2008)
- Roger D Masters, *Managing Director*
- Phillip F McHugh, *Deputy Chairman* (appointed Deputy Chairman on 6 November 2007)
- Trevor R Morgan, *Chairman*
- Gregory P Roberts (Retired from the Board on 5 October 2007)
- Simon L Tregoning

→ ACTIVITIES

The principal activity of the consolidated entity during the year continued to be packing of honey for domestic and export sales.

→ CONSOLIDATED RESULTS

The operating loss of the consolidated entity for the year after income tax was $7,448,414.

→ DISTRIBUTIONS

No dividend was paid during the year.

No dividend has been provided for or declared for the year ending 30 June 2008.

→ REVIEW OF OPERATIONS

Sales revenue of $63,805,608 for the consolidated entity was $5,184,209 below the previous year's result. An analysis of this sales decrease is as follows:-

	% increase / (decrease) of 2008 over 2007	*2008 $*	*2007 $*
Capilano Honey Limited	(5.1%)	61,762,524	65,067,580
Intercompany sales	-	(2,964,305)	-
Capilano Canada Inc.	-	5,007,389	-
Medihoney Pty Ltd	(100%)	-	3,922,157
Consolidated entity	**(7.5%)**	**63,805,608**	**68,989,637**

The decrease in revenue for the parent entity was mainly a result of the lower export commodity bulk sales following record low domestic crops.

Capilano Canada Inc. became a wholly owned subsidiary on 29 February 2008.

Medihoney Pty Ltd was sold to Comvita Ltd on 30 June 2007.

→ 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 2008 that has significantly affected or may significantly affect:-

i) the operations of the consolidated entity;

ii) the results of those operations; or

iii) the state of affairs of the consolidated entity in financial years subsequent to 30 June 2008.

→ SIGNIFICANT CHANGES

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.

Report of the Directors

→ INFORMATION ON DIRECTORS

Director	*Qualifications/ Experience*	*Special Responsibilities*	*Shares held in Parent entity*
Bernard James **BALLANTYNE**	Independent Director from 1991 - 2008.	Independent Non-Executive Director of Capilano Honey Limited. Member of the HR and Audit & Compliance Committees. Independent Non-Executive Director of Capilano Beekeepers Ltd. Mr Ballantyne retired from the Board on 30 June 2008.	B J Ballantyne holds 1 share.
Peter **BARNES**	FAICD Commercial apiarist. Elected Director on 5 October 2007.	**Period: from 5 October 2007** Non-Executive Beekeeper Director of Capilano Honey Limited. Member of the Nomination and Honey Supply & Industry Committees. Non-Executive Beekeeper Director of Capilano Beekeepers Ltd.	P Barnes is a partner in a partnership which holds 25,000 shares. He also individually holds 2,000 shares, with a further 2,000 shares held in trust for his children (1,000 shares purchased in current financial year).
Ian Alfred **CANE**	Commercial apiarist. Director from 1990 - 2007	**Period: 1 July – 3 November 2007** Deputy Chairman of Capilano Honey Limited. Chairman of the HR Committee and a Member of the Honey Supply & Industry and Nomination Committees. Deputy Chairman of Capilano Beekeepers Ltd. Mr Cane resigned from the Board on 3 November 2007.	I A Cane is a partner in a partnership which holds 15,585 shares.
Rosemary **DOHERTY**	FAICD Commercial apiarist. Director since 2000.	Non-Executive Beekeeper Director of Capilano Honey Limited. Chairman of the Audit & Compliance and a Member of the Nomination, HR and Honey Supply & Industry Committees. Non-Executive Beekeeper Director of Capilano Beekeepers Ltd.	R Doherty is a partner in a partnership which holds 13,800 shares.
James (Brett) Lochran **HEADING**	B.Com, LLB (Hons) Appointed Independent Director on 1 July 2008.	**Period: from 1 July 2008** Independent Non-Executive Director of Capilano Honey Limited. Independent Non-Executive Director of Capilano Beekeepers Ltd.	J B L Heading holds 5,000 shares
Roger David **MASTERS**	B.Com, MBA, CA Managing Director since July 1996	Managing Director of Capilano Honey Limited. Member of the Audit & Compliance and Honey Supply & Industry Committees. Managing Director of Capilano Beekeepers Ltd. Director and President of Capilano Canada Inc.	R D Masters holds 1 share. He is also the beneficiary of an entity holding 11,000 shares.
Phillip Francis **McHUGH**	Commercial apiarist. Director since 1993 Appointed <u>Deputy Chairman</u> on 6 November 2007	**Period: 1 July – 5 November 2007** Non-Executive Beekeeper Director of Capilano Honey Limited. Chairman of the Honey Supply & Industry Committee and Member of the Nomination Committee. Non-Executive Beekeeper Director of Capilano Beekeepers Ltd. **Period: from 6 November 2007** Non-Executive <u>Deputy Chairman</u> of Capilano Honey Limited, Chairman of the Honey Supply & Industry Committee and Member of the Nomination Committee. Non-Executive Deputy Chairman of Capilano Beekeepers Ltd.	P F McHugh holds 12,763 shares. He is also the beneficiary of an entity holding 21,913 shares.
Trevor Richard **MORGAN**	FAICD Commercial apiarist Director since 1998 <u>Chairman</u> since 2006	Non-Executive <u>Chairman</u> of Capilano Honey Limited, Chairman of Nomination Committee and a member of the Honey Supply & Industry Committee. Non-Executive Chairman of Capilano Beekeepers Ltd.	T R Morgan is a partner in a partnership which holds 13,260 shares.

Report of the Directors

→ INFORMATION ON DIRECTORS

Director	Qualifications/ Experience	Special Responsibilities	Shares held in Parent entity
Gregory Paul **ROBERTS**	Commercial apiarist. Director from 2005 – 2007	**Period: 1 July – 5 October 2007** Non-Executive Beekeeper Director of Capilano Honey Limited. Member of the Honey Supply & Industry and Nomination Committees. Non-Executive Beekeeper Director of Capilano Beekeepers Ltd. Mr Roberts retired from the Board on 5 October 2007.	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 – 29 November 2007** Independent Non-Executive Director of Capilano Honey Limited. Member of the Audit & Compliance and HR Committees. Independent Non-Executive Director of Capilano Beekeepers Ltd. **Period: from 30 November 2007** Independent Non-Executive Director of Capilano Honey Limited. Chairman of the HR Committee and a Member of the Audit & Compliance Committee. Independent Non-Executive Director of Capilano Beekeepers Ltd.	Nil
Company Secretary			
Richard **RIVALLAND**	B.Com, CPA Appointed Company Secretary on 1 March 2008.	**Period: from 1 March 2008** Mr Rivalland has a Bachelor of Commerce Degree majoring in Accounting and Management Accounting and is a Certified Practising Accountant. Mr Rivalland joined the Company in March 2003 as Management Accountant and was appointed Financial Controller in November 2004. Mr Rivalland was appointed Company Secretary on 1 March 2008 in addition to his role as Financial Controller.	
Errol John **BAILEY**	CPA, FCIS, JP(C.Dec) Company Secretary from 1985 to 29 February 2008	**Period: 1 July 2007 – 29 February 2008** 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 25 years in management positions. Mr Bailey retired on 29 February 2008.	

→ 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		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 (*)
B Ballantyne	11	11	16	16	1	1
P Barnes	8	8	4	4	1	1
I Cane	5	5	5	5	1	1
R Doherty	11	11	16	16	1	1
R Masters	11	11	13	15	1	1
P McHugh	11	11	7	7	1	1
T Morgan	11	11	16	16	1	1
G Roberts	3	3	3	3	-	-
S Tregoning	10	11	9	12	1	1

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

→ ENVIRONMENTAL REGULATIONS

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

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

Based upon the results of enquiries 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 HR COMMITTEE *(previously known as Remuneration Committee)*

- **Role**

  The Remuneration Committee was re-named the HR Committee to properly reflect the scope of its charter. The Committee is responsible for reviewing the remuneration of executive management and the Board, executive incentive plans and reporting to the Board on these matters.

  The responsibilities of the Committee include:

  (i) Formulation of remuneration policy. This involves ensuring that the policy:
  - attracts, retains, develops and motivates executives of the calibre appropriate to deliver Capilano's strategic goals and objectives;
  - reflects a clear relationship between remuneration and individual and Capilano performance;
  - is internally consistent; and
  - contributes to the overall integrity of the Capilano remuneration system.

  (ii) Recommending remuneration for directors and executives, including fixed remuneration, short and long term incentives and terms of service.

- **Memberships and Meetings**

	No. of Meetings Attended	No. of Meetings Held
Members of HR Committee		
I Cane (Chairman - until 3 November 2007)	2	2
S Tregoning (Chairman - from 30 November 2007)	4	5
R Doherty	5	5
B Ballantyne	5	5
By invitation:		
R Masters	4	4
T Morgan	5	5

- **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 (AUDITED)

- **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.

  1. External Parity

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

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

2. Internal Parity

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

3. Reward for Achievement

Management and supervisory personnel should have the opportunity to earn incentive payments geared to achievement of annual results exceeding targets and improvements in long term shareholder prosperity. These principles are applied in the form of the Annual Incentive Plan 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 HR Committee;

b) Senior Executives report to the Managing Director – reviewed by the Managing Director and subject to endorsement by the Board HR 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 HR Committee and external remuneration consultants and recommended by the Board to shareholders in general meeting.

3. CAPILANO TOTAL REWARD STRUCTURE (AUDITED)

The HR Committee is responsible for reviewing and recommending remuneration arrangements for the directors, the Managing Director and the executive team. The HR 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 HR 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 (AUDITED)

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 (AUDITED)

- **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 2007, a fixed salary as a full-time employee, or normal payments for the supply of honey by directors who are also beekeepers) by reason of a contract made by the company, an entity which the company controlled, or a body corporate that is related to the company with the director or with a firm of which he is a member, or with an entity in which he has a substantial financial interest, except as stated below.

Report of the Directors

- **Details of Directors**

B Ballantyne	Director (Independent Non Executive)	Until 30 June 2008
P Barnes	Director (Non Executive)	From 5 October 2007
I Cane	Deputy Chairman (Non Executive)	Until 3 November 2007
R Doherty	Director (Non Executive)	
J B L Heading	Director (Independent Non Executive)	Appointed from 1 July 2008
R Masters	Managing Director	
P McHugh	Director (Non Executive)	
	Deputy Chairman	From 6 November 2007
T Morgan	Chairman (Non Executive)	
G Roberts	Director (Non Executive)	Until 5 October 2007
S Tregoning	Director (Independent Non Executive)	

- **Details of Most Highly Remunerated Executives and Key Management Personnel**

R Eustace	Business Development Manager
P McDonald	General Manager - International Business
B McKee	Group Operations Manager
M Redshaw	Human Resources Manager
R Rivalland	Financial Controller

- **Gross Remuneration of Directors**

	Short Term Benefits			*Post Employment Benefits*	
	Cash salary and fees $	*Incentive Plan $*	*Non monetary benefits $*	*Super-annuation $*	*Total $*
B Ballantyne	66,875	-	-	4,884	71,759
P Barnes	25,814	-	-	2,323	28,137
I Cane	-	-	-	16,368	16,368
R Doherty	35,572	-	-	3,201	38,773
J B L Heading	-	-	-	-	-
R Masters	92,101	-	171,983	121,791	385,875
P McHugh	-	-	-	40,448	40,448
T Morgan	-	-	-	73,939	73,939
G Roberts	9,758	-	-	878	10,636
S Tregoning	54,264	-	-	4,884	59,148
TOTALS 2008	**284,384**	**-**	**171,983**	**268,716**	**725,083**

The remuneration amounts listed above are gross earnings before tax.
Mr Heading was appointed from 1 July 2008.
B Ballantyne had consulting arrangements for the provision of business services to companies within the group.

- **Details of Most Highly Remunerated Executives and Key Management Personnel**

	Short Term Benefits			*Post Employment Benefits*	
	Cash salary and fees $	*Incentive Plan $*	*Non monetary benefits $*	*Super-annuation $*	*Total $*
R Eustace	120,184	-	-	10,816	131,000
P McDonald	128,165	-	9,800	11,535	149,500
B McKee	119,266	-	-	10,734	130,000
M Redshaw	92,294	-	24,400	8,306	125,000
R Rivalland	137,156	-	-	12,344	149,500
TOTALS 2008	**597,065**	**-**	**34,200**	**53,735**	**685,000**

The remuneration amounts listed above are gross earnings before tax.
A pool provision of $275,965 for incentive payments to Key Management Personnel in accordance with the Remuneration Policy was made in the year ended 30 June 2007. Subsequently the board resolved to award $193,163 from this pool to Management and to reverse the remaining balance of the provision.

	2007 Incentive Plan $
R Eustace	31,500
P McDonald	32,500
R Masters	55,125
B McKee	27,500
M Redshaw	16,538
R Rivalland	30,000
TOTALS 2008	**193,163**

6. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION (AUDITED)

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

- **Policy**

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

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

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

- **Directors' Fees**

No increase is being sought for director's fees. Fees by position, as approved by Shareholders at the 2004 AGM, are as follows:

Organisation	Position	Directors' Fees $
Capilano Honey Limited	Chairman	71,330
	Deputy Chairman	6,815 *
	Independent NEDs	57,060ea
	Beekeeper NEDs	37,405ea

* In addition to the amount payable as a NED.

Superannuation Guarantee contribution – the reduction in non-executive directors from 7 to 6 will reduce the approved amount from $30,770 to $27,403.

Directors and Officers Liability Insurance - 2008: $29,220; 2009: $28,000.

Whilst the previously approved directors fees remain in place, consistent with the objective of reducing expenses the Directors have temporarily reduced their fees.

7. LINKING TOTAL REWARD TO PERFORMANCE (AUDITED)

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.

8. EMPLOYMENT CONTRACTS (AUDITED)

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 2008:

	$
Taxation Services	6,615
Review of Prospectus	2,900
	9,515

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 2008 has been received and can be found on page 8 of the annual report.

Signed at Brisbane this TWENTIETH day of AUGUST 2008, in accordance with a resolution of the directors.

T R Morgan, Director R D Masters, Director

Auditors' Independence Declaration

C&H

Principals
Andrew J Cranstoun
John Feddema
Masood Ayoob
Junaide A Latif
Paul A Copeland
Julie D Smith

Consultants
David J Cranstoun
Yusuf Hussein

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Cranstoun & Hussein
Chartered Accountants & Business Advisers

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

Our Ref

Your Ref

Date

The Directors
Capilano Honey Limited
399 Archerfield Road
RICHLANDS QLD 4077

Auditors' Independence Declaration

As lead auditor for the audit of Capilano Honey Limited for the year ended 30 June 2008, 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

Ayoob

M Ayoob
A Member of the Firm

Brisbane, 20 August 2008

Liability limited by a scheme approved under Professional Standards Legislation

Corporate Governance

→ THE BOARD OF DIRECTORS

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

Board Composition

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

Number and appointment of Directors

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

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

On 4 April 2008, the Board resolved not to replace the vacated Non-Executive Beekeeper Director position. Both the CBL & CHL Board of Directors shall now comprise four Beekeeper Directors, two Independent Directors and the Managing Director.

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.

→ 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.

Corporate Governance

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 & Audits

- 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:

- **HR** - The Remuneration Committee was re-named the HR Committee to properly reflect the scope of its charter. This Committee is responsible for reviewing and recommending executive management remuneration and incentive plans, human resource and occupational health & safety issues 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 Charter** –

  Committee Membership

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

  Meetings

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

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 review and ensure compliance with BSX requirements for all lodgements.

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 (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.

Independent Audit Report to the Members

Principals
Andrew J Cranstoun
John Feddema
Masood Ayoob
Junaide A Latif
Paul A Copeland
Julie D Smith

Consultants
David J Cranstoun
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Our Ref

Your Ref

Cranstoun & Hussein
Chartered Accountants & Business Advisers

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

Date

To the members of Capilano Honey Limited

Report on the Financial Report

We have audited the accompanying financial report of Capilano Honey Limited (the company) and Capilano Honey Limited and Controlled Entities (the consolidated entity), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1 the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These 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 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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 followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit Opinion

In our opinion, the financial report of Capilano Honey Limited and Capilano Honey Limited and Controlled Entities is in accordance with:

a) the *Corporations Act 2001*, including:
   i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
   ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Capilano Honey Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Cranstoun & Hussein

CRANSTOUN & HUSSEIN
Chartered Accountants

Ayoob

M Ayoob
A Member of the Firm

Brisbane, 20 August 2008

Liability limited by a scheme approved under Professional Standards Legislation

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 14 to 42, are in accordance with the *Corporations Act 2001* and:

    a. comply with Accounting Standards and the Corporations Regulations 2001; and
    b. give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and consolidated entity;

2. the Group Financial Controller has declared that:

    a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
    b. the financial statements and notes for the financial year comply with the Accounting Standards; and
    c. the financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed at Brisbane this TWENTIETH day of AUGUST 2008 in accordance with a resolution of the directors.

T R Morgan, Director

R D Masters, Director

Income Statements

For the year ended 30 June 2008

	Notes	Consolidated 2008 $	Consolidated 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Revenue	2	64,175,077	69,268,619	62,120,951	65,345,479
Other income	3	1,742	3,817,897	1,742	841,682
Finance costs	4(b)	(2,440,408)	(1,971,519)	(2,435,142)	(1,971,519)
Other expenses	4(a)	(70,831,570)	(69,188,693)	(68,653,318)	(63,439,000)
(Loss) profit before income tax		(9,095,159)	1,926,304	(8,965,767)	776,642
Income tax benefit (expense)	5	1,646,745	(51,442)	1,595,884	(209,865)
(Loss) profit attributable to members of CHL		**(7,448,414)**	**1,874,862**	**(7,369,883)**	**566,777**
Earnings per share (cents)	32	(144.6)	36.4		
Diluted earnings per share (cents)	32	(144.6)	36.4		

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

Balance Sheets
As at 30 June 2008

	Notes	Consolidated 2008 $	Consolidated 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT ASSETS					
Cash and cash equivalents		1,312,700	296,036	518,917	296,036
Trade and other receivables	7	11,458,695	16,952,791	13,573,167	16,952,791
Inventories	8	17,421,285	23,375,640	14,629,221	23,375,640
Other current assets	9	342,844	956,513	318,855	956,513
TOTAL CURRENT ASSETS		**30,535,524**	**41,580,980**	**29,040,160**	**41,580,980**
NON-CURRENT ASSETS					
Trade and other receivables	10	-	3,194,803	6,527,542	3,194,803
Other financial assets	12	1,858,351	-	2,338,754	480,403
Property, plant and equipment	13	19,591,561	20,543,391	19,591,561	20,543,391
Intangible assets	14	5,480,247	497,097	1,639,119	1,908,320
Deferred tax assets	15	3,758,213	1,582,470	2,634,337	1,582,470
TOTAL NON-CURRENT ASSETS		**30,688,372**	**25,817,761**	**32,731,313**	**27,709,387**
TOTAL ASSETS		**61,223,896**	**67,398,741**	**61,771,473**	**69,290,367**
CURRENT LIABILITIES					
Trade and other payables	16	7,581,995	9,209,349	6,840,359	9,209,349
Short term borrowings	17	2,128,837	2,394,798	2,013,084	2,394,798
TOTAL CURRENT LIABILITIES		**9,710,832**	**11,604,147**	**8,853,443**	**11,604,147**
NON-CURRENT LIABILITIES					
Long term borrowings	18	28,928,670	27,091,026	28,619,996	27,091,026
Long term provisions	19	408,299	604,964	408,299	604,964
TOTAL NON-CURRENT LIABILITIES		**29,336,969**	**27,695,990**	**29,028,295**	**27,695,990**
TOTAL LIABILITIES		**39,047,801**	**39,300,137**	**37,881,738**	**39,300,137**
NET ASSETS		**22,176,095**	**28,098,604**	**23,889,735**	**29,990,230**
EQUITY					
Issued capital	20	5,366,359	5,366,344	5,366,359	5,366,344
Reserves	21	4,275,885	2,749,995	4,042,851	2,773,478
Retained earnings		12,533,851	19,982,265	14,480,525	21,850,408
TOTAL EQUITY		**22,176,095**	**28,098,604**	**23,889,735**	**29,990,230**

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

Statements of Changes in Equity
For the year ended 30 June 2008

Consolidated	Share Capital		Reserves		Retained Earnings	Total
	Ordinary	Foundation	Asset Revaluation	Foreign Currency Translation		
	$	$	$	$	$	$
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
Shares issued during the period	15	-	-	-	-	15
Net loss attributable to members of CHL	-	-	-	-	(7,448,414)	(7,448,414)
Revaluation increment	-	-	1,269,373	-	-	1,269,373
Adjustments from the translation of foreign controlled entities	-	-	-	256,517	-	256,517
Balance at 30 June 2008	5,366,358	1	4,042,851	233,034	12,533,851	22,176,095

Parent Entity	Share Capital		Reserves	Retained Earnings	Total
	Ordinary	Foundation	Asset Revaluation		
	$	$	$	$	$
Balance at 30 June 2006	5,306,076	1	2,773,478	21,284,413	29,363,968
Shares issued during the period	60,267	-	-	-	60,267
Net profit attributable to members of CHL	-	-	-	566,777	566,777
Under provision of prior year dividend	-	-	-	(782)	(782)
Balance at 30 June 2007	5,366,343	1	2,773,478	21,850,408	29,990,230
Shares issued during the period	15	-	-	-	15
Net loss attributable to members of CHL	-	-	-	(7,369,883)	(7,369,883)
Revaluation increment	-	-	1,269,373	-	1,269,373
Balance at 30 June 2008	5,366,358	1	4,042,851	14,480,525	23,889,735

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

Cash Flow Statements
For the year ended 30 June 2008

	Inflows (Outflows) Consolidated		*Inflows (Outflows)* Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Cash flows from operating activities				
Receipts from customers	64,714,123	70,478,129	58,269,829	66,644,716
Payments to suppliers and employees	(62,698,074)	(70,421,748)	(55,087,294)	(64,503,994)
Interest received	300,357	270,704	300,287	269,621
Goods and Services tax received	1,447,462	1,458,222	1,449,153	1,505,859
Interest paid	(2,103,892)	(1,636,442)	(2,098,626)	(1,636,411)
Net cash generated from operating activities (Note 30)	**1,659,976**	**148,865**	**2,833,349**	**2,279,791**
Cash flows from investing activities				
Payment for property, plant and equipment	(970,720)	(1,457,678)	(970,720)	(1,435,312)
Proceeds from sale of controlled entity	6,000,000	-	6,000,000	-
Investment in listed entities	(5,500,000)	-	(5,500,000)	-
Payment for intangible assets	(133,393)	(27,494)	(133,393)	(1,440,000)
Proceeds from sale of property, plant and equipment	4,545	2,390	4,545	2,390
Repayment of other loan	264,984	166,071	264,984	166,071
Loans to associated entity	(2,019,466)	901,912	(2,019,466)	901,912
Loans to controlled entities	-	-	(1,403,688)	(645,022)
Net cash used in investing activities	**(2,354,050)**	**(414,799)**	**(3,757,738)**	**(2,449,961)**
Cash flows from financing activities				
Proceeds from share allotments	15	60,267	15	60,267
Proceeds from borrowings	1,084,248	576,583	1,147,255	576,583
Dividend paid	-	(257,552)	-	(257,552)
Net cash raised from financing activities	**1,084,263**	**379,298**	**1,147,270**	**379,298**
Net increase in cash held	390,189	113,364	222,881	209,128
Cash acquired on purchase of controlled entity	626,475	-	-	-
Cash at the beginning of the financial year	296,036	182,672	296,036	86,908
Cash at the end of the financial year (Note 29)	**1,312,700**	**296,036**	**518,917**	**296,036**

Non cash financing and investing activities

The remaining 50% of Capilano Labonte Inc. was purchased on 29 February 2008 for $nil. The entity's name was subsequently changed to Capilano Canada Inc. (Note 35).

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

Notes to and Forming Part of the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Reporting Basis and Conventions

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

Accounting Policies

(a) **Principles of consolidation**

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Capilano Honey Limited ("parent entity") as at 30 June 2008 and the results of all controlled entities for the year then ended. Capilano Honey Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

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

(b) **Goods and services tax**

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

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

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

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

(c) **Revenue recognition**

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

Sale of Goods

Control of the goods has passed to the buyer.

Interest

Control of the right to receive the interest payment.

Sale of non-current assets

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

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

(d) **Property plant and equipment**

Land and buildings

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

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

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

Plant and equipment

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

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

Notes to and Forming Part of the Financial Statements

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(d) **Property plant and equipment** *(continued)*

Depreciation

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

The principal rates of depreciation in use are:-

- Buildings
  2.50 - 10.00% prime cost
- Plant and equipment
  5.00 - 40.00% prime cost
- Plant and equipment
  7.50 - 20.00% reducing balance
- Motor vehicles
  18.75 - 22.50% reducing balance

(e) **Impairment**

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

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

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

(f) **Inventories**

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

(g) **Income tax**

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

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

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

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

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

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

(h) **Financial instruments**

Recognition

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity, unless an impairment has been determined by the Board.

Notes to and Forming Part of the Financial Statements

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(h) **Financial instruments** *(continued)*

Financial liabilities

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

Derivative instruments

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

Fair value

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

Impairment

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

(i) **Foreign currency**

Functional and presentation currency

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

Transactions and balances

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

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

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

General commitments

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

Group controlled entities and associated entities

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

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

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

(j) **Employee benefits**

Wages and salaries and annual leave

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

Long Service Leave

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

(k) **Provisions**

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

(l) **Intangible assets**

Trademarks and brand names are recorded in the accounts at acquisition cost. Trade marks and brand names, having a benefit or relationship to more than one accounting period, are deferred and amortised to the income statement using the straight line method of calculation over the period of time during which the benefits are expected to arise, but not exceeding 20 years. Carrying values are assessed at each balance date for impairment and any write down included in the income statement in the period determined.

Notes to and Forming Part of the Financial Statements

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(m) **Government grants**

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

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

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

(n) **Cash and cash equivalents**

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

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

(o) **Earnings per share**

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

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

(p) **Comparatives**

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

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Critical Accounting Estimates and Judgements

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

Key Estimates

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

Key Judgements

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

Notes to and Forming Part of the Financial Statements

		Consolidated		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
2.	**REVENUE**				
	Sales revenue	63,805,608	68,989,637	61,762,524	65,067,580
	Interest received	300,357	270,704	300,287	269,621
	Sundry	69,112	8,278	58,140	8,278
		64,175,077	**69,268,619**	**62,120,951**	**65,345,479**
3.	**OTHER INCOME**				
	Gain on disposal of controlled entity (Note 34)	-	3,815,507	-	839,292
	Gain on disposal of property, plant and equipment	1,742	2,390	1,742	2,390
		1,742	**3,817,897**	**1,742**	**841,682**
4.	**OPERATING PROFIT**				
(a)	**Other expenses**				
	Raw material and consumables	39,052,690	39,628,827	37,640,624	37,705,721
	Impairment of non current investments	3,641,649	-	3,641,649	-
	Net foreign exchange loss	842,616	469,388	845,228	301,171
	Employee benefits	7,567,192	10,152,166	7,502,800	8,724,732
	Depreciation of property, plant and equipment	3,733,136	2,167,373	3,733,136	2,155,192
	Amortisation of intangibles	258,664	135,051	402,593	153,388
	Transportation costs	2,274,650	2,595,758	2,034,206	2,369,900
	Factory Costs	1,693,633	1,848,522	1,637,707	1,745,943
	Marketing and promotion	7,404,317	6,873,391	7,064,867	6,069,567
	Other	4,363,023	5,318,217	4,150,508	4,213,386
		70,831,570	**69,188,693**	**68,653,318**	**63,439,000**
(b)	Profit before income tax expense includes the following specific expenses:				
	Borrowing costs				
	Borrowing expenses	300,503	301,538	300,503	301,538
	Interest and finance charges paid	2,103,892	1,636,411	2,098,626	1,636,411
	Prospectus expenses	36,013	33,570	36,013	33,570
		2,440,408	1,971,519	2,435,142	1,971,519
5.	**INCOME TAX**				
(a)	**Income tax expense**				
	Current tax	-	-	-	-
	Deferred tax	(1,646,745)	51,442	(1,595,884)	209,865
		(1,646,745)	51,442	(1,595,884)	209,865
	Deferred income tax (benefit) expense included in the income tax expense comprises:				
	(Increase) decrease in deferred tax assets	(802,411)	127,339	(751,550)	287,703
	Decrease in deferred tax liabilities	(844,334)	(75,897)	(844,334)	(77,838)
		(1,646,745)	51,442	(1,595,884)	209,865

Notes to and Forming Part of the Financial Statements

		Consolidated		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
5.	**INCOME TAX** *(continued)*				
(b)	**Numerical reconciliation of income tax expense to prima facie tax payable**				
	(Loss) profit before income tax expense	(9,095,159)	1,926,304	(8,965,767)	776,642
	Tax at the Australian rate tax of 30% (2007 – 30%)	(2,728,548)	577,891	(2,689,730)	232,993
	Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
	Effect of tax rates in foreign jurisdictions	30,065	-	-	-
	Amortisation of intangibles	-	(5,501)	-	-
	Entertainment	5,366	3,913	5,366	3,557
	Legal expenses	11,723	20,624	11,723	13,639
	Capital gain realised by controlled entity	-	432,000	-	-
	Gain on disposal of controlled entity	-	(892,865)	-	-
	Under (over) provision in prior years	23,140	(38,297)	23,140	2,134
	Capital losses recouped	-	(50,736)	-	(50,736)
	Revaluation of listed investment	1,092,495	-	1,092,495	-
	Sundry items	(80,986)	4,413	(38,878)	8,278
	Income tax (benefit) expense	(1,646,745)	51,442	(1,595,884)	209,865
(c)	**Tax losses**				
	Deferred tax assets include a benefit representing income tax losses as follows:				
	Unused tax losses	16,523,546	7,861,089	10,608,410	7,861,089
	Potential tax benefit	4,306,399	2,358,327	3,182,523	2,358,327

Realisation of the benefit shall depend upon:

a) the ability of the consolidated entity and the parent entity to derive future assessable income of a nature and of sufficient amount to enable the benefit to be realised;

b) the ability of the consolidated entity and the parent entity to continue to comply with the conditions for deductibility imposed by law; and

c) an expectation that legislation will not change in a manner which would adversely affect the consolidated entity's and the parent entity's ability to realise the benefit.

Notes to and Forming Part of the Financial Statements

		Parent Entity 2008 $	Parent Entity 2007 $
6.	**DIVIDENDS**		
	Ordinary shares		
	No dividend has been declared for the year ended 30 June 2008 (2007 – Nil)	-	-
	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.		

		Consolidated		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
7.	**CURRENT ASSETS – TRADE AND OTHER RECEIVABLES**				
	Trade debtors	11,111,922	10,573,085	13,336,021	10,573,085
	Other debtors	862,231	6,205,138	237,146	6,205,138
	Provision for doubtful debts	(515,458)	-	-	-
	Other loan	-	174,568	-	174,568
		11,458,695	**16,952,791**	**13,573,167**	**16,952,791**
8.	**INVENTORIES**				
	Raw materials and stores	11,609,822	16,485,323	10,698,926	16,485,323
	Work in progress	758,001	572,100	706,217	572,100
	Finished goods	5,053,462	6,318,217	3,224,078	6,318,217
		17,421,285	**23,375,640**	**14,629,221**	**23,375,640**
	Cost of goods sold				
	Honey levies	459,787	523,446	459,787	517,800
	Other	45,863,186	46,938,464	44,280,665	45,139,230
	Total cost of goods sold	46,322,973	47,461,910	44,740,452	45,657,030
9.	**OTHER CURRENT ASSETS**				
	Prepayments	**342,844**	**956,513**	**318,855**	**956,513**
10.	**NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES**				
	Loans to controlled entities	-	-	6,527,542	-
	Loans to associates	-	3,104,388	-	3,104,388
	Other loan	-	90,415	-	90,415
		-	**3,194,803**	**6,527,542**	**3,194,803**

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Name of Company	Principal Activity	Country of Incorpor-ation	Ownership Interest		Consolidated carrying amount		Parent entity amount	
			2008 %	2007 %	2008 $	2007 $	2008 $	2007 $
Unlisted investments								
Capilano Canada Inc.	Honey packing	Canada	100	50	-	-	-	480,402

The remaining 50% in Capilano Labonte Inc. was purchased on 29 February 2008 for $nil and the entity is now a wholly owned subsidiary of Capilano Honey Limited. The entity has subsequently been renamed Capilano Canada Inc.

Capilano Canada Inc. was treated as an equity accounted associate in prior years.

	2007 $
Movements in carrying amounts of investments in associates	
Carrying amounts at the beginning of the financial year	-
New investment during the year	-
Share of losses from ordinary activities after income tax	-
Share of movement in foreign currency translation reserve	-
Carrying amounts at the end of the financial year	**-**
Results attributable to associates	
Loss from ordinary activities before related income tax	-
Income tax saving	-
Loss from ordinary activities after related income tax	-
Accumulated losses attributable to associates at the beginning of the financial year	(456,919)
Accumulated losses attributable to associates at the end of the financial year	(456,919)
Reserves attributable to associates	
Foreign Currency Translation Reserve	
Balance at the beginning of the financial year	(23,483)
Share of movement in foreign currency translation reserve	-
Balance at the end of the financial year	(23,483)
Share of associates' expenditure commitments	
Lease commitments	40,040
Summary of the performance and financial position of associates	
The aggregate losses, assets and liabilities of associates are:	
Loss after related income tax expense	1,128,440
Assets	4,499,482
Liabilities	6,270,380
Revenue	11,275,983
Cumulative share of losses not recognised	896,109

Notes to and Forming Part of the Financial Statements

		Consolidated		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
12	**OTHER FINANCIAL ASSETS**				
	Other financial assets comprise of available-for-sale financial assets				
	Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturing dates attached to these investments.				
	The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of fair value estimates is significant. As a result all unlisted investments are reflected at cost.				
(a)	Available-for-sale financial assets included in the financial statements comprise:				
	Shares in controlled entities (note 12(b))	-	-	480,403	1
	Shares in associated entities (note 11)	-	-	-	480,402
	Shares in listed corporations	1,858,351	-	1,858,351	-
		1,858,351	-	2,338,754	480,403

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

	Country of Incorpor-ation	Class of Share	Parent Entity 2008 % holding	Parent Entity 2008 Cost $	Parent Entity 2007 % holding	Parent Entity 2007 Cost $
Honey Corporation of Australia Pty Ltd	Australia	Ord	100	1	100	1
Capilano Canada Inc.	Canada	Ord	100	480,402	-	-
				480,403		1

		Parent Entity	
		2008 $	2007 $
(c)	Movements in carrying amounts of investments in controlled entities		
	Carrying amount at beginning of financial year	1	2
	Increase in investment in Medihoney Pty Ltd	-	5,160,707
	Increase in shareholding in Capilano Canada Inc. from 50% to 100% at $nil consideration	480,402	-
	Disposal of Medihoney Pty Ltd (note 34)	-	(5,160,708)
	Carrying amount at end of financial year	480,403	1

		Consolidated		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
13.	**PROPERTY, PLANT AND EQUIPMENT**				
	Land and buildings				
	Freehold land – independent valuation 2008 (2005)	5,990,000	1,282,000	5,990,000	1,282,000
	Buildings – at Cost	-	8,138	-	8,138
	Buildings – at independent valuation 2008 (2005)	5,010,000	8,518,000	5,010,000	8,518,000
	Less				
	Accumulated depreciation	(380)	(536,063)	(380)	(536,063)
		5,009,620	7,990,075	5,009,620	7,990,075
	Total land and buildings	**10,999,620**	**9,272,075**	**10,999,620**	**9,272,075**
	Plant and equipment				
	Cost	26,226,691	25,298,392	26,226,691	25,298,392
	Less				
	Accumulated depreciation	(17,971,476)	(14,706,611)	(17,971,476)	(14,706,611)
	Total plant and equipment	**8,255,215**	**10,591,781**	**8,255,215**	**10,591,781**
	Motor vehicles				
	Cost	45,208	19,914	45,208	19,914
	Less				
	Accumulated depreciation	(6,925)	(1,248)	(6,925)	(1,248)
	Total motor vehicles	**38,283**	**18,666**	**38,283**	**18,666**
	Capital work in progress	**298,443**	**660,869**	**298,443**	**660,869**
		19,591,561	**20,543,391**	**19,591,561**	**20,543,391**
(a)	**Reconciliations**				
	Reconciliations of the movements in carrying amounts for each class of property, plant and equipment are set out below:				
	Freehold land				
	Carrying amount at beginning of year	1,282,000	1,282,000	1,282,000	1,282,000
	Revaluation	4,708,000	-	4,708,000	-
	Carrying amount at end of year	5,990,000	1,282,000	5,990,000	1,282,000
	Buildings				
	Carrying amount at beginning of year	7,990,075	8,250,841	7,990,075	8,250,841
	Additions	-	4,904	-	4,904
	Revaluation	(2,849,542)	-	(2,849,542)	-
	Depreciation	(130,913)	(265,670)	(130,913)	(265,670)
	Carrying amount at end of year	5,009,620	7,990,075	5,009,620	7,990,075
	Plant and Equipment				
	Carrying amount at beginning of year	10,591,781	11,666,494	10,591,781	11,642,965
	Additions	1,262,786	845,400	1,262,786	839,928
	Disposals	(2,806)	(2,836)	(2,806)	(2,836)
	Change in respect of controlled entity disposed during the year	-	(16,518)	-	-
	Depreciation	(3,596,546)	(1,900,759)	(3,596,546)	(1,888,276)
	Carrying amount at end of year	8,255,215	10,591,781	8,255,215	10,591,781

Notes to and Forming Part of the Financial Statements

		Consolidated		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
13.	**PROPERTY, PLANT AND EQUIPMENT** *(continued)*				
	Motor Vehicles				
	Carrying amount at beginning of year	18,666	-	18,666	-
	Additions	25,294	19,914	25,294	19,914
	Disposals	-	-	-	-
	Depreciation	(5,677)	(1,248)	(5,677)	(1,248)
	Carrying amount at end of year	38,283	18,666	38,283	18,666
	Capital works in progress				
	Carrying amount at beginning of year	660,869	169,143	660,869	87,465
	Net movement	(362,426)	590,602	(362,426)	573,404
	Change in respect of controlled entity disposed during the year	-	(98,876)	-	-
	Carrying amount at end of year	298,443	660,869	298,443	660,869
	Valuations				
	The independent valuation of the consolidated entity's freehold land and buildings carried out in May 2008 was on the basis of open market values for existing use. The revaluation surplus net of applicable deferred income tax was credited to an asset revaluation reserve in shareholders equity.				
(b)	If land and buildings were stated at historical cost, amounts disclosed would be as follows:				
	Freehold land				
	Cost	797,400	797,400	797,400	797,400
	Less: accumulated depreciation	-	-	-	-
	Carrying amount at end of year	**797,400**	**797,400**	**797,400**	**797,400**
	Buildings				
	Cost	7,453,969	7,453,969	7,453,969	7,453,969
	Less: accumulated depreciation	(2,445,230)	(2,258,881)	(2,445,230)	(2,258,881)
	Carrying amount at end of year	**5,008,739**	**5,195,088**	**5,008,739**	**5,195,088**
14.	**INTANGIBLE ASSETS**				
	Trademarks and brandnames	4,065,845	3,932,452	5,505,845	5,372,452
	Less: accumulated amortisation	(3,694,021)	(3,435,355)	(3,866,726)	(3,464,132)
	Goodwill on purchase of Capilano Canada Inc. (Note 35)	5,108,423	-	-	-
		5,480,247	**497,097**	**1,639,119**	**1,908,320**
	Reconciliation				
	Intangibles				
	Carrying amount at beginning of year	497,097	653,174	1,908,320	621,708
	Additions	5,241,816	27,482	133,393	1,440,000
	Change in respect of controlled entity disposed during the year	-	(48,508)	-	-
	Amortisation	(258,666)	(135,051)	(402,594)	(153,388)
	Carrying amount at end of year	**5,480,247**	**497,097**	**1,639,119**	**1,908,320**

Notes to and Forming Part of the Financial Statements

		Consolidated		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
15.	**TAX**				
(a)	**Liabilities**				
	Current income tax	-	-	-	-
	Non-current deferred tax liability	-	-	-	-
(b)	**Assets**				
	Deferred tax assets comprise:				
	Provisions	497,064	497,064	414,305	497,064
	Future income tax benefits attributable to tax losses	4,306,399	2,358,327	3,182,523	2,358,327
	Tax allowances relating to property plant and equipment	(208,947)	(822,093)	(208,947)	(822,093)
	Revaluation adjustments taken directly to equity	(1,732,650)	(1,188,633)	(1,732,650)	(1,188,633)
	Intangible assets	964,380	866,858	964,380	866,858
	Other	(68,033)	(129,053)	14,726	(129,053)
		3,758,213	1,582,470	2,634,337	1,582,470
(c)	**Reconciliation**				
	The overall movement in deferred tax assets is as follows:				
	Opening balance	1,582,470	2,969,339	1,582,470	1,792,335
	Credit (charge) to income statement	1,646,745	(51,442)	1,595,884	(209,865)
	Deferred tax liability in respect of revaluation increment	(544,017)	-	(544,017)	-
	Tax asset acquired on purchase of controlled foreign entity	1,073,015	(1,335,427)	-	-
	Closing balance	3,758,213	1,582,470	2,634,337	1,582,470
16.	**TRADE AND OTHER PAYABLES**				
	Unsecured				
	Beekeeper creditors	1,522,499	3,312,513	1,522,499	3,312,513
	Trade creditors	3,009,633	3,045,030	2,825,597	3,045,030
	Other creditors	2,319,168	1,799,889	1,769,547	1,799,889
	Employee entitlements	730,695	1,051,917	722,716	1,051,917
		7,581,995	**9,209,349**	**6,840,359**	**9,209,349**
17.	**SHORT TERM BORROWINGS**				
	Secured (note 23)				
	Bank loan	115,753	-	-	-
	Commercial bills	1,000,000	1,000,000	1,000,000	1,000,000
	Hire purchase	127,608	60,264	127,608	60,264
	Total secured liabilities	1,243,361	1,060,264	1,127,608	1,060,264
	Unsecured				
	Deposit fund (note 22)	885,476	1,334,534	885,476	1,334,534
		2,128,837	**2,394,798**	**2,013,084**	**2,394,798**

		Consolidated 2008 $	Consolidated 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
18.	**LONG TERM BORROWINGS**				
	Secured (note 23)				
	Commercial bills	21,250,000	22,375,000	21,250,000	22,375,000
	Bank loans	7,055,333	4,518,632	6,746,659	4,518,632
	Hire purchase	540,119	152,869	540,119	152,869
	Total secured liabilities	28,845,452	27,046,501	28,536,778	27,046,501
	Unsecured				
	Deposit fund (note 22)	83,218	44,525	83,218	44,525
		28,928,670	**27,091,026**	**28,619,996**	**27,091,026**

Based on the financial report for the year ending 30 June 2008, three (3) bank covenants have been breached:

- total liabilities not to exceed 65% of total tangible assets
- interest cover not to be less than 0.37 times
- full year result not to vary by more than 15% from the budget presented to the bank

The Bank has acknowledged the covenants have been breached and the Board does not anticipate that the Bank will take any further action based on past breaches. On the understanding that banking facilities will continue to be available, the Board have confirmed that it is appropriate to disclose the bank facility as non-current.

		Consolidated 2008 $	Consolidated 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
19.	**LONG TERM PROVISIONS**				
	Employee entitlements	**408,299**	**604,964**	**408,299**	**604,964**

		Parent Entity No. of Shares	Parent Entity 2008 $
20.	**ISSUED CAPITAL**		
(a)	**Foundation Share**		
	Balance 1 July 2007	1	1
	Movements	-	-
	Balance 30 June 2008	**1**	**1**

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

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

For the elected CBL Beekeeper Directors to be appointed as Beekeeper Directors of CHL

		Parent Entity No. of Shares	Parent Entity 2008 $
(b)	**Ordinary Shares**		
	Balance 1 July 2007	**5,151,061**	**5,366,343**
	Share issues	4	15
	Balance 30 June 2008	**5,151,065**	**5,366,358**
	Total contributed equity	**5,151,066**	**5,366,359**

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

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

20. ISSUED CAPITAL *(continued)*

(c) **Capital Management**

Management controls the capital of the group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio remains below 75%. The gearing ratio's for the year ended 30 June 2008 and 30 June 2007 are as follows:

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Total Borrowings	16,17,18	38,638,502	38,695,173	37,473,439	38,695,173
Less: cash and cash equivalents	29	(1,312,700)	(296,036)	(518,917)	(296,036)
Net debt		37,325,802	38,399,137	36,954,522	38,399,137
Total equity		22,176,095	28,098,604	23,889,735	29,990,230
Total capital		59,501,897	66,497,741	60,844,257	68,389,367
Gearing ratio		63%	58%	61%	56%

21. RESERVES

Nature and purpose of reserve

Asset revaluation

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

Foreign currency translation

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

22. PAYABLES MATURITY ANALYSIS - DEPOSIT FUND

Debts Payable	Consolidated 2008 $	Consolidated 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Not later than one year	885,476	1,334,534	885,476	1,334,534
Later than one year but not later than two	83,218	44,525	83,218	44,525
	968,694	**1,379,059**	**968,694**	**1,379,059**

The Capilano Deposit Fund (Unsecured Deposit Notes) was created under a Trust Deed dated 17 May 1993. Trust Company of Australia Limited is the Trustee. Deposits have been received pursuant to the issue of a Prospectus dated 16 October 2007.

23. SECURED BORROWINGS

The hire purchase, loans and commercial bills amounting to $30,088,813 (2007: $28,106,766) are secured by a registered mortgage debenture over all the assets of the company and a guarantee and indemnity provided by the company.

Notes to and Forming Part of the Financial Statements

		Consolidated		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
24.	**CONTINGENT LIABILITIES**				
	The Directors are not aware of any significant contingent liabilities at the date of this report.				
25.	**COMMITMENTS**				
	Capital expenditure commitments				
	Contracted for but not provided for or payable: -				
	Not longer than one year	-	116,090	-	116,090
	Operating lease commitments				
	Future operating lease rentals not provided for in the financial statements or payable:				
	Not longer than one year	23,980	42,972	23,980	42,972
	Longer than one year but not longer than two years	21,648	36,799	21,648	36,799
	Longer than two years but not longer than five years	13,092	37,944	13,092	37,944
		58,720	**117,715**	**58,720**	**117,715**
26.	**AUDITOR'S REMUNERATION**				
	Remuneration of the auditor of the parent entity for:				
	- auditing or reviewing the financial report	86,950	85,000	86,950	82,750
	- audit of the share register	2,070	1,950	2,070	1,950
	- taxation services	6,615	13,515	6,615	12,550
	- due diligence services	2,900	2,500	2,900	2,500
	Remuneration of other auditor of subsidiaries for:				
	- auditing or reviewing the financial report of subsidiaries	-	9,466	**-**	**-**

		Consolidated		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
27.	**RELATED PARTIES**				
	Directors and specified executives:				
	Disclosure relating to directors and key management personnel are included in the Report of the Directors.				
	Directors who are apiarists trade with the company on the same trading conditions as other shareholders. In view of these arrangements no quantification has been made of the total sum of transactions.				
	Controlling Entity:				
	The ultimate controlling entity is CBL. Information relating to the controlling entity is set out in note 20.				
	Wholly Owned Group:				
	The wholly owned group consists of CHL and its wholly owned controlled entities.				
	Information relating to the controlled entities is set out in note 12(b).				
	CCI was fully consolidated into CHL from 1 March 2008				
	Sales to controlled entity	-	-	2,964,305	-
	Recharges to controlled entity	-	-	1,186,914	-
	Purchases from controlled entity	-	-	64,420	-
	Interest revenue	-	-	-	-
	Aggregate amounts receivable from entities in the wholly owned group at balance date:				
	Current receivables (trade debtors)	-	-	3,667,082	-
	Non-current receivables (loans)	-	-	6,527,542	-
	Associated Entity:				
	The interest held in the associated entity is disclosed in Note 11.				
	Aggregate amounts included in the determination of profit before income tax that resulted from transactions with the associated entity:				
	CCI was equity accounted until 29 February 2008				
	Sales to associated entity	5,635,142	6,016,572	5,635,142	6,016,572
	Purchases from associated entity	237,031	9,129	237,031	9,129
	Interest revenue	260,076	217,092	260,076	217,092
	Aggregate amounts receivable from associated entities				
	Current receivables (trade debtors)	-	1,366,726	-	1,366,726
	Non-current receivables (loans)	-	3,104,388	-	3,104,388

The parent entity has guaranteed the borrowings of the controlled foreign entity, to a maximum of $616,080, by way of a standby letter of credit included in Note 31. At balance date no amounts had been drawn against the standby letter of credit.

Notes to and Forming Part of the Financial Statements

28. SEGMENT REPORTING

(a)

Primary reporting – geographical segments	Australia $	Canada $	Intersegment $	Consolidated $
	30 June 2008			
Sales revenue	61,762,524	5,007,389	(2,964,305)	63,805,608
Other revenue	358,428	11,041	-	369,469
Total segment revenue	**62,120,952**	**5,018,430**	**(2,964,305)**	**64,175,077**
Segment result	**(8,821,838)**	**(270,267)**	**(3,054)**	**(9,095,159)**
Unallocated revenue less unallocated expenses	-	-	-	-
Loss before income tax				(9,095,159)
Income tax benefit				1,646,745
Loss after income tax				(7,448,414)
Segment assets	59,081,185	5,809,793	(3,667,082)	61,223,896
Segment liabilities	37,881,738	4,830,091	(3,664,028)	39,047,801
Acquisitions of non-current segment assets	1,288,080	-	-	1,288,080
Depreciation and amortisation expense	3,991,801	-	-	3,991,801
Other non cash income	1,742	-	-	1,742
Other non cash expenses	4,486,877	(5,666)	3,054	4,484,265

Primary reporting – geographical segments	Australia $	Europe $	Intersegment $	Consolidated $
	30 June 2007			
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

Secondary reporting – business segments

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

(b) **Accounting Policies**

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

(c) **Intersegment Transfers**

Segment revenues, expenses and results include transfers between segments at cost.

		Consolidated 2008 $	Consolidated 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
29.	**RECONCILIATION OF CASH**				
	For the purpose of the cash flow statements, cash includes cash on hand and at banks and investments in the money market, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statements is reconciled to the related items in the balance sheet as follows:				
	Cash and cash equivalents	**1,312,700**	**296,036**	**518,917**	**296,036**
30.	**RECONCILIATION OF NET CASH GENERATED FROM OPERATING ACTIVITIES TO (LOSS) PROFIT AFTER INCOME TAX.**				
	(Loss) profit after income tax	(7,448,414)	1,874,862	(7,369,883)	566,777
	Decrease in provision for doubtful debts	(33,230)	-	-	-
	Depreciation	3,733,136	2,167,373	3,733,136	2,155,192
	Amortisation	258,664	135,051	402,593	153,388
	Gain on sale of equipment	(1,742)	(2,390)	(1,742)	(2,390)
	Gain on disposal of controlled entity	-	(3,815,507)	-	(839,292)
	(Decrease) increase in deferred tax payable	(1,646,745)	51,442	(1,595,884)	209,865
	Devaluation of investment in listed entity	3,641,649	-	3,641,649	-
	Exchange differences on translation of foreign operations	313,687	119,671	-	-
	Change in assets and liabilities				
	(Increase) decrease in assets				
	Trade debtors	1,629,765	1,743,808	(2,762,936)	1,812,691
	Other debtors	4,142	38,935	(24,014)	24,236
	Inventory	6,583,076	(3,226,854)	8,746,419	(2,842,065)
	Prepayments	627,771	(245,354)	637,659	(236,580)
	Goods and Services Tax received	(9,686)	(20,409)	(7,994)	4,460
	Increase (decrease) in liabilities				
	Trade creditors	(3,524,253)	1,329,220	(219,433)	1,357,107
	Other creditors	(136,061)	92,887	(30,342)	52,372
	Beekeeper creditors	(1,790,014)	(568,446)	(1,790,014)	(568,446)
	Employee entitlements	(541,769)	474,576	(525,865)	432,476
	Net cash generated from operating activities	**1,659,976**	**148,865**	**2,833,349**	**2,279,791**

		2008 $	2007 $
31.	**FINANCING ARRANGEMENTS**		
	Total facilities		
	Unrestricted access was available at balance date to the following lines of credit:		
	Multi-Option (refer note below)	20,000,000	20,000,000
	Fixed bill facility	11,750,000	10,875,000
	Letters of credit	859,494	805,882
	Hire purchase	775,000	1,612,000
	Fixed term loan (Canada)	424,427	-
		33,808,921	**33,292,882**

		2008 $	2007 $
31.	**FINANCING ARRANGEMENTS** *(continued)*		
	Used at balance date		
	Multi-Option	17,246,659	17,018,632
	Fixed bill facility	11,750,000	10,875,000
	Letters of Credit	-	-
	Hire purchase	667,727	213,134
	Fixed term loan (Canada)	424,427	-
		30,088,813	**28,106,766**
	Unused at balance date		
	Multi-Option	2,753,341	2,981,368
	Fixed bill facility	-	-
	Letters of credit	859,494	805,882
	Hire purchase	107,273	1,398,866
	Fixed term loan (Canada)	-	-
		3,720,108	**5,186,116**

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

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

Interest is charged at variable rates. The parent entity has contracted an interest rate cap of 7.505% on $15,000,000 of commercial bills using swaps, settled quarterly and effective for the period 30 November 2007 to 30 November 2009.

		2008 $	2007 $
32.	**EARNINGS PER SHARE (EPS)**		
	Weighted average number of ordinary shares outstanding during the period used in calculation of basic and diluted EPS	5,151,065	5,147,145
	Earnings used in the calculation of basic and diluted EPS	(7,448,414)	1,874,862

33. FINANCIAL INSTRUMENTS

(a) **Financial Risk Management**

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

The main purpose of non-derivative financial instruments is to raise finance for consolidated entity operations.

Derivatives are used by the consolidated entity for hedging purposes. Such instruments may include forward exchange and currency option contracts. The consolidated entity does not speculate in the trading of derivative instruments.

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

Foreign currency risk

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

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating debt. At 30 June 2008 approximately 96% of consolidated entity debt is floating. Management continuously monitors the debt profile of the consolidated entity in the context of the most recent economic conditions.

Liquidity risk

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

Credit risk

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

Sensitivity Analysis

The group has performed a sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk and honey price risk at balance date. The sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

	Consolidated	
	2008	2007
	$	$
33. FINANCIAL INSTRUMENTS *(continued)*		
Interest Rate Sensitivity Analysis		
At 30 June 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:		
Change in profit		
increase in interest rate by 2%	(417,000)	(576,000)
decrease in interest rate by 2%	417,000	576,000
Change in equity		
increase in interest rate by 2%	(417,000)	(576,000)
decrease in interest rate by 2%	417,000	576,000
Foreign Currency Risk Sensitivity Analysis		
At 30 June 2008, the effect on profit and equity as a result of changes in receivables following changes in the value of the Australian Dollar to foreign currencies, with all other variables remaining constant would be as follows:		
Change in profit		
increase in AUD:USD rate by 10%	(134,000)	(151,000)
increase in AUD:CAD rate by 10%	(131,000)	(124,000)
increase in AUD:GBP rate by 10%	(6,000)	(38,000)
increase in AUD:EUR rate by 10%	(67,000)	(54,000)
decrease in AUD:USD rate by 10%	164,000	184,000
decrease in AUD:CAD rate by 10%	160,000	152,000
decrease in AUD:GBP rate by 10%	7,000	47,000
decrease in AUD:EUR rate by 10%	82,000	66,000
Change in equity		
increase in AUD:USD rate by 10%	(134,000)	(151,000)
increase in AUD:CAD rate by 10%	(131,000)	(124,000)
increase in AUD:GBP rate by 10%	(6,000)	(38,000)
increase in AUD:EUR rate by 10%	(67,000)	(54,000)
decrease in AUD:USD rate by 10%	164,000	184,000
decrease in AUD:CAD rate by 10%	160,000	152,000
decrease in AUD:GBR rate by 10%	7,000	47,000
decrease in AUD:EUR rate by 10%	82,000	66,000
Honey Price Sensitivity Analysis		
At 30 June 2008, the effect on profit and equity as a result of changes in the purchase price of futured honey already delivered, with all other variables remaining constant would be as follows		
Change in profit		
increase in honey purchase price of 10%	(34,000)	(156,000)
decrease in honey purchase price of 10%	34,000	156,000
Change in equity		
increase in honey purchase price of 10%	(34,000)	(156,000)
decrease in honey purchase price of 10%	34,000	156,000
Listed Investment Share Price Sensitivity Analysis		
At 30 June 2008, the effect on profit and equity as a result of changes in the share price of the listed investment, with all other variables remaining constant would be as follows.		
Change in equity		
increase in share price of 10%	186,000	-
decrease in shares price of 10%	(186,000)	-

33. FINANCIAL INSTRUMENTS *(continued)*

(b) **Financial Instruments**

i. Derivative Financial Instruments

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

Forward exchange contracts

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

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

Foreign currency options

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

At balance date, there was no outstanding foreign currency options in respect of the consolidated entity.

ii. Net Fair Values

The net fair values of:

- unlisted investments have not been established, as detailed in note 12.
- other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value.
- forward exchange contracts are the recognised unrealised gain or loss at balance date determined from the current forward exchange rates for contracts with similar maturities.
- foreign currency options are not brought to account as they do not meet the recognition criteria under AASB 139 “Financial Instruments: Recognition and Measurement”.
- other assets and liabilities approximate their carrying values.

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

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

iii. Interest Rate Risk

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

2008	Weighted Average Interest Rate	Floating Interest Rate $	Fixed Interest maturing in less than 1 year $	Fixed Interest maturing in 1 - 5 years $	Non-interest Bearing $	Total $
Financial assets						
Cash	1.20%	1,308,658	-	-	4,042	1,312,700
Receivables	-	-	-	-	11,458,695	11,458,695
Other loan	-	-	-	-	-	-
Total financial assets		**1,308,658**	**-**	**-**	**11,462,737**	**12,771,395**
Financial liabilities						
Commercial bills	7.71%	22,250,000	-	-	-	22,250,000
Hire purchase	8.09%	-	175,323	492,404	-	667,727
Capilano Deposit Fund	5.48%	968,694	-	-	-	968,694
Beekeeper creditors	-	-	-	-	1,522,499	1,522,499
Bank loans	8.29%	6,746,659	-	424,427	-	7,171,086
Trade & sundry creditors	-	-	-	-	5,328,801	5,328,801
Total financial liabilities		**29,965,353**	**175,323**	**916,831**	**6,851,300**	**37,908,807**

33. FINANCIAL INSTRUMENTS

(b) **Financial Instruments** *(continued)*

2007	Weighted Average Interest Rate	Floating Interest Rate $	Fixed Interest maturing in less than 1 year $	Fixed Interest maturing in 1 - 5 years $	Non-interest Bearing $	Total $
Financial assets						
Cash	6.00%	286,684	-	-	9,352	296,036
Receivables		-	-	-	16,778,223	16,778,223
Other loan	5.65%	-	174,568	3,194,804	-	3,369,372
Total financial assets		**286,684**	**174,568**	**3,194,804**	**16,787,575**	**20,443,631**
Financial liabilities						
Commercial bills	6.37%	23,375,000	-	-	-	23,375,000
Hire purchase	7.35%	-	60,264	152,869	-	213,133
Capilano Deposit Fund	5.07%	1,379,059	-	-	-	1,379,059
Beekeeper creditors		-	-	-	3,312,513	3,312,513
Bank loans	6.79%	4,518,632	-	-	-	4,518,632
Trade & sundry creditors		-	-	-	4,844,919	4,844,919
Total financial liabilities		**29,272,691**	**60,264**	**152,869**	**8,157,432**	**37,643,256**

	Consolidated		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
34. DISPOSAL OF ENTITIES				
On 30 June 2007 the controlled entity Medihoney Pty Ltd was sold to Comvita Ltd. Aggregate details of this transaction are:				
Disposal price (settled 3 July 2007)	-	6,000,000	-	6,000,000
Shares in Comvita Ltd (*)	-	5,500,000	-	5,500,000
Cash consideration	-	500,000	-	500,000
	-	6,000,000	-	6,000,000
(*) *1,560,765 ordinary shares issued at A$3.52 (rounded) per share*				
Assets and liabilities held at disposal date				
Investment in controlled entity	-	-	-	5,160,708
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	-	5,160,708
Net gain on disposal	-	3,815,507	-	839,292
	-	6,000,000	-	6,000,000

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
35. ACQUISITION OF ENTITIES				
During the year the remaining 50% of the controlled entity, Capilano Canada Inc. (CCI) was acquired. Details of this transaction are:				
Purchase consideration	-	-	-	-
Cash consideration	-	-	-	-
Amount due under contract of sale	-	-	-	-
Cash outflow	-	-	-	-
Assets and liabilities held at acquisition date				
Cash and cash equivalents	626,475	-	-	-
Receivables	2,232,803	-	-	-
FITB	1,130,185	-	-	-
Inventories	628,722	-	-	-
Prepayments	14,101	-	-	-
Bank loans	(487,435)	-	-	-
Payables	(3,936,041)	-	-	-
Intercompany Loan	(5,317,233)	-	-	-
	(5,108,423)	-	-	-
Goodwill on consolidation	5,108,423	-	-	-
Minority equity interests in acquisitions	-	-	-	-
	-	-	-	-

The goodwill is attributable to the future maintainable profitability of the acquired business and the significant synergies expected to arise after relinquishing financial responsibility for the packing plant in Canada.

The assets and liabilities arising from the acquisition are recognised at fair value which is equal to its carrying value.

CCI losses included in consolidated profit of the group since the acquisition date on 29 February 2008 amounted to $222,460.

36. CHANGE IN ACCOUNTING POLICY

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

AASB Amendment	Standards Affected		Outline of Amendment	Application Date of the Standard	Application Date for the Group
AASB 2007-3 Adjustments to Australian Accounting Standards	AASB 5 AASB 6 AASB 102 AASB 107 AASB 119 AASB 127 AASB 134 AASB 136 AASB 1023 AASB 1038	Non-current Assets held for Sale and Discontinued Operations Exploration for and Evaluation of Mineral Inventories Cash Flow Statements Employee Benefits Consolidated and separate Financial Statements Interim Financial Reporting Impairment of Assets General Insurance Contracts Life Insurance Contracts	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts include din the financial report.	1.1.2009	1.7.2009
AASB 8 Operating Segments	AASB 114	Segment Reporting	As Above	1.1.2009	1.7.2009
AASB 2007-6 Amendments to Australian Accounting Standards	AASB 1 AASB 101 AASB 107 AASB 111 AASB 116 AASB 138	First time adoption of AIFRS Presentation of Financial Statements Cash Flow Statements Construction Contracts Property, Plant and Equipment Intangible Assets	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1.1.2009	1.7.2009
AASB 123 Borrowing Costs	AASB 123	Borrowing Costs	As above	1.1.2009	1.7.2009
AASB 2007-8 Amendments to Australian Accounting Standards	AASB 101	Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity	1.1.2009	1.7.2009
AASB 101	AASB 101	Presentation of Financial Statements	As above	1.1.2009	1.7.2009

Shareholders' Information
As at 31 July 2008

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	114	46,367
1,001 – 5,000			278	802,177
5,001 – 10,000			161	1,178,746
10,001 – 100,000			139	2,485,409
100,001 and over			2	638,366
			694	5,151,065

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

There are 57 shareholders holding 6,285 shares which the company considers to be less than a marketable parcel of shares (value $500), when using a value of $1.30 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.	GPG Nominees Pty Limited	506,738	9.84%
2.	Benalto Holdings Pty Ltd	131,628	2.56%
3.	Hughston & Sons Pty Ltd	55,024	1.07%
4.	W & J Millington	51,600	1.00%
5.	Baker Beekeeping Pty Ltd	48,341	0.94%
6.	DG & LR Keith	46,979	0.91%
7.	Gundagai Bee Farms Pty Ltd	45,379	0.88%
8.	Brazil Enterprises Pty Ltd	41,449	0.80%
9.	MR Nelson	40,000	0.78%
10.	J & N Sloss	38,260	0.74%
		1,005,398	19.52%

f) **Company Secretary**

Mr Richard Rivalland (appointed Company Secretary on 1 March 2008)

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.

Contact Details

Registered Office **Head Office** **Queensland Branch**	399 Archerfield Road Richlands Qld 4077 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 Canada Inc. 399 Archerfield Road Richlands Qld 4077 (PO Box 531, Inala Q 4077) Telephone: (07) 3712 8282 Fax: (07) 3712 8286
Bankers	National Australia Bank Limited
Auditors	Cranstoun & Hussein Chartered Accountants

399 Archerfield Road, Richlands (PO Box 531, Inala) QLD 4077.
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