



ABN 55 009 686 435

annual report

08



AUSTRALIA'S NO.1 HONEY, NATURALLY!

2008 Annual General Meeting

The 2008 Annual General Meeting

will be held at the

SPRINGLAKE FUNCTION CENTRE

1 Springfield Lakes Boulevard, Springfield Lakes Q 4300

on

FRIDAY, 3 OCTOBER 2008

Schedule of Events

- 9.00am** **Management Presentation for CBL & CHL Shareholders**
- To update shareholders on Capilano Group activities including local and export sales, marketing, finance and manufacturing, followed by informal discussions.*
- 10.30am** **Morning Tea**
- 11.00am** **Annual General Meeting – Capilano Beekeepers Ltd**
- NOTE: Only shareholders of CBL are eligible to attend this meeting.
- Registration from 8.30am.*
- 12.00pm** **Lunch - A light lunch will be provided.**
- 1.00pm** **Annual General Meeting – Capilano Honey Limited**
- Registration from 12.00pm.*

For further details please refer to enclosed:

- Notice of Meeting
- Attendance Form - page 32 (*if attending the AGM please complete and return this form by 26 September 2008*)
- Proxy Form - page 34 (*if unable to attend the AGM please complete and return by 1.00pm on 1 October 2008*)

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Notice of Meeting

Notice is hereby given that the thirty-sixth Annual General Meeting of shareholders of **Capilano Honey Limited** ('CHL') ACN 009 686 435 will be held at the Springlake Function Centre, 1 Springfield Lakes Boulevard, Springfield Lakes, Qld 4300 on Friday, 3 October 2008 commencing at 1.00pm.

AGENDA

1. Special Business

In accordance with the Company's Constitution, CBL, as the holder of the Foundation Share, will hold 75% of the total number of votes which are entitled to be cast in relation to special resolutions.

▪ **RESOLUTION 1 – Amendments to Constitution regarding Directors**

To consider, and if thought fit, to pass the following resolution as a special resolution:

"That the Company's Constitution be immediately amended by adopting the proposed changes set out in Annexure A to the Explanatory Memorandum accompanying this notice of meeting".

2. Ordinary Business

▪ **Financial Statements and Reports**

To receive and consider the Company's Financial Statements, Director's Declaration and the Reports of the Directors and the Auditors for the year ended 30 June 2008.

▪ **Acknowledge appointment of directors**

In accordance with the Company's Constitution, any person elected as a director of Capilano Beekeepers Ltd ('CBL') will be, by virtue of their election, be appointed as a Director of the Company.

▪ **RESOLUTION 2 - Remuneration Report included in the Report of the Directors**

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

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

The Remuneration Report is included in the 'Report of the Directors' on page 13 of this Annual Report.

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

However, the Company need not disregard any such vote if:

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

Dated this TWENTIETH day of AUGUST 2008

By Order of the Board



CAPILANO HONEY LIMITED
Richard Rivalland
Company Secretary

THIS IS AN IMPORTANT DOCUMENT

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

INSTRUCTIONS

If you are unable to attend the meeting and wish to vote, you are requested to complete the Proxy Form on page 34 of this Annual Report.

If you are planning to attend the meeting please complete the Attendance Form on page 32 of this Annual Report.

NOTES

Information about the resolutions appear in the Explanatory Memorandum.

An ordinary resolution is one, which, to be passed, requires at least a simple majority of the votes cast by shareholders entitled to vote on the resolution to vote in favour.

A special resolution is one which, to be passed, requires at least 75% of the votes cast by shareholders entitled to vote on the resolution in favour.

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

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

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

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

Foundation Share

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

The Foundation Share is held by Capilano Beekeepers Ltd.

Explanatory Memorandum

SPECIAL BUSINESS

→ RESOLUTION 1 Amendments to Constitution regarding Directors

The Company is working towards the previously declared objective of significantly reducing general costs with all areas of costs under review, including the size of the Board of Directors.

Accordingly:

- Mr Brett Heading, Independent Director, has offered his resignation from the Board effective 2 October 2008.
- Mrs Rosemary Doherty, Beekeeper Director, will not stand for re-election at the forthcoming AGM on 3 October 2008.

These resignations have been given for the sole purpose of reducing the number of paid Directors on the Board and do not breach the current rules of the Constitution.

However, the Board believes a further reduction to four directors is both possible and desirable, whilst still ensuring that the Board can continue to provide strategic direction to the Company. A Constitutional change is required for this to take effect.

Should the proposed Resolution to amend the Constitution be passed, it is Peter Barnes' intention to resign from the Board effective 31 December 2008. However, should the Resolution not be successful Peter Barnes will remain on the Board to ensure compliance with the existing Constitution.

On approval of the Resolution and following the resignation of Peter Barnes, the Board would then consist of four directors, comprising two Beekeeper Directors, an Independent Director and a Managing Director with the Chairman holding a casting vote.

The overall reduction in Directors would cut directors' fees, travel and accommodation expenses by a significant amount.

Accordingly, it is proposed that the Company's Constitution be amended, by adopting the changes set out in Annexure A to the Explanatory Memorandum included with this notice of general meeting.

Summary of changes are detailed below:

- a) The change to rule 102 will result in the current range in size for the Board (between 5 and 8) being reduced to between 3 and 5.
- b) Under Rule 102 the Board is currently required to have a minimum of three Beekeeper Directors. The rule change proposes that the number of Beekeeper Directors is not to be less than two, nor more than three.
- c) Rule 142 currently imposes no restraints on who is elected Chairman of Board meetings. The proposed rule change requires that a Beekeeper Director be elected to the position of Chairman.
- d) The quorum, in Rule 140 is currently three directors, two of who are Beekeeper Directors. The proposed rule change remains at three but with at least one Beekeeper Director.

The directors recommend you vote in favour of this resolution.

ORDINARY BUSINESS

Financial Statements and Reports

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

Following consideration of reports the chairman will give shareholders a reasonable opportunity to ask questions about or comment on the management and audit of the Company. The external Auditors will be available at the meeting to answer questions on the conduct of the Audit and their Independent Auditors' Report. It is preferable that questions be submitted to the company in writing no later than five business days prior to the meeting. A list of questions submitted will be available at the meeting.

Appointment of Directors Acknowledged

In accordance with Rule 101B the Beekeeper Directors of the Foundation Shareholder (CBL) will, by virtue of holding that office, be appointed as Beekeeper Directors of the Company.

→ RESOLUTION 2 To adopt the Remuneration Report in the Report of the Directors

A resolution to adopt the Remuneration Report is required by the Corporations Act. The resolution of shareholders is advisory only and does not bind either the directors or the Company. The Remuneration Report has been prepared in conjunction with RPC Group Pty Ltd, a company specialising in corporate remuneration planning. RPC have concluded that the Company's remuneration policies are fair, reasonable and appropriate for its needs. A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting.

The directors support the resolution but are excluded from voting on it. They encourage shareholders to vote in favour of the resolution which will support the policy of seeking to attract the best persons for the Company's needs, and of remunerating them in accordance with industry standards. The CBL Constitution provides that no remuneration can be paid to its directors. However, the directors of CBL will receive their remuneration from their positions as directors of CHL.

Under the Constitution of CHL no ordinary resolution can be passed in a general meeting of CHL without the support of CBL. A resolution to adopt the remuneration report of CHL will be put to the shareholders of CBL at its Annual General Meeting proposed to be held on 3 October 2008 at 11.00am.

Explanatory Memorandum

ANNEXURE A

These are the changes to the constitution of Capilano Honey Limited (ACN 009 686 435) to be given effect by the special resolution to be passed at a general meeting of shareholders on 3 October 2008.

Rule 102

Rule 102 of the Constitution shall be forthwith replaced by the following rule:

'The number of Directors shall not be less than three nor more than five and shall comprise Beekeeper Directors, an Independent Director and may include a Managing Director. The number of Beekeeper Directors shall not be less than two nor more than three.'

Rule 140

Rule 140 shall be forthwith replaced with the following rule:

'Subject to rule 133, the quorum necessary for the transaction of the business of directors shall be three, at least one of whom must be a Beekeeper Director.'

Rule 142

Rule 142 shall be forthwith replaced with the following rule:

The Board may elect a Chairman and a Deputy Chairman of its meetings and determine the period for which each is to hold office. They must elect a Beekeeper Director to the position of Chairman. If at any meeting the Chairman and the Deputy Chairman are not present at the time specified for holding the meeting (or, if being present, the relevant directors refuse to act as Chairman or Deputy Chairman), the Directors present may choose one of their number to be Chairman of the meeting'.

Chairman's Report



Our Company continues to be affected by the difficult trading conditions created by the unfavorable exchange rates and reduced return in the local market created by increased competition from private label products.

In the last year this has coincided with lower than expected honey production as a result of continuing drought in many production areas, that has meant greater competition for the limited supply of honey available.

Results

The Company reported a Net Loss before Tax of \$(2.6) million for the year, before one off adjustments. This figure includes interest of \$2.1 million, non cash depreciation of \$2.3 million and a foreign exchange loss of \$845k of which over \$700k relates to the translation of Canadian assets into \$A at balance date for reporting purposes. The buying costs for honey used this year were \$4.0 million higher than the previous year reflecting the drought affected production and increased competition for limited supply.

Strategically, the Board has been and is working towards a business model that will respond to the significant changes to the commercial environment in which we operate. Consequently an exhaustive review of our business assets and cost structures has been undertaken and is ongoing. As part of this process the Board resolved to make additional provisions for write downs including:

- \$1.1 million which relates to accelerated depreciation on IBCs (containers);
- \$720,000 relates to accelerated depreciation of surplus plant and equipment at Maryborough;
- redundancies of \$405,000;
- \$3.6 million in the value of the Comvita Ltd shareholding. This provision adjusts our carrying value of the Comvita investment to the market value of Comvita as at 30 June 2008. This reflects the Board's philosophy of complete and conservative reporting to shareholders. This is a non cash item that would only be realised if the shares had been sold at 30 June 2008.

The operating loss and provisions result in a total reported net loss after tax of \$(7.4) million.

There is no denying that these results are less than acceptable and the Board and Management are well advanced in their endeavors to improve sales, reduce operating expenses and to dispose of underutilised assets with the aim of a significant reduction of our overall debt level and improvement in profitability.

We are committed to reposition our company as a much more cost effective business without excess capacity and overheads to operate in the low margin sales environment that now exists.

Employee costs have been reduced by \$2.5m for the group this year and we can expect these costs to reduce by a further \$1m in 2009 following a full year operation with these reduced numbers.

Capilano Canada Inc.

The move this year to acquire the remaining 50% share of the CLI business at no cost and to use the Canadian packing operation for contract packing of specific items only, has improved the efficiency of the business and reduced our overheads. While there is some additional freight costs associated with transporting the finished goods from our Richlands' facility these are more than offset by the reduction in overheads.

We have now established a strong market presence reflected in our ranking second in branded and private label retail business in Canada.

Opportunities

With our quality packaging and presentation, including the new Snap n' Squeeze single serve portion pack that has been introduced this year, we are taking advantage of the considerable opportunity for growth that exists in the United States market.

Capilano has already been successful in obtaining listings in a significant number of stores in the United States.

With a return to a more normal season with reasonable production and the changes that we are making to the business we expect to be well placed to take further advantage of this opportunity in the coming year.

Proposed Constitutional amendments regarding Directors

Given the number of directors we have and the ever increasing cost of retaining a Board of that size, the decision has been made to reduce the size of the Board, effectively cutting costs associated with Directors by a significant amount.

The Board believes a reduction to four directors - comprising two Beekeeper Directors, an Independent Director and a Managing Director, with the Chairman holding a casting vote in the event of a deadlock, is both possible and desirable, whilst still ensuring that the Board can continue to provide strategic direction to the Company.

In order to achieve this reduction:

- Mr Brett Heading, Independent Director, has offered his resignation from the Board effective 2 October 2008.
- Mrs Rosemary Doherty, Beekeeper Director, has decided not to stand for re-election at the forthcoming AGM on 3 October 2008.

Though these resignations comply with the current rules of the Constitution, an amendment is required before a further reduction can take effect. Subsequently, a proposed Resolution has been tabled and is set out in the Notice of Meeting and accompanying Explanatory Memorandum.

Subject to approval of the Resolutions tabled:

- Mr Peter Barnes has advised his intention to resign from the Board effective 31 December 2008 thereby reducing the Board to four Directors.

The above changes are in line with our commitment in reducing expenses to ensure a cost effective business and the Directors recommend you vote in favour of the Resolution.

Chairman's Report

The People

After 17 years service, Ian Cane resigned from the Board on 3 November 2007 and I thank Ian for his valuable contribution to the company.

Bernie Ballantyne, retired from the Board on the 30 June 2008 after 23 years service as a director, initially 6 years as PDS nominee director then as an independent director. Bernie has been an enormous contributor at all levels of the company and I thank him for his input. Bernie runs an extensive business in his own right and found the time he devoted to Capilano was impacting on his other responsibilities.

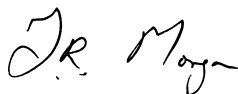
Rosemary Doherty has decided not to stand for re-election at the forthcoming AGM on 3 October 2008 after 8 years as a Director. This decision was solely to meet the Board's objective to reduce the size of the Board and I extend my sincere gratitude to Rosemary, not only for her contribution to the Company over this time, but also her decision to stand down in order for the company to meet its objectives.

Brett Heading has also decided to retire as a Director in order for the company to meet its objectives and I thank him for his understanding during this restructure.

Although there has been an increase in the honey price during this year many suppliers have been grappling with the continuing drought combined with increased cost of production, not least of all the enormous increase in the cost of fuel that has occurred in the last year. With a return to more normal levels of production it is important that the returns from Capilano's business are maintained at a high enough level that allows all sectors including Capilano to be profitable.

With the 45% reduction in staff members that has occurred at Capilano in the last three years, to create a much leaner operation, many very talented and valuable contributors are no longer with us. I would like to take this opportunity to thank them for their input and to wish them well in their future endeavors. It is heartening to learn that virtually all of them have been able to find alternative employment almost immediately.

I would also like to thank those staff who remain for their commitment and dedication, often with an increased work load.



Trevor Morgan
Chairman

Board of Directors



Trevor R. Morgan, FAICD
Chairman, Non-Executive Director, Commercial Apiarist

Age 53
Appointed and elected Director 1998, then Deputy Chairman 2004, and Chairman in 2005

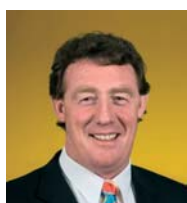
Mr Morgan has been a director since 1998 was Deputy Chairman from 2004 – 2005 and was elected Chairman in 2005. He is a second generation beekeeper with over 30 years experience in honey production. He has been widely involved in industry matters for many years at both State and National level, serving on the South Australian Apiarist Association executive for more than 10 years, including 2 years as President. He is a Fellow of the Australian Institute of Company Directors and holds a Company Directors' Advanced Diploma.



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

Age 53
Appointed Director 1996

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



Phillip F. McHugh
Deputy Chairman, Non-Executive Director, Commercial Apiarist

Age 51
Elected Director 1993

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



Rosemary Doherty, FAICD
Non-Executive Director, Commercial Apiarist

Age 58
Elected Director 2000

Mrs Doherty has been a director since 2000. She has been a commercial apiarist in a partnership for over 30 years and is actively involved in industry issues, serving 20 years as Branch Secretary of the NSW Apiarists' Association, Western Plains Branch, and 7 years as committee member of the Honey Bee Research and Development Committee. She is a Fellow of the Australian Institute of Company Directors and holds a Company Directors' Diploma and Certificate IV in Business Studies from New South Wales' TAFE.

Mrs Doherty will retire from office at the 2008 AGM in October.



Peter R. Barnes
Non Executive Director, Commercial Apiarist

Age 34
Elected Director 2007

Mr Barnes was elected director in October 2007. He is a third generation commercial apiarist with 18 years experience and his family have been Shareholders of CHL since 1968. He is actively involved in industry affairs, having recently served 3 years on the Queensland Beekeepers Association Management Committee, including holding the position of Wide Bay Branch Management Representative.



Simon L. Tregoning, B.Com
Independent Non-Executive Director

Age 60
Appointed Director 2006

Mr Tregoning has been a director since 2006. He is also a Director on the Boards of Australian Co-operative Foods (Dairy Farmers), St Luke's Hospital Complex, Philemon (Waterthin's Biscuits), and is Chairman, Canberra Chilled Foods. He was formerly Vice-President, Kimberly-Clark Corporation. He has had broad FMCG experience in Australia, Africa, and most of Asia. Earlier he was General Manager of various downstream divisions of Esso Australia Ltd.



James (Brett) Lochran Heading, B.Com., LLB (Hons)
Independent Non-Executive Director

Age 52
Appointed Director 1 July 2008

Mr Heading was appointed director on 1 July 2008, though following a restructure of the Board, Brett offered his resignation, effective 2 October 2008.

Review of Operations 2007-2008



Market fundamentals for our business in 2008 were grim, with drought continuing to affect supply, exchange rates continuing to impact on export revenues and the shift to private label brands now very evident.

Each of these had a significant and unfavourable impact directly against profit.

Financial

Our Group results are shown below:

| (\$,000's) | 2006 | 2007 | 2008 |
|--------------------------------|--------|--------|---------|
| Revenue | 76,174 | 69,269 | 64,175 |
| Earnings before Interest & Tax | 3,599 | 3,562 | (6,991) |
| Net Profit after tax | 1,390 | 1,875 | (7,448) |

Included within the result are provisions and asset revaluations initiated on the basis of conservatism and prudent reporting. These results include:

- an asset revaluation of \$3.6 million of the shareholding in Comvita Ltd down to its market value as at 30 June 2008.
- a provision for write-downs of \$2.5 million involving
 - accelerated depreciation of IBC containers (\$1.1 million)
 - accelerated depreciation of surplus plant and equipment at Maryborough (\$720k)
- a provision for redundancy costs (\$405k).

The end of year result includes redundancy costs during the year of \$289k and foreign exchange losses of approximately \$845k. The latter relate mainly to the translation of our Canadian assets into Australian dollars at balance date. In order to disclose the underlying profit a break up of the result is shown below:

| | A\$000's |
|--|----------------|
| EBITDA & FX | 2,985 |
| Foreign exchange loss – translation of assets | (845) |
| Redundancies | (289) |
| Depreciation | (2,353) |
| Interest | (2,104) |
| | (2,606) |
| Write-down of Comvita shares | (3,641) |
| Accelerated depreciation of IBC containers | (1,100) |
| Accelerated depreciation of surplus plant and equipment at Maryborough | (720) |
| Provision for redundancies | (405) |
| Other | (623) |
| Tax credit | 1,647 |
| NPAT | (7,448) |

Revenue declined by \$5.0 million with export bulk sales accounting for \$3.3 million due to reduced honey stocks, the loss of Medihoney sales of \$3.9 million following its sale, and the inclusion of \$2.1 million in consolidated sales relating to the Canadian operation.

The balance sheet debt and interest cover ratios reflect the provisioning and write-downs referred to above. The current ratio and liquidity is still strong, with the business operating well within its facility limits. An interest rate cap protects over half our debt facilities.

| | 2006 | 2007 | 2008 |
|---|--------|--------|--------|
| Current Ratio | 2.91 | 3.58 | 3.14 |
| Debt (Total Liabilities / Total Assets) | 59% | 58% | 63.8% |
| Interest Cover (EBIT D&A / Interest) | 3.57 | 3.58 | -1.55 |
| Net Assets (\$'000's) | 26,164 | 28,098 | 22,176 |
| Total Assets (\$'000's) | 64,150 | 67,399 | 61,224 |

Honey Shortage

Domestic receipts of 6,900 tonnes reached a record low. The average cost of honey over the year has risen from \$2.23/kg to \$2.62/kg on sales of 10,500 tonnes, with an immediate unfavourable impact on company profits of A\$4 million compared with last year.

After starting out at levels of \$2.70/kg in July 2007, our cost of raw material was reduced to levels averaging \$2.10/kg in October 2007, because the gap between returns in the market and raw material cost had become too wide. Although we sought price relief from major customers it was only partially met, leaving us little choice but to pass that shortfall on. In the meantime, fuel prices soared and crop expectations plummeted on the back of the drought. Lack of supply resulted in Capilano only partially bidding for a significant private label tender, the loss of which dropped recovery of manufacturing costs with further unfavourable profit consequences. Higher honey buying prices were introduced in June 2008 as an incentive for beekeepers to obtain supply during a time of extreme shortage, and for Capilano to ensure retention of our markets. The shortfall of domestic honey was made up by importing honey at prices comparable with Australian prices, due to an Argentine drought and shortages in the USA. The imported honey was used in industrial and export markets.

Foreign Exchange

Exchange rates continued to challenge exporters like Capilano. The A\$/US\$ position reached a new record high increasing 13% over the year, after having increased 15% the year before. In competitive segments, like export industrial bulk, achieving price increases to offset revenue decline due to the exchange rate movement are difficult. Price increases within contracts have been negotiated with our long term customers, which has softened that position somewhat.

Review of Operations 2007-2008

Operations and Markets

The re-engineering of our business to increase our competitiveness continues. We have reduced excess plant capacity, slashed operating expenses and are disposing of surplus assets. The purpose is to match our business to a lower margin sales environment that now exists as packers compete strongly for the private label business. The market has shown itself to be price sensitive so a flow-on to the branded business occurs.

During the year we further reduced the size of our operations in Maryborough, enabling additional cuts in overheads. Increased retail packing will be undertaken in Richlands. The extent of our product range has been reviewed, with SKU's rationalised across our different markets in order to increase our packing efficiencies. A review of our Richlands' operation was also undertaken with consequent improvement of packing efficiencies and working capital management. Employee numbers have now been reduced to a level of 85 from 154 three years ago as we consolidate our packing operations.

We have transferred the responsibility for voluntary payments to AHBIC to the beekeeper, which removes this expense from Capilano. The payment is made following an election by the beekeeper and is deducted from their statement.

The total honey category declined by approximately 90 tonnes or 1% (AC Nielsen 29/6/08). We estimate that the private label market share, including an estimate for Aldi, has remained static at 37% from last year (up from 27% two years ago), with deletions of some SKU's in Capilano and secondary brands Allowrie & Barnes, contributing to the overall decline in branded shares. Subsequently, a re-instatement of the Capilano SKU has seen its sales bounce back without detracting from other Capilano SKU's. The cheaper on-shelf price of private label appears to be responsible for a change in sales mix of our brands to less profitable lines.

The new 'no-mess' 'Snap n' Squeeze' portion pack has been launched using premium honey and also as a functional food item including Omega 3. Other functional food blends are available for later release. A sampling program to the public accompanied its launch together with a public relations campaign to explain its benefits to the target demographic.

Capilano won Gold in the Export Award category at the 2008 Australian Packaging Awards for the Presidents Choice Floral range packed for Canada. This award recognises an Australian company achieving export business opportunities with the use of Australian packaging specifically designed and developed for the export market.

Offshore

Our distribution in Canada has increased as we successfully obtained branded product listing in Ontario. We acquired the remaining half of CLI during the year and transferred packing to Australia, eliminating Canadian overheads.

Our combined private label and branded supply give us the second largest market share in Canada. External scan data results at the half year mark showed our brand had the highest growth at 42% in Quebec and the second

largest brand share. Growth in the West was strong with Capilano outpacing all competition and continuing as the second largest brand share behind Bee Maid. Our listing in Ontario in April 2008 will increase our market share substantially. As we moved to 100% Canadian blends, due to a lack of supply from Australia, freight costs increased. The taste profile of the Canadian/Australian blend used previously was well accepted by the consumer. A better Australian crop will allow us to re-establish that profile.

Our launch into the USA market continues using our 'Aussie', 'Coastal' and 'Outback' blends in our target East USA market. It has been useful in assessing the consumer reaction to Australian honey and understanding how honey is used in USA, in baking and in drinks in particular. In June 2008 we were listed in USA's second largest retailer with our upside down and Snap n' Squeeze packs for launch in August 2008. The latter are particularly suited to the hot drinks market. The Irwin family sponsorship continues to create opportunities for our products.

The Argentine arrangement with HoneyMax was to allow us to supply industrial customers in Europe with blends including Australian honey. This financial year it has been vital in supplementing the 3,800 tonne shortfall in our Australian receivables. We do not expect any significant honey supply from Australia until December 2008 and imported honey will be required to support our local and overseas industrial customers over that period. The market price of overseas honey still remains at very high levels, softened only by the exchange rate, which favours the importer. As such, overseas honey prices are little different from the current price levels of Australian honey.

In our other export markets revenues remain flat, affected by the strength of the A\$ and the weak US\$.

Outlook

In the loss this year we brought to account a substantial reduction in the value of Comvita shares. We will monitor this asset and our continued holding will depend upon returns attaching to it. Foreign exchange movements and the effect of the drought are non-controllable events which we manage as best we can.

What is clear is that our profitability must be improved and our gearing lowered.

The impact of the drought was far worse than our expectations at the end of last financial year. The low crop had an effect on local pricing as other packers competed for honey to supply their own customers. Imported honey was unusually high priced, due to drought in Argentina and increased demand from the USA since China was largely excluded due to anti-dumping tariffs. However, we have seen rain in various honey producing areas in Australia at intervals which should set up for a turnaround in crop. In this environment the honey buying mechanism will be changed so that receivables in excess of our immediate requirements will attract a price relative to its destination market. The risk of high cost honey relative to a commodity market must be removed.

Review of Operations 2007-2008

Over the past two years we have stripped millions of dollars in costs out of the business through changes to our operation by capacity reduction in Australia and Canada, and by slashing expenses. Management and staff numbers have been drastically cut as the operation contracted. We are now in a position to be very competitive for private label business and it makes our branded business more profitable.

Plans are currently in place to reduce the size of the Board thereby reducing expenses further.

Within Australia there have been changes to our label to increase on-shelf visibility. The Snap n' Squeeze pack has been launched to introduce honey to new user groups, new applications and to cater for shifting consumer demographics.

We have built up the Canadian market to sales of 2,700 tonnes of retail products. The USA is a key growth market, with distribution and sales supported by offering a product that is different from local products.

We have maintained our focus on our honey business this year, improving distribution, products and cutting costs in a mature industry of diminishing returns. This focus will continue.

In order to grow our business the possibility exists for acquisitions / mergers synergistic to our business. Currently, our access to capital is restricted by the level of control exerted through the Foundation Share held by CBL. If we are to use the share market as a means to raise capital then serious consideration is required of this control issue.



Roger Masters
Managing Director

Concise Financial Report

08

This concise report has been derived from the full financial report for the year ended 30 June 2008. The full financial report and auditor's report is available free of charge on request.

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

Report of the Directors

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

| <i>Director</i> | <i>Qualifications/ Experience</i> | <i>Special Responsibilities</i> | <i>Shares held in Parent entity</i> |
|--------------------------------------|--|---|---|
| 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

| <i>Director</i> | <i>Qualifications/ Experience</i> | <i>Special Responsibilities</i> | <i>Shares held in Parent entity</i> |
|----------------------------------|---|---|--|
| 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 Practising 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:

| <i>Directors</i> | <i>Directors Meetings of the Company</i> | | <i>Committee Meetings of Directors</i> | | <i>General Meetings of the Company</i> | |
|------------------|--|--------------------------------|--|--------------------------------|--|--------------------------------|
| | 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.

Report of the Directors

→ 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 |
|---|--------------------------|----------------------|
| <i>Members of HR Committee</i> | | |
| 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 |
| <i>By invitation:</i> | | |
| 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

Report of the Directors

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 | Total \$ |
|--------------------|-------------------------------|-------------------------|--------------------------------|--------------------------------|----------------|
| | Cash salary and fees \$ | Incentive Plan \$ | Non monetary benefits \$ | Super- annuation \$ | |
| 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 | Total \$ |
|--------------------|-------------------------------|-------------------------|--------------------------------|--------------------------------|----------------|
| | Cash salary and fees \$ | Incentive Plan \$ | Non monetary benefits \$ | Super- annuation \$ | |
| 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 |

Report of the Directors

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 | Chairman | 71,330 |
| Honey Limited | 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 |
| | <u>9,515</u> |

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 17 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



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

Consultants
David J Cranstoun
Yusuf Hussein

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ABN 11 603 627 400

Our Ref

Your Ref

Date

Cranstoun & Hussein
Chartered Accountants & Business Advisers

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


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
Chartered Accountants

M Ayooob
A Member of the Firm

Brisbane, 20 August 2008

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 lodgment 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.

Consolidated Income Statement

For the year ended 30 June 2008

| | Note | Consolidated | |
|---|------|--------------------|------------------|
| | | 2008 \$ | 2007 \$ |
| Revenue | 2 | 64,175,077 | 69,268,619 |
| Other income | 3 | 1,742 | 3,817,897 |
| Finance costs | | (2,440,408) | (1,971,519) |
| Other expenses | | (70,831,570) | (69,188,693) |
| (Loss) profit before income tax | | (9,095,159) | 1,926,304 |
| Income tax (benefit) expense | | 1,646,745 | (51,442) |
| (Loss) profit attributable to members of CHL | | (7,448,414) | 1,874,862 |
| Earnings per share (cents) | | (144.6) | 36.4 |
| Diluted earnings per share (cents) | | (144.6) | 36.4 |

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

Discussion & Analysis

- The consolidated net loss before income tax attributable to members of CHL of \$(9.1) million includes:
 - underlying operating loss of \$(2.6) million
 - provisions and revaluations of \$(6.5) million
- The underlying operating loss of \$(2.6) million includes:
 - reduction in export revenue as the US dollar depreciated a further 13% against the Australian dollar (on the back of a 15% depreciation from 2006 to 2007)
 - foreign exchange loss of \$(0.85) million mainly on translation of the company's Canadian assets into Australian dollars
 - depreciation and amortisation costs of \$2.3 million
 - honey purchase price increases of 17% following the lowest domestic honey crop on record, consuming an additional \$4.1 million
- The provisions and revaluations of \$(6.5) million comprise:
 - revaluation of shareholding in Comvita Ltd of \$(3.6) million to market value as at 30 June 2008
 - accelerated depreciation of IBC containers of \$1.1 million
 - accelerated depreciation of surplus plant and equipment at Maryborough of \$0.7 million
 - provision for redundancy costs of \$0.4 million
 - accelerated amortisation of market development costs of \$0.3 million
 - other provisions of \$0.4 million
- Domestic honey supply decreased by 33% from the previous year as the impact of the drought worsened.
- The decrease in consolidated revenue of \$(5.1) million was mainly a result of:
 - reduction in revenue of \$(3.9) million following sale of Medihoney Pty Ltd
 - \$2.0 million increase in revenue following a change in treatment of Capilano Canada Inc. from equity accounted associate to consolidated subsidiary
 - reduction in sales of export bulk stock of \$(3.3) million following reduction in domestic honey receivables

Consolidated Balance Sheet

As at 30 June 2008

| | Note | Consolidated | |
|--------------------------------------|------|-------------------|-------------------|
| | | 2008 \$ | 2007 \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 1,312,700 | 296,036 |
| Trade and other receivables | | 11,458,695 | 16,952,791 |
| Inventories | | 17,421,285 | 23,375,640 |
| Other current assets | | 342,844 | 956,513 |
| TOTAL CURRENT ASSETS | | 30,535,524 | 41,580,980 |
| NON-CURRENT ASSETS | | | |
| Trade and other receivables | | - | 3,194,803 |
| Other financial assets | | 1,858,351 | - |
| Property, plant and equipment | | 19,591,561 | 20,543,391 |
| Intangible assets | | 5,480,247 | 497,097 |
| Deferred tax assets | | 3,758,213 | 1,582,470 |
| TOTAL NON-CURRENT ASSETS | | 30,688,372 | 25,817,761 |
| TOTAL ASSETS | | 61,223,896 | 67,398,741 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 7,581,995 | 9,209,349 |
| Short term borrowings | | 2,128,837 | 2,394,798 |
| TOTAL CURRENT LIABILITIES | | 9,710,832 | 11,604,147 |
| NON-CURRENT LIABILITIES | | | |
| Long term borrowings | 5 | 28,928,670 | 27,091,026 |
| Long term provisions | | 408,299 | 604,964 |
| TOTAL NON-CURRENT LIABILITIES | | 29,336,969 | 27,695,990 |
| TOTAL LIABILITIES | | 39,047,801 | 39,300,137 |
| NET ASSETS | | 22,176,095 | 28,098,604 |
| EQUITY | | | |
| Issued capital | | 5,366,359 | 5,366,344 |
| Reserves | | 4,275,885 | 2,749,995 |
| Retained earnings | | 12,533,851 | 19,982,265 |
| TOTAL EQUITY | | 22,176,095 | 28,098,604 |

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

Discussion & Analysis

- Receivables decreased in value by \$5.5 million following the receipt of the proceeds from the sale of Medihoney Pty Ltd.
- Inventories decreased by \$5.8 million in spite of a 17% increase in honey purchase prices, as a result of the record low domestic crop.
- The acquired listed investment in Comvita Ltd has been reduced by \$3.6 million in line with the prevailing share price at 30 June 2008.
- Goodwill of \$5.1 million was recognised on the purchase of the remaining 50% of Capilano Canada Inc.
- Trade payables decreased by \$1.6 million following the reduction in honey purchased during the year.
- Borrowings less cash increased by \$0.55 million.
- Deferred tax assets of \$3.8 million are based on the Australian tax rate of 30% and the Canadian tax rate applicable to future earnings of 19%.
- Net tangible asset backing per share is \$2.51 in June 2008 compared with \$5.05 in June 2007 and is largely due to the accelerated depreciation of plant and equipment and the devaluation of the shareholding in Comvita Ltd.

Consolidated Statement of Changes of 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 |

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

Consolidated Cash Flow Statement

For the year ended 30 June 2008

| | Inflows (Outflows) | |
|--|--------------------|------------------|
| | Consolidated | |
| | 2008 | 2007 |
| | \$ | \$ |
| Cash flows from operating activities | | |
| Receipts from customers | 64,714,123 | 70,478,129 |
| Payments to suppliers and employees | (62,698,074) | (70,421,748) |
| Interest received | 300,357 | 270,704 |
| Goods and Services tax received | 1,447,462 | 1,458,222 |
| Interest paid | (2,103,892) | (1,636,442) |
| Net cash generated from operating activities | 1,659,976 | 148,865 |
| Cash flows from investing activities | | |
| Payment for property, plant and equipment | (970,720) | (1,457,678) |
| Proceeds from sale of controlled entity | 6,000,000 | - |
| Investment in listed entity | (5,500,000) | - |
| Payment for intangible assets | (133,393) | (27,494) |
| Proceeds from sale of property, plant and equipment | 4,545 | 2,390 |
| Repayment of other loan | 264,984 | 166,071 |
| Loans to associated entity | - | 901,912 |
| Loans to controlled entities | (2,019,466) | - |
| Net cash used in investing activities | (2,354,050) | (414,799) |
| Cash flows from financing activities | | |
| Proceeds from share allotments | 15 | 60,267 |
| Proceeds from borrowings | 1,084,248 | 576,583 |
| Dividend paid | - | (257,552) |
| Net cash raised from financing activities | 1,084,263 | 379,298 |
| Net increase in cash held | 390,189 | 113,364 |
| Cash acquired on purchase of controlled foreign entity | 626,475 | - |
| Cash at the beginning of the financial year | 296,036 | 182,672 |
| Cash at the end of the financial year | 1,312,700 | 296,036 |

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

Discussion & Analysis

- Cash of \$1.7 million was generated by the operating activities of the consolidated entity, mainly as inventory reduced.
- Cash generated and the increased borrowings were used to purchase plant and equipment and in the loan to the controlled entity.
- Proceeds of the sale of Medihoney Pty Ltd were invested in Comvita Ltd, in line with the sale agreement.

Notes to the Consolidated Financial Statements

1. BASIS OF PREPARATION OF THE CONCISE FINANCIAL REPORT

The concise financial report is an extract from the full financial report for the year ended 30 June 2008. The concise financial report has been prepared in accordance with Accounting Standard AASB 1039: Concise Financial Reports, and the *Corporations Act 2001*.

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

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

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

| | | Consolidated | |
|-----------|--|-------------------|-------------------|
| | | 2008 | 2007 |
| | | \$ | \$ |
| 2. | REVENUE | | |
| | Sales revenue | 63,805,608 | 68,989,637 |
| | Interest received | 300,357 | 270,704 |
| | Sundry | 69,112 | 8,278 |
| | | 64,175,077 | 69,268,619 |
| 3. | OTHER INCOME | | |
| | Gain on disposal of controlled entity (Note 7) | - | 3,815,507 |
| | Gain on disposal of property, plant and equipment | 1,742 | 2,390 |
| | | 1,742 | 3,817,897 |
| 4. | DIVIDENDS | | |
| | Ordinary shares | | |
| | No dividend has been provided for or 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.

5. LONG TERM BORROWINGS

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.

Notes to the Consolidated Financial Statements

| 6. SEGMENT REPORTING | 30 June 2008 | | | |
|--|--------------------|--------------------|--------------------|--------------------|
| | Australia \$ | Canada \$ | Intersegment \$ | Consolidated \$ |
| Primary reporting – geographical segments | | | | |
| 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 |
| | 30 June 2007 | | | |
| Primary reporting – geographical segments | Australia \$ | Europe \$ | Intersegment \$ | Consolidated \$ |
| 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.

Notes to the Consolidated Financial Statements

| | | Consolidated | |
|-----------|---|--------------|------------|
| | | 2008 \$ | 2007 \$ |
| 7. | 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 |
| | Shares in Comvita Ltd (*) | - | 5,500,000 |
| | Cash consideration | - | 500,000 |
| | | - | 6,000,000 |
| | <i>(*) 1,560,765 ordinary shares issued at A\$3.52 (rounded) per share</i> | | |
| | Assets and liabilities held at disposal date | | |
| | Investment in controlled entity | - | - |
| | Receivables | - | 590,302 |
| | Inventories | - | 432,955 |
| | Property, Plant & equipment | - | 82,358 |
| | Intangibles | - | 48,508 |
| | FITB | - | 1,335,427 |
| | Prepayments | - | 20,981 |
| | Payables | - | (326,038) |
| | | - | 2,184,493 |
| | Net gain on disposal | - | 3,815,507 |
| | | - | 6,000,000 |
| 8. | 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.

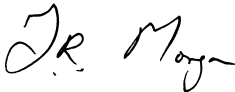
CCI losses included in consolidated profit of the group since the acquisition date on 29 February 2008 amounted to \$222,460.

Directors' Declaration

The directors of the company declare that the concise financial report of Capilano Honey Limited and Controlled Entities for the financial year ended 30 June 2008, as set out on pages 10 to 27.

- a. complies with Accounting Standard AASB 1039: Concise Financial Reports; and
- b. is an extract from the full financial report for the year ended 30 June 2008 and has been derived from and is consistent with the full financial report of Capilano Honey Limited and Controlled Entities.

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



T R Morgan, Director



R D Masters, Director

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
Yusuf Hussein

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Our Ref

Your Ref

Date

Cranstoun & Hussein
Chartered Accountants & Business Advisers

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

To the members of Capilano Honey Limited

Report on the Concise Financial Report

The accompanying concise financial report of Capilano Honey Limited ('the company') comprises the balance sheet as at 30 June 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended and related notes, derived from the audited financial report of the company for the year ended 30 June 2008 and the discussion and analysis. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' Responsibility for the Concise Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of the company for the year ended 30 June 2008. Our audit report on the financial report for the year was signed on 20 August 2008 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

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

report complies with Accounting Standard AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with the requirements laid down in AASB 1039 *Concise Financial Reports*.

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

Independence

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

Auditor's Opinion

In our opinion, the concise financial report, including the discussion and analysis of the company for the year ended 30 June 2008 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

CRANSTOUN & HUSSEIN
Chartered Accountants

M Ayoob
A Member of the Firm

Brisbane, 20 August 2008

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:

| | <u>Foundation Share</u> | | <u>Ordinary Shares</u> | |
|------------------|--------------------------|-------------------------|--------------------------|-------------------------|
| | <u>Number of Holders</u> | <u>Number of Shares</u> | <u>Number of Holders</u> | <u>Number of Shares</u> |
| 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 |
| | | | <u>694</u> | <u>5,151,065</u> |

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:

| | <u>Number of Ordinary Shares</u> | <u>Percentage of Ordinary Shares</u> |
|-------------------------------|----------------------------------|--------------------------------------|
| 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% |
| | <u>1,005,398</u> | <u>19.52%</u> |

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.

Attendance Form

CAPILANO HONEY LIMITED

ACN 009 686 435

Office Use Only: Slip no ... No. of shares

Slip no No. of shares

Shareholder No:

Name

Address

I/we propose to attend the following functions:

Friday, 3 October 2008

9.00am MANAGEMENT PRESENTATION

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

11.00am Annual General Meeting

CAPILANO BEEKEEPERS LTD

Registration from 8.30am

CBL Shareholders only

12.00pm Light Lunch

1.00pm Annual General Meeting

CAPILANO HONEY LIMITED

Registration from 12.00pm

Please list names of those attending:

Complete and return this form by fax on (07) 3712 8287 or to PO Box 531, Inala Q 4077 by 26 September 2008



Proxy Form

Office Use Only: Slip no No. of shares

CAPILANO HONEY LIMITED

ACN 009 686 435

Slip no No. of shares

Shareholder Number:

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

of
(please print full address)

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

of
(please print full address)

or failing him/her, the Chairman of the Meeting, as my proxy to attend and exercise of my votes (*refer note 1*) on my behalf at the Annual General Meeting of the Company to be held on 3 October 2008 at 1.00pm and at any adjournment thereof.

Instructions for voting on Resolution:

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

| | For | Against | At discretion (refer Note 2) | Abstain |
|---|---|---|---|---|
| Resolution 1: To amend the Constitution by adopting the changes set out in Annexure A of the Explanatory Memorandum | <input style="width: 50px; height: 20px;" type="text"/> | <input style="width: 50px; height: 20px;" type="text"/> | <input style="width: 50px; height: 20px;" type="text"/> | <input style="width: 50px; height: 20px;" type="text"/> |
| Resolution 2: To adopt the Remuneration Report included in the Report of the Directors | <input style="width: 50px; height: 20px;" type="text"/> | <input style="width: 50px; height: 20px;" type="text"/> | <input style="width: 50px; height: 20px;" type="text"/> | <input style="width: 50px; height: 20px;" type="text"/> |

Signature of shareholder/s

Date:

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

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

Note 3: For this proxy form to be valid, it must be received at the Registered Office of the company not less than forty-eight (48) hours before the start of the Annual General Meeting (see Rule 98). Accordingly, all proxy forms must be received at 399 Archerfield Road, Richlands Q 4077 (PO Box 531, Inala Q 4077) or by facsimile (07) 3712 8287 no later than 1.00pm on Wednesday, 1 October 2008.

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

Proxy Form

INSTRUCTIONS FOR APPOINTMENT OF PROXY

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

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

EXPLANATORY NOTES - PROXY FORMS

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

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

Rule 87

"A POLL MAY BE DEMANDED BY:

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

Rule 91

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

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

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

If you are unable to attend the Annual General Meeting, but wish to exercise your right to vote, please complete and return the Proxy Form to reach us by 1.00pm on 1 October 2008. If you wish to do so, please assist the person you nominate as your proxy by directing them to vote in the manner in which you require. You can do this by placing an "X" in the appropriate FOR, AGAINST, AT DISCRETION or ABSTAIN space on the Proxy Form.

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



R Rivalland
Company Secretary.

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

Contact Details

| | |
|--|---|
| Registered Office Head Office 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 |



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