



ABN 55 009 686 435



ANNUAL REPORT 2009



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# Chairman's Report



It is very pleasing to report a profit for the year. This represents a significant turnaround in the results compared to last year.

The excellent work done by all our team to reposition our company as a much more cost effective business without excess capacity and overheads has seen a major

reduction in expenses. This work continues and will see us well placed to operate in the low margin sales environment that now exists.

Our ability to take advantage of improved exchange rates during the middle of the financial year was restricted by limited supplies of Australian honey due to increased competition and low production in some areas. This limited supply has also meant that we have relinquished some lower margin bulk sales and Private Label business locally.

## Results

A net profit before tax for the group this year of \$793k reflects a turnaround of \$9.89 million compared to last year and includes a profit from both our Australian operation, Capilano Honey Limited, and our Canadian business, Capilano Canada Inc.

This has been achieved despite an increase in Cost of Goods Sold of \$5.5 million as a result of the average price for domestic honey increasing from \$2.55/kg last year to \$3.17/kg this year and a Foreign Exchange loss of \$618k for the year, almost all of which relates to the revaluation of Canadian assets as a result of changes in the exchange rate from the time of reporting last year to this year.

Total sales have increased in both volume and dollars. Management has done a very good job of increasing selling prices to match the increase in the cost of the raw material and maintain profitability.

## Future Strategy and Direction

This year has seen significant changes in all areas of the operation that have resulted in a further reduction in the total number of employees and the way we receive, pack and market honey. Our aim is to continue to increase profitability by further reducing expenses and improving the efficiency of our operation.

The rainfall that has occurred in many areas recently will hopefully result in a return to more normal levels of honey production and the company will be well positioned to boost throughput, thus reducing unit overheads, and also to take advantage of the sales opportunities that our team has developed both locally and overseas.

## Capital Raising

The Global Financial Crisis that struck the world economy last year has resulted in a tightening of credit to lenders.

Banks are reassessing their exposure to risk and returns and this has affected many companies loans to security position, including ours.

Capilano's bankers performed their annual review of our facilities in July 2009. An outcome of the review was a tightening of our security position through lower loan to value ratios and introduction of EBITDA covenants. In order to comply with the proposed requirements a debt reduction in the order of \$10 million is necessary. The expectation that a greater proportion of our bank facilities would be classified as current liabilities delayed the issue of our Annual Report.

It is expected that the reduction of debt will be achieved by a combination of capital raising, asset sales and improved use of working capital.

A capital raising proposal will be put to Capilano shareholders to reduce debt and improve the Company's equity position.

While this process has the potential to change the dynamics of ownership of our company, it also provides an opportunity for existing shareholders to improve the returns from their shareholding and ultimately to realise the full value of the shares they hold, at the same time maintaining a secure and competitive market for supplier shareholders honey.

An Explanatory Memorandum detailing a proposal to raise capital will be issued to shareholders at the appropriate time.

## The People

Reduced numbers of employees in all areas of our company has put increased work and pressure on everyone. It is gratifying to see how well they have performed; this includes Staff, Managers and the Board.

Many employees have had to deal with changes in the way we have done things in the past and they have not only coped well, they have contributed to the improvements with practical ideas and suggestions.

The Managing Director and his small team of dedicated managers have had to deal with a very difficult environment in recent years where margins are reduced and competition has increased in the market place and for supply. They have responded by repositioning our company as much more cost effective and competitive and I believe it is well placed to continue to trade profitably into the future.

Finally I would like to thank the other Board members for their dedication and commitment to working for the continued prosperity of all Capilano shareholders.



Trevor Morgan  
Chairman



## Board of Directors



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

Age 54

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 54

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 an extensive career in senior management with significant experience in finance, marketing and business development.



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

Age 52

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.



**Peter R. Barnes**  
**Non Executive Director, Commercial Apiarist**

Age 35

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 61

Appointed Director 2006

Mr Tregoning has been a director since 2006. He is also a Director of Grain Corp, and St Luke's Care. He was formerly a director of Australian Co-operative Foods (Dairy Farmers), Philemon (Waterthin's Biscuits), and Canberra Chilled Foods. Prior to that he was Vice-President, Kimberly-Clark Corporation. He has had broad FMCG experience in Australia, Africa and Asia.

# Review of Operations 2008-2009



We are able to report a return to profitability this year arising out of massive changes to our group operation and through securing better prices in the marketplace for our products.

Significant expense cuts were achieved through reducing surplus manufacturing capacity by completing the restructuring of our Maryborough and Canadian operations.

However, market fundamentals remain weak. Low honey receipts meant importing honey to maintain our existing customers. The shortage of honey meant we also declined business which otherwise would have provided millions of dollars in overhead recovery and contribution. We look forward to better honey production conditions.

While exchange rates improved favourably over the year, the currency hedging in place reduced the impact of the extreme currency movements in the first 6 months. Exchange rates over the second half, although favourable, were not remarkable. Half of our business is export.

The competitive position of private label in Australia has now settled with the contribution to the packer at much lower levels. The industry has fragmented and more competitors exist to bid for the supply of this segment. However, our change in operations will place us in a stronger position to bid for such business in the future, contingent on sufficient supply.

In October 2008 the world experienced the Global Financial Crisis (GFC) with a financial shakeout in the economies of many countries with whom we trade. There has been a tightening of credit to banks, which in turn is being passed on to their customers. Banks are realigning their risk/return requirements and this will affect us with changed security positions. Many companies have been raising capital in this period so as to reduce debt and strengthen equity position. Capilano has not been spared in this process and a capital raising proposal will be put to shareholders.

## Financial

Our Group results are shown below:

(\$,000's)	2007	2008	2009
Revenue	69,269	64,175	78,493
Earnings before Interest & Tax	3,562	(6,991)	2,537
Net Profit after tax	1,875	(7,448)	707

The net profit of \$707k is comparable with the underlying loss of \$(2.6) million reported in last year's Annual Report.

The 2009 profit includes the impact of:

- A full year foreign exchange loss of \$(618)k including a non cash adjustment in June for foreign exchange revaluation of assets in the amount of \$(839)k at balance date.
- An increase in the cost of honey of \$5.5 million as the average honey price moved up.

Revenue increased by \$14.3 million following a full year of consolidated sales relating to the Canadian operation included for the first time. Export bulk sales were up, at margins greater than local private label tenders, while private label sales were down by \$2.8 million as lack of supply inhibited our ability to tender.

The improved profit has moved interest cover to a more acceptable level while our debt ratio has also improved. Liquidity is still strong, with cash generated of \$2.295 million compared with \$1.659 million last year.

The net asset movement includes an increase in retained earnings and a decrease in reserves through devaluation of the investment held in Comvita Ltd. The Comvita share price at 30 June 2009 was NZ\$0.84, down from NZ\$1.50 in June 2008. During the year 200,000 shares were sold (13% of our holding). Currently their share price has moved back to NZ\$1.25 per share which equates to a \$433k adjustment. Our holding is regularly reviewed.

	2007	2008	2009
Current Ratio	3.58	3.14	1.57
Debt (Total Liabilities / Total Assets)	58%	63.8%	62.9%
Interest Cover (EBIT D&A / Interest)	3.58	-1.55	2.34
Net Assets (\$'000's)	28,098	22,176	21,954
Total Assets (\$'000's)	67,399	61,224	59,200

The Board of Capilano proposes a program of debt reduction with a target reduction of \$10 million to be achieved through a combination of capital raising, asset sales and improved use of working capital. In an agreement with our bankers we have classified \$10 million of debt as current, moving the current ratio from 3.14 in 2008 to 1.57 in 2009.

## Honey Shortage

Domestic receipts were 8,714 tonnes compared with 6,900 tonnes last year. The average cost of honey over the year has risen from \$2.55/kg to \$3.17/kg. An amount of 2,853 tonnes of imported honey was used to supplement the shortfall of domestic honey. The imported honey was used in industrial and export markets.

## Operations and Markets

We have continued to change our business using initiatives we developed and also those from an independent review of our Richlands' operation undertaken in 2008.

We have focused on expense reduction, packing efficiencies and working capital management. Employee numbers have now been reduced to a level of 64 from 85 last year. Our retail packing has consolidated into one plant while bulk packing in Maryborough is linked to the receipts and customers in that region.

We evaluated the cost/benefit of moving the packing plant to a centrally located position in our receipts and distribution area as a means to release capital invested in Brisbane real estate for debt reduction. After extensive study it was ruled economically non-viable due to freight charge differentials that exist.

## Review of Operations 2008-2009

A review of our usage of the site in Richlands, Brisbane was conducted. A number of alternatives were considered including partitioning the site for potential sale or moving our operations under one roof and lease out part of the site. We are moving in the latter direction.

The total honey category in Australia (measured by AC Nielsen 29/6/09), improved by approximately 307 tonnes or 3.4% which is the first positive movement in some years. The private label market share, excluding Aldi, has settled at 33.5% (up from 27% three years ago). Cheaper products on shelf now occupy greater market share and are the product of greater competition between packers.

Capilano's branded share has improved on last year. More attention was paid to the shelf appearance with the use of merchandisers, who were also able to help with promotions. Efforts to remind consumers of how honey can be used, including sampling promotions of our *Snap 'n Squeeze*, have helped the whole honey category.

### Offshore

We have built up the Canadian market to sales of over 3,200 tonnes. Access to overseas markets requires a lot of investment and perseverance and this is no exception. Although it was not an immediately profitable market, it provided better returns than the export bulk markets which in the past used to take our surplus honey. We are now receiving a positive contribution from Canada, but the lack of supply from Australia forced us to increase the other origin honey content that carries extra freight costs. The profit from our Canadian market this year was also undermined by a crystallisation problem due to the blends used. Support from our suppliers with honey for this market will add greatly to our profitability.

We continue to support our export markets in anticipation of a production year not so affected by drought. Once we relinquish these markets they are hard to recover.

### Outlook

The business has been overhauled in the last three years to become much leaner and more cost competitive. That process is ongoing.

Three years ago honey price was necessarily cut as a short term measure to enable re-structure of the business in a radically changed trading environment. As predicted, we are now in a more fragmented industry with more packers competing for the less profitable segments of the Australian market.

We have addressed the issues of cost in Capilano's business, which gave us the ability to improve honey price to a level expected by our supplier shareholders. However, Capilano's profitability and growth is currently hampered by lack of honey supply. If our suppliers can meet that challenge then we can improve greatly on current profitability.

Last year we said our profitability must be improved and our gearing lowered. While we are on track with the first objective, we must address the second.

Capilano has operated for many years with no further capital injection than the original \$5 million shown on our balance sheet. Our funding so far has been provided by retained earnings and bank debt.

In recent years retains in the order of \$5.2 million have been returned to shareholders and the Capilano Unsecured Notes has reduced by about \$1.5 million. Funds have been applied in establishing a pool of containers and developing a market for our honey in Canada, yielding an export market for substantial volumes. Funds were also used in developing the therapeutic honey products within Medihoney which was subsequently sold. Disappointingly, funds realised from the sale of Medihoney, in the form of shares in Comvita, have substantially fallen in value.

Capilano will be required to raise capital to replace some of the debt funding that has been used for the above purposes. An explanatory notice regarding a capital raising will be issued and we look forward to shareholder support in this process.



Roger Masters  
Managing Director



# Concise Financial Report

# 09

This concise report has been derived from the full financial report for the year ended 30 June 2009. 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 2009.

### → DIRECTORS

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

- Peter Barnes
- Rosemary Doherty (retired 3 October 2008)
- James (Brett) Lochran Heading (retired 2 October 2008)
- Roger D Masters, *Managing Director*
- Phillip F McHugh, *Deputy Chairman*
- Trevor R Morgan, *Chairman*
- 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 profit of the consolidated entity for the year after income tax was \$707,251.

### → DISTRIBUTIONS

No dividend was paid during the year.

No dividend has been provided for or declared for the year ending 30 June 2009.

### → REVIEW OF OPERATIONS

Sales revenue of \$78,387,396 for the consolidated entity was \$14,581,788 above the previous year's result. An analysis of this sales increase is as follows:-

	% increase / of 2009 over 2008	2009 \$	2008 \$
Capilano Honey Limited	17.2%	72,402,353	61,762,524
Capilano Canada Inc.	46.0%	17,327,400	5,007,389
Intercompany sales	82.6%	(11,342,357)	(2,964,305)
<b>Consolidated entity</b>	<b>22.9%</b>	<b>78,387,396</b>	<b>63,805,608</b>

The increase in revenue for the parent entity was largely a result of cost recoveries implemented across all markets following the significantly increased purchase costs of raw honey for the year.

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

### → 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 2009 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 2009.

### → 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>
Peter <b>BARNES</b>	FAICD Commercial apiarist. Director since 2007.	Non-Executive Beekeeper Director of Capilano Honey Limited. Non-Executive Beekeeper Director of Capilano Beekeepers Ltd. <b>Period: from 1 July – 3 October 2008</b> Member of the Honey Supply & Industry and Nomination Committees. <b>Period: 3 October 2008 – 30 June 2009</b> Member of the Honey Supply & Industry, Audit & Compliance and Nomination Committees.	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.
Rosemary <b>DOHERTY</b>	FAICD Commercial apiarist. Director 2000 - 2008.	<b>Period: from 1 July – 3 October 2008</b> 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 <b>HEADING</b>	B.Com, LLB (Hons) Independent Director July - October 2008.	<b>Period: from 1 July – 2 October 2008</b> 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 <b>MASTERS</b>	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 <b>McHUGH</b>	Commercial apiarist. Director since 1993  <u>Deputy Chairman</u> since 2007	Non-Executive <u>Deputy Chairman</u> of Capilano Honey Limited. Non-Executive Deputy Chairman of Capilano Beekeepers Ltd. <b>Period: 1 July – 3 October 2008</b> Chairman of the Honey Supply & Industry Committee and Member of the Nomination Committee. <b>Period: 3 October 2008 – 30 June 2009</b> Chairman of the Honey Supply & Industry Committee and Member of the HR and Nomination Committee.	P F McHugh holds 1,000 shares. He is also the beneficiary of an entity holding 33,676 shares.
Trevor Richard <b>MORGAN</b>	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.
Simon Lucien <b>TREGONING</b>	B.Comm Independent Director since July 2006.	Independent Non-Executive Director of Capilano Honey Limited. Independent Non-Executive Director of Capilano Beekeepers Ltd. <b>Period: 1 July – 3 October 2008</b> Chairman of the HR Committee and a Member of the Audit & Compliance Committee. <b>Period: 3 October 2008 – 30 June 2009</b> Chairman of both the Audit & Compliance and HR Committees.	Nil

# Report of the Directors

## → INFORMATION ON COMPANY SECRETARY

### *Company Secretary*

Richard  
**RIVALLAND**  
B.Com, CPA  
Company Secretary  
since 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.

## → 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 (*)
P Barnes	11	11	11	11	1	1
R Doherty	3	3	6	6	-	-
B Heading	2	3	-	-	-	-
R Masters	11	11	18	18	1	1
P McHugh	11	11	11	11	1	1
T Morgan	11	11	18	18	1	1
S Tregoning	11	11	18	18	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>		
S Tregoning (Chairman)	6	6
P McHugh (joined 3 October 2008)	4	4
R Doherty (retired 3 October 2008)	2	2
<i>By invitation:</i>		
R Masters	6	6
T Morgan	6	6

## 2. CAPILANO'S REMUNERATION POLICY (AUDITED)

### ▪ Reward Philosophy

Capilano's remuneration philosophy is that:

- (i) remuneration should emphasise performance;
- (ii) the balance between fixed and variable remuneration should reflect market conditions and the extent to which the role contributes directly to performance;
- (iii) individual objectives reflect the need to deliver sustainable outcomes for shareholders; and
- (iv) short and long term incentives are linked to individual's and Capilano's performance.

Capilano aims to achieve a mix of total remuneration (fixed and variable) that is consistent with high performance organisations, maximises the motivational impact for employees, and best aligns the interests of Capilano employees and shareholders.

### ▪ Reward Principles

The purpose of the remuneration policy is to ensure that salary packages offered by Capilano are sufficient to attract and retain the managing director, executives and employees with abilities and skills appropriate to the needs of the company measured as Total Employment Cost (TEC), and non executive directors as recommended to shareholders in general meeting.

TEC includes all costs associated with employment, including but not limited to PAYG salary, provision of motor vehicles, FBT, superannuation, and any other approved expenditure but excluding on costs. Fringe benefits or non-deductible expenditure shall be grossed up to include the tax effect as part of the cost of providing such benefits in a salary package.

The determination of TEC includes three basic principles:

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

#### 1. External Parity

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

# Report of the Directors

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 2008, 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

P Barnes	Director (Non Executive)	
R Doherty	Director (Non Executive)	Retired 3 October 2008
J B L Heading	Director (Independent Non Executive)	Retired 2 October 2008
R Masters	Managing Director	
P McHugh	Deputy Chairman (Non Executive)	
T Morgan	Chairman (Non Executive)	
S Tregoning	Director (Independent Non Executive)	

## ▪ Details of Most Highly Remunerated Executives and Key Management Personnel

S Bluck	National Sales Manager
R Eustace	Business Development Manager
P McDonald	General Manager - International Business
B McKee	Group Operations Manager
R Rivalland	Company Secretary, Financial Controller

## ▪ Gross Remuneration of Directors

	Short Term Benefits			Post Employment Benefits	Total \$
	Cash salary and fees \$	Incentive Plan \$	Non monetary benefits \$	Super- annuation \$	
P Barnes	33,739	-	-	3,037	36,776
R Doherty	8,856	-	-	1,131	9,987
J B L Heading	15,549	-	-	-	15,549
R Masters	140,407	-	194,801	50,667	385,875
P McHugh	9,971	-	-	33,504	43,475
T Morgan	-	-	-	70,128	70,128
S Tregoning	51,467	-	-	4,632	56,099
<b>TOTALS 2009</b>	<b>250,018</b>	<b>-</b>	<b>194,801</b>	<b>173,070</b>	<b>617,889</b>

The remuneration amounts listed above are gross earnings before tax.

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

## ▪ 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 \$	
S Bluck	110,091	8,483	12,000	9,909	140,483
R Eustace	110,546	-	15,600	11,354	137,500
P McDonald	134,128	-	10,800	12,072	157,000
B McKee	144,037	-	-	12,963	157,000
R Rivalland	155,963	-	-	14,037	170,000
<b>TOTALS 2009</b>	<b>654,765</b>	<b>8,483</b>	<b>38,400</b>	<b>60,335</b>	<b>761,983</b>

The remuneration amounts listed above are gross earnings before tax.

# 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 6 to 4 will reduce the approved amount from \$27,403 to \$18,901.

Directors and Officers Liability Insurance - 2009: \$28,000; 2010: \$28,000.

## 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;

## 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 2009:

	\$
Taxation Services	6,650
Review of Prospectus	2,750
	<u>9,400</u>

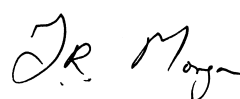
## AUDITORS

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 2009 has been received and can be found on page 12 of the annual report.

Signed at Brisbane this TWENTY-FIFTH day of SEPTEMBER 2009, 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 Ayoub  
Junaide A Latif  
Paul A Copeland  
Julie D Smith

**Consultants**  
David J Cranstoun  
Yusuf Hussein

Level 2  
102 Adelaide Street  
Brisbane

GPO Box 563  
Brisbane  
Queensland 4001

**Telephone (07) 3229 5100**  
International +617 3229 5100  
Facsimile (07) 3221 6027


Email [info@cah.com.au](mailto:info@cah.com.au)  
Website [www.cranstounandhussein.com.au](http://www.cranstounandhussein.com.au)  
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 2009, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Capilano Honey Limited and the entities it controlled during the period.

Cranstoun + Hussein

CRANSTOUN & HUSSEIN  
Chartered Accountants

J A Latif  
A Member of the Firm

Brisbane, 25 September 2009

# 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.

At 30 June 2009 both the CBL & CHL Board of Directors consisted of three Beekeeper Directors, one Independent Director 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 bi-annually by the Board. The performance of senior Management Executives is reviewed bi-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 2009

	Note	Consolidated	
		2009 \$	2008 \$
Revenue	2	78,492,628	64,175,077
Other income	3	-	1,742
Finance costs		(2,071,291)	(2,440,408)
Other expenses		(75,628,387)	(70,831,570)
Profit (loss) before income tax		792,950	(9,095,159)
Income tax (expense) benefit		(85,699)	1,646,745
<b>Profit (loss) attributable to members of CHL</b>		<b>707,251</b>	<b>(7,448,414)</b>
Earnings per share (cents)		13.7	(144.6)
Diluted earnings per share (cents)		13.7	(144.6)

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

## Discussion & Analysis

- The consolidated net profit before income tax attributable to members of CHL of \$793k represents a \$9.89 million improvement on the loss in 2008, comprising:
  - improvement of \$3.39 million on the previous year's underlying operating loss of \$(2.6) million
  - removal of one-off provisions and revaluations of \$6.5 million
- The 2009 net profit of \$793k includes:
  - foreign exchange loss of \$(618)k, mainly on translation of the company's Canadian assets into Australian dollars
  - depreciation and amortisation costs of \$1.4 million
  - honey purchase price increases of 24% consuming an additional \$5.5 million
- The increase in consolidated revenue of \$14.3 million was a result of an increase in revenue following full consolidation of Capilano Canada Inc. and implementation of cost recoveries following the increased purchase costs of raw honey

# Consolidated Balance Sheet

As at 30 June 2009

	Note	Consolidated	
		2009 \$	2008 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		239,535	1,312,700
Trade and other receivables		10,962,893	11,458,695
Inventories		17,808,187	17,421,285
Other current assets		299,665	342,844
<b>TOTAL CURRENT ASSETS</b>		<b>29,310,280</b>	<b>30,535,524</b>
<b>NON-CURRENT ASSETS</b>			
Other financial assets		897,195	1,858,351
Property, plant and equipment		19,911,271	19,591,561
Intangible assets		5,354,976	5,480,247
Deferred tax assets		3,726,444	3,758,213
<b>TOTAL NON-CURRENT ASSETS</b>		<b>29,889,886</b>	<b>30,688,372</b>
<b>TOTAL ASSETS</b>		<b>59,200,166</b>	<b>61,223,896</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		7,631,886	7,581,995
Short term borrowings		11,090,656	2,128,837
<b>TOTAL CURRENT LIABILITIES</b>		<b>18,722,542</b>	<b>9,710,832</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term borrowings		18,207,358	28,928,670
Long term provisions		316,033	408,299
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>18,523,391</b>	<b>29,336,969</b>
<b>TOTAL LIABILITIES</b>		<b>37,245,933</b>	<b>39,047,801</b>
<b>NET ASSETS</b>		<b>21,954,233</b>	<b>22,176,095</b>
<b>EQUITY</b>			
Issued capital		5,366,360	5,366,359
Reserves		3,346,771	4,275,885
Retained earnings		13,241,102	12,533,851
<b>TOTAL EQUITY</b>		<b>21,954,233</b>	<b>22,176,095</b>

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

## Discussion & Analysis

- Receivables decreased in value by \$496k following collection of debtors acquired during the purchase of Capilano Canada Inc.
- Inventories increased by \$387k due to a combination of price and volume changes.
- The acquired listed investment in Comvita Ltd has been reduced to \$897k due to:
  - the sale of part of the shareholding, and
  - the accounting requirement to revalue the remaining shareholding to the prevailing share price at 30 June 2009.
- Trade payables were in line with last year.
- Long and short term borrowings decreased by \$1.76 million as cash held and generated through the year was applied to debt reduction.
- Changes to the security position are contemplated by the bank with an expectation of a reduction in debt of \$10 million. It is expected that the reduction in debt will be achieved by a combination of capital raising, asset sales and improved use of working capital. A capital raising proposal will be put to Capilano shareholders to strengthen the company's equity position.
- Deferred tax assets of \$3.7 million are based on the Australian tax rate of 30% and the Canadian federal tax rate applicable to future earnings of 19.5%.
- Net asset backing per share is \$4.26 at 30 June 2009.

# Consolidated Statement of Changes of Equity

For the year ended 30 June 2009

Consolidated	Share Capital		Reserves		Retained Earnings	Total
	Ordinary \$	Foundation \$	Asset Revaluation \$	Foreign Currency Translation \$	\$	\$
<b>Balance at 30 June 2007</b>	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
<b>Balance at 30 June 2008</b>	<b>5,366,358</b>	<b>1</b>	<b>4,042,851</b>	<b>233,034</b>	<b>12,533,851</b>	<b>22,176,095</b>
Shares issued during the period	1	-	-	-	-	1
Net profit attributable to members of CHL	-	-	-	-	707,251	707,251
Revaluation decrement	-	-	(711,116)	-	-	(711,116)
Adjustments from the translation of foreign controlled entities	-	-	-	(217,998)	-	(217,998)
<b>Balance at 30 June 2009</b>	<b>5,366,359</b>	<b>1</b>	<b>3,331,735</b>	<b>15,036</b>	<b>13,241,102</b>	<b>21,954,233</b>

*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 2009

	Inflows (Outflows)	
	Consolidated	
	2009	2008
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from customers	78,961,267	64,714,123
Payments to suppliers and employees	(76,377,169)	(62,698,074)
Interest received	24,521	300,357
Goods and Services tax received	1,431,514	1,447,462
Interest paid	(1,744,462)	(2,103,892)
<b>Net cash generated from operating activities</b>	<b>2,295,671</b>	<b>1,659,976</b>
<b>Cash flows from investing activities</b>		
Payment for property, plant and equipment	(1,741,060)	(970,720)
Proceeds from sale of controlled entity	-	6,000,000
Investment in listed entity	-	(5,500,000)
Proceeds from sale of shares in listed entity	129,881	-
Payment for intangible assets	-	(133,393)
Proceeds from sale of property, plant and equipment	1,835	4,545
Repayment of other loan	-	264,984
Loans to associated entity	-	-
Loans to controlled entities	-	(2,019,466)
<b>Net cash used in investing activities</b>	<b>(1,609,344)</b>	<b>(2,354,050)</b>
<b>Cash flows from financing activities</b>		
Proceeds from share allotments	1	15
Proceeds from borrowings	-	1,084,248
Repayment of borrowings	(1,759,493)	-
Dividend paid	-	-
<b>Net cash raised from financing activities</b>	<b>(1,759,492)</b>	<b>1,084,263</b>
Net (decrease) increase in cash held	(1,073,165)	390,189
Cash acquired on purchase of controlled foreign entity	-	626,475
Cash at the beginning of the financial year	1,312,700	296,036
<b>Cash at the end of the financial year</b>	<b>239,535</b>	<b>1,312,700</b>

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

## Discussion & Analysis

- Cash of \$2.3 million was generated by the operating activities of the consolidated entity.
- Cash generated, along with cash held at the start of the year, was used to purchase plant and equipment and to repay borrowings.

# 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 2009. 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	
		2009	2008
		\$	\$
<b>2. REVENUE</b>			
	Sales revenue	78,387,396	63,805,608
	Interest received	24,521	300,357
	Sundry	80,711	69,112
		<b>78,492,628</b>	<b>64,175,077</b>
<b>3. OTHER INCOME</b>			
	Gain on disposal of property, plant and equipment	-	1,742
		-	<b>1,742</b>
<b>4. DIVIDENDS</b>			
	<b>Ordinary shares</b>		
	No dividend has been provided for or declared for the year ended 30 June 2009 (2008 – Nil)	-	-
	<b>Franked dividends</b>		
	Franking credits available for subsequent financial years	2,385,409	2,385,409

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking debits that will arise from the payment of dividends recognised as a liability at the reporting date.

## Notes to the Consolidated Financial Statements

### 5. SEGMENT REPORTING

Primary reporting – geographical segments	30 June 2009			
	Australia \$	North America \$	Intersegment \$	Consolidated \$
Sales revenue	72,402,353	17,327,400	(11,342,357)	78,387,396
Other revenue	87,553	17,679	-	105,232
<b>Total segment revenue</b>	<b>72,489,906</b>	<b>17,345,079</b>	<b>(11,342,357)</b>	<b>78,492,628</b>
<b>Segment result</b>	<b>763,884</b>	<b>26,009</b>	<b>3,057</b>	<b>792,950</b>
Unallocated revenue less unallocated expenses				-
Profit before income tax				792,950
Income tax expense				(85,699)
Profit after income tax				707,251
Segment assets	57,662,188	3,979,207	(2,441,229)	59,200,166
Segment liabilities	36,536,536	3,150,626	(2,441,229)	37,245,933
Acquisitions of non-current segment assets	1,741,062	-	-	1,741,062
Depreciation and amortisation expense	1,543,122	-	-	1,543,122
Other non cash income	-	35,176	3,057	38,233
Other non cash expenses	739,433	-	-	739,433

30 June 2008

Primary reporting – geographical segments	30 June 2008			
	Australia \$	North America \$	Intersegment \$	Consolidated \$
Sales revenue	61,762,524	5,007,389	(2,964,305)	63,805,608
Other revenue	358,428	11,041	-	369,469
<b>Total segment revenue</b>	<b>62,120,952</b>	<b>5,018,430</b>	<b>(2,964,305)</b>	<b>64,175,077</b>
<b>Segment result</b>	<b>(8,821,838)</b>	<b>(270,267)</b>	<b>(3,054)</b>	<b>(9,095,159)</b>
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

#### 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	
	2009 \$	2008 \$
<b>6. ACQUISITION OF ENTITIES</b>		
During the prior 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.

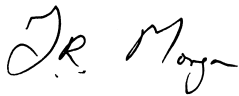
The assets and liabilities arising from the acquisition are recognised at fair value, which is equal to its carrying value.

## 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 2009, as set out on pages 16 to 22.

- 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 2009 and has been derived from and is consistent with the full financial report of Capilano Honey Limited and Controlled Entities.

Signed at Brisbane this TWENTY-FIFTH day of SEPTEMBER 2009 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

Level 2  
102 Adelaide Street  
Brisbane

GPO Box 563  
Brisbane  
Queensland 4001

Telephone (07) 3229 5100  
International +617 3229 5100  
Facsimile (07) 3221 6027


Email info@cah.com.au  
Website www.cranstounandhussein.com.au  
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

## 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 2009, 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 2009 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 2009. Our audit report on the financial report for the year was signed on 25 September 2009 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*.

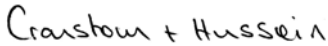
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 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 2009 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.



CRANSTOUN & HUSSEIN  
Chartered Accountants



J A Latif  
A Member of the Firm

Brisbane, 25 September 2009

# Shareholders' Information

As at 31 August 2009

CHL is listed on the Bendigo Stock Exchange using the ticker code 'CAP'.

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	108	45,251
1,001 – 5,000			272	788,838
5,001 – 10,000			160	1,175,059
10,001 – 100,000			144	2,635,180
100,001 and over			1	506,738
			<u>685</u>	<u>5,151,066</u>

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

There are 58 shareholders holding 8,322 shares which the company considers to be less than a marketable parcel of shares (value \$500), when using a value of \$1.02 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	86,306	1.68%
3.	Baker Family Super Fund	58,057	1.13%
4.	Hughston & Sons Pty Ltd	55,024	1.07%
5.	W & J Millington	51,600	1.00%
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>969,792</u>	<u>18.83%</u>

f) **Company Secretary**

Mr Richard Rivalland

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.

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



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

**T:** +(61 7) 3712 8282 **F:** +(61 7) 3712 8286 **E:** honey@capilano.com.au

**[www.capilano.com.au](http://www.capilano.com.au)**