



Dear Shareholders

Amendments to the Constitution regarding Directors

In our meetings with suppliers and shareholders we have emphasised the need for Capilano to cut expenses in every area of its operation to remain competitive in today's market, particularly during years when tonnages are reduced due to lower production caused by drought.

Board and Management have taken a hard look at all areas of our operation and made significant cuts to expenses by changing the way we operate and reducing the number of employees to a minimum. One area of expense that our competitors are not affected by are the costs associated with being a public company, including the cost of a Board of Directors. We are lowering our costs to be more competitive and Board costs are not exempt from consideration.

Capilano still has a relatively large Board judged by any measure against other public Companies, even much larger ones. Costs include such things as Directors fees, which compensate a Director for the time taken away from running his/her own business, to the travel & accommodation costs of attending the Board meetings at head office.

The question you may ask is whether we need the numbers we have on the Board today?

The Board, including the Beekeeper Directors, has concluded that a smaller Board will still provide strategic direction and good corporate governance to our business. It would also provide significant savings, not only in direct remuneration to Directors but also the costs associated with travel and accommodation required to attend meetings.

As a consequence a resolution is being put for consideration by shareholders at the AGM to change the constitution to allow the Board's number to be reduced to four.

Details of the resolution are included in the Annual Report and Notice of Meeting but essentially it includes:

- for the Board to consist of 4 Directors
- 2 must be Beekeeper Directors
- the Chairman must be a Beekeeper Director (*which is not currently stipulated in the existing constitution*)
- give the Chairman a casting vote in the event of a deadlock.

While these changes will mean an increased responsibility and work load on remaining Directors we believe they are consistent with our objective of having the most efficient Company possible.

I urge all shareholders to support the resolution either by voting in person at the AGM or by proxy vote.

Yours faithfully

Trevor Morgan
Chairman

