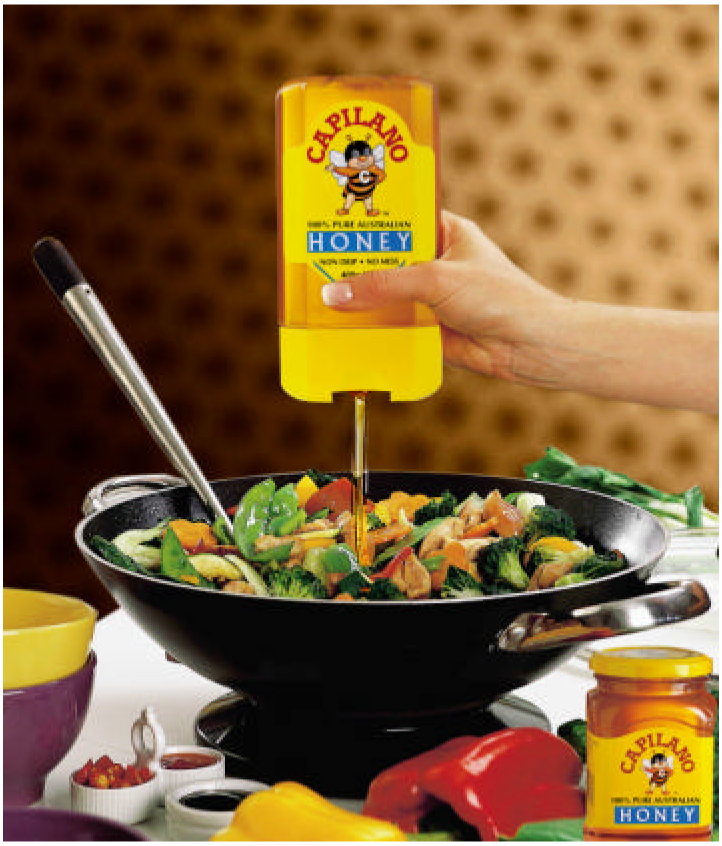
FINANCIAL & STATUTORY REPORTS

2004



FINANCIAL & STATUTORY REPORTS
FOR CAPILANO HONEY LIMITED AND ITS CONTROLLED ENTITIES
FOR THE YEAR ENDING 30 JUNE 2004

CAPILANO
Honey Limited

A.B.N. 55 009 686 435

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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 2004.

DIRECTORS

The following persons held office as directors at the date of this report:

Donald Gordon Keith *(Chairman)*
Ian Alfred Cane *(Deputy Chairman)*
Roger David Masters
Bernard James Ballantyne
Rosemary Doherty
Phillip Francis McHugh
Trevor Richard Morgan
Warwick Birdsall Wilshire

ACTIVITIES

The principal activities of the consolidated entity during the year continued to be:

- packing of honey for domestic and export sales.
- supply and distribution of honey based therapeutic products.

CONSOLIDATED RESULTS

The operating profit of the consolidated entity for the year after income tax was $43,397.

DISTRIBUTIONS - CAPILANO HONEY LIMITED

The 2003 final ordinary dividend of twenty cents per share provided for in the 2003 accounts was paid during the year absorbing $1,025,747 in cash.

Your directors have declared a fully franked ordinary dividend of five cents per share amounting to $256,609 for the year ended 30 June 2004.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There is at the date of this report no other matter or circumstance which has arisen since 30 June 2004 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 2004.

REVIEW OF OPERATIONS

Sales revenue of $83,848,288 for the consolidated entity was $3,966,238 below the previous year's result. An analysis of this sales decrease is as follows :-

	% increase / (decrease) of 2004 over 2003	*2004 $*	*2003 $*
Capilano Honey Limited	(5.8%)	81,770,614	86,771,351
Medihoney Pty Ltd	99.2%	2,077,674	1,043,175

The decrease in revenue for the parent entity was mainly a result of lower sales volumes due to the continued increased sales prices and lower honey receivals. In addition, adverse media reporting targeting honey affected by residue contamination impacted on consumer confidence. The increase in the subsidiary company's revenue results from higher sales due to an expanded product range and greater market distribution.

SIGNIFICANT CHANGES

There were no significant changes in operations during the year.

LIKELY DEVELOPMENTS

Likely future developments of the consolidated entity include continuing competitive marketing of the company's brands on both domestic and export markets.

In the opinion of the directors it would prejudice the interests of the company if any further information on likely developments in the operations of the consolidated entity and the expected results of operations were included herein.

INFORMATION ON DIRECTORS

Director	*Qualifications/Experience*	*Special Responsibilities*	*Shares held in Parent entity*
Donald Gordon **KEITH**	FAICD, AM Commercial apiarist. Director since 1989.	Chairman of Capilano Honey Limited Board, Chairman of the Nomination Committee, and a Member of the Honey Supply & Industry Committee. Director of Medihoney Pty Ltd	D G Keith is a partner in a partnership which holds 57,920 shares.
Ian Alfred **CANE**	Commercial apiarist. Director since 1990.	Deputy Chairman of Capilano Honey Limited Board, Chairman of Remuneration Committee and Member of the Honey Supply & Industry and Nomination Committees	I A Cane is a partner in a partnership which holds 24,235 shares
Roger David **MASTERS**	B.Com, MBA, CA Managing Director since July 1996, thirteen years senior management experience in the food industry.	Member of the Audit & Compliance and Honey Supply & Industry Committees. Director of Medihoney Pty Ltd. Vice-President of Capilano Labonte Inc.	1
Bernard James **BALLANTYNE**	Independent Director since 1991, and for six years prior was the nominee director representing the Allowrie shareholding. He has extensive experience in Agribusiness in senior management positions encompassing operations, sales, marketing and general management. Currently Group Managing Director of Castlegate VGS Pty Ltd.	Independent Non-executive Director. Member of the Remuneration and Audit & Compliance Committees. Chairman of Medihoney Pty Ltd. Chairman of Capilano Labonte Inc.	1
Rosemary **DOHERTY**	GAICD Commercial apiarist. Director since 2000.	Member of the Nomination, Remuneration and Honey Supply & Industry Committees.	R Doherty is a partner in a partnership which holds 11,204 shares
Phillip Francis **McHUGH**	Commercial apiarist. Director since 1993.	Chairman of the Honey Supply & Industry Committee and Member of the Nomination Committee.	P F McHugh holds 34,676 shares
Trevor Richard **MORGAN**	FAICD Commercial apiarist. Director since 1998.	Chairman of the Audit & Compliance Committee and Member of the Honey Supply & Industry and Nomination Committees.	T R Morgan is a partner in a partnership which holds 13,260 shares
Warwick Birdsall **WILSHIRE**	FAICD, JP (C.Dec) Managing Director from July 1984 to 30 June 1996. Appointed Independent Director in June 1996.	Independent Non-executive Director. Member of the Audit & Compliance and Remuneration Committees. Director of Medihoney Pty Ltd.	1

The particulars of directors' interests in shares are as at the date of this report. Directors retiring by rotation are Messrs Cane and McHugh. Both being eligible, are offering themself for re-election.

MEETINGS OF DIRECTORS

The number of directors meetings held (including meetings of committees of directors) and number of meetings attended by each of the directors of the company during the financial year were:

Directors	*Directors Meetings of the Company*		*Committee Meetings of Directors*		*Directors Meetings of Controlled Entities*		*General Meetings of the Company*	
	No. of Meetings Attended	No. of Meetings Held (*)	No. of Meetings Attended	No. of Meetings Held (*)	No. of Meetings Attended	No. of Meetings Held (*)	No. of Meetings Attended	No. of Meetings Held (*)
D.G. Keith	16	16	16	16	6	6	2	2
I.A. Cane	16	16	10	10			2	2
R.D. Masters	15	16	15	15	6	6	2	2
B.J. Ballantyne	16	16	14	14	6	6	2	2
R. Doherty	16	16	10	10			2	2
P. McHugh	16	16	7	7			2	2
T. R. Morgan	16	16	13	13			2	2
W.B. Wilshire	16	16	14	14	6	6	2	2

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

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 2003, 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.

DIRECTORS AND EXECUTIVES REMUNERATION DISCLOSURE

a) **Details of Specified Directors**

D G Keith	Chairman (Non Executive)
I A Cane	Deputy Chairman (Non Executive)
R D Masters	Managing Director
P F McHugh	Director (Non Executive)
T R Morgan	Director (Non Executive)
R Doherty	Director (Non Executive)
W B Wilshire	Director (Independent Non Executive)
B J Ballantyne	Director (Independent Non Executive)

b) **Details of Specified Executives**

A P Moloney	Chief Executive Officer – Medihoney Pty Ltd
K Fenton	National Sales Manager
A Bond	General Manager Capilano Labonte Inc,
J Gill	National Operations Manager
A Bleakley	Financial Controller (appointed 1 November 2003)

c) **Remuneration of Specified Directors and Specified Executives**

	Primary			Post employment	Equity	
	Cash salary and fees $	*Incentive Scheme $*	*Non monetary benefits $*	*Super-annuation $*	*Options $*	*Total $*
Details of Specified Directors						
D G Keith	68,139	-	-	6,133	-	74,272
I A Cane	40,882	-	-	3,670	-	44,552
R D Masters	228,733	62,000	73,131	20,636	-	384,500
P F McHugh	34,067	-	-	3,066	-	37,133
T R Morgan	34,067	-	-	3,066	-	37,133
R Doherty	34,067	-	-	3,066	-	37,133
W B Wilshire	89,824	-	-	4,906	-	94,730
B J Ballantyne	89,824	-	-	4,906	-	94,730
TOTALS	**619,603**	**62,000**	**73,131**	**49,449**	**-**	**804,183**
Details of Specified Executives						
A P Moloney	138,314	30,400	1,238	12,448	-	182,400
K Fenton	129,182	29,000	9,167	12,451	-	179,800
J Gill	45,000	-	33,215	76,065	-	154,280
A Bond	141,574	29,000	6,075	12,451	-	189,100
A Bleakley	67,278	-	-	6,055	-	73,333
TOTALS	**521,348**	**88,400**	**49,695**	**119,470**	**-**	**778,913**

Andrew Bond was transferred from the position of Financial Controller to General Manager of the associate entity (Capilano Labonte Inc) effective from 1 November 2003 but continues to be employed by CHL.

B J Ballantyne has a consulting arrangement for the provision of business and corporate planning services. The amount paid by the company for the provision of these services for the year was $35,316. This amount has been included in the directors' and executive remuneration disclosure.

W B Wilshire has a consulting arrangement with the company for the provision of business and corporate planning services. The amount paid by the company for the provision of these services for the year was $35,316. This amount has been included in the directors' and executive remuneration disclosure.

i) **Remuneration Policy**

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments 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 emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officer's emoluments to the company's financial and operational performance.

In addition, the following schemes 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 scheme 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.

Long Term

The Board has also established a Long-term Incentive Plan for the Managing Director and eligible Senior Executives to reward them for successful achievement of long-term business growth targets. The Plan is based on overall growth in profitability over rolling periods of five years. The Plan commenced in 2000 and no bonuses have yet accrued or been paid to any Executive.

d) **Remuneration - Share Options**

Options over unissued shares of a controlled entity, Medihoney Pty Ltd, at the date of this report are as follows:

	Options issued 2001	Options issued 2004	Total options issued
Directors			
RD Masters, Managing Director, Capilano Honey Limited	180,000	20,000	200,000
Other Executives of Capilano Honey Limited			
AP Moloney, Chief Executive Officer, Medihoney Pty Ltd	150,000	50,000	200,000
RB Eustace, Business Development Manager	60,000	-	60,000
P McDonald, International Business Manager	-	50,000	50,000
Total options issued	**390,000**	**120,000**	**510,000**

The options have been issued over ordinary shares of Medihoney Pty Ltd at no consideration under an Executive Option Plan. The options vest progressively between three (3) and five (5) years after the date of issue and may be exercised at $1 per share up to 30 June 2007 subject to the occurrence of specified future events and performance requirements.

Due to Medihoney Pty Ltd having an accumulated loss position as at 30 June 2004 and there being no active market for these shares, no value has been ascribed to these options. This may change in future years as Medihoney Pty Ltd becomes profitable.

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 are responsible for monitoring compliance with environmental regulations.

Based upon the results of inquiries made, the directors are not aware of any significant breaches during the period covered by this report. They have been made aware of the following non-compliance:

- Richlands - PET and Packaging Operations — Environmental Licence Authority required under Section 41 of the Environmental Protection Act (QLD) 1994. Application for such a licence is currently underway.

Compliance with the requirements of environmental regulations was substantially achieved across all other operations with no other instances of non-compliance in relation to requirements noted.

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 proceeding 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.

AUDITORS

Cranstoun & Hussein continue in office in accordance with the Corporations Act 2001.

Signed at Brisbane this THIRTEENTH day of AUGUST 2004, in accordance with a resolution of the directors.

D.G. Keith

D G Keith, Director

R D Masters, Director

Independent Audit Report to the Members

Scope

The financial report and directors' responsibility

The financial report comprises the directors' declaration, statement of financial performance, statement of financial position, statement of cash flows and accompanying notes to the financial statements for both Capilano Honey Limited (the company) and Capilano Honey Limited and Controlled Entities (the consolidated entity) for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during the year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing and Assurance Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001,* Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We read the other information in the annual report to determine whether it contained any material inconsistencies with the financial report.

Independence

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

Audit Opinion

In our opinion, the financial report of Capilano Honey Limited:

- gives a true and fair view of the financial position of Capilano Honey Limited and Capilano Honey Limited and Controlled Entities at 30 June 2004, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia and the *Corporations Regulations 2001*.

Cranstoun + Hussein

CRANSTOUN & HUSSEIN
Chartered Accountants

A.J. Cranstoun

A.J. Cranstoun
A Member of the Firm

Brisbane, 16 August 2004

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 8 to 30:

a) comply with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements; and

b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed at Brisbane this THIRTEENTH day of AUGUST 2004 in accordance with a resolution of the directors.

D.G. Keith

D G Keith, Director

R. D Masters, Director

Statement of Financial Performance
For the Year ended 30 June 2004

	Notes	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Revenue from ordinary activities	2	86,002,044	89,177,972	83,753,005	88,132,552
Borrowing costs expense	3(b)	(1,746,496)	(1,309,867)	(1,746,496)	(1,309,867)
Other expenses from ordinary activities	3(a)	(83,950,825)	(83,725,695)	(81,644,274)	(82,518,137)
Share of net loss of associate accounted for using the equity method	10	(285,997)	-	-	-
Profit from ordinary activities before income tax	3(b)	18,726	4,142,410	362,235	4,304,548
Income tax benefit / (expense)	4	24,671	(1,755,613)	(2,264)	(1,812,129)
Net profit attributable to members of CHL		**43,397**	**2,386,797**	**359,971**	**2,492,419**
Net exchange differences on translation of financial report of associate accounted for using the equity method	10	**(21,432)**	-	-	-
Total changes in equity attributable to members of CHL other than those resulting from transactions with owners as owners		**21,965**	**2,386,797**	**359,971**	**2,492,419**
Earnings per share (cents)	33	0.8	46.5		
Diluted earnings per share (cents)	33	0.8	46.5		

The above statements of financial performance should be read in conjunction with the accompanying notes.

Movement in Retained Earnings
For the Year ended 30 June 2004

	Notes	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Retained profits at the beginning of the financial year		14,368,153	13,007,275	14,781,058	13,314,558
Net profit attributable to members of CHL		43,397	2,386,797	359,971	2,492,419
Dividend provided for		(255,923)	(1,025,919)	(255,923)	(1,025,919)
Retained profits at the end of the financial year		**14,155,627**	**14,368,153**	**14,885,106**	**14,781,058**

Statement of Financial Position
As at 30 June 2004

	Notes	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
CURRENT ASSETS					
Cash		3,342,721	3,694,104	3,269,073	3,669,148
Receivables	6	11,546,660	12,787,619	11,236,235	12,657,435
Inventories	7	26,551,891	21,176,923	26,377,609	20,827,574
Other	8	807,283	275,610	790,075	275,610
TOTAL CURRENT ASSETS		**42,248,555**	**37,934,256**	**41,672,992**	**37,429,767**
NON-CURRENT ASSETS					
Receivables	9	2,030,205	649,430	3,136,304	1,711,902
Investment accounted for using the equity method	10	172,973	-	-	-
Other financial assets	11	-	-	480,404	2
Property, plant & equipment	12	18,116,833	18,252,262	18,074,790	18,248,978
Intangibles	13	896,344	1,022,607	870,852	995,423
Deferred tax assets	14	2,735,523	2,710,852	2,538,544	2,540,808
TOTAL NON-CURRENT ASSETS		**23,951,878**	**22,635,151**	**25,100,894**	**23,497,113**
TOTAL ASSETS		**66,200,433**	**60,569,407**	**66,773,886**	**60,926,880**
CURRENT LIABILITIES					
Payables	15	7,723,848	7,018,145	7,617,511	6,967,331
Interest-bearing liabilities	16	4,188,186	8,493,979	4,188,186	8,493,979
Provisions	17	1,053,903	1,786,833	1,033,945	1,782,850
TOTAL CURRENT LIABILITIES		**12,965,937**	**17,298,957**	**12,839,642**	**17,244,160**
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	18	28,588,987	18,450,408	28,588,987	18,450,408
Provisions	19	505,493	446,135	454,330	445,500
TOTAL NON-CURRENT LIABILITIES		**29,094,480**	**18,896,543**	**29,043,317**	**18,895,908**
TOTAL LIABILITIES		**42,060,417**	**36,195,500**	**41,882,959**	**36,140,068**
NET ASSETS		**24,140,016**	**24,373,907**	**24,890,927**	**24,786,812**
EQUITY					
Contributed equity	20	5,286,860	5,286,793	5,286,860	5,286,793
Reserves	21	4,697,529	4,718,961	4,718,961	4,718,961
Retained profits		14,155,627	14,368,153	14,885,106	14,781,058
TOTAL EQUITY		**24,140,016**	**24,373,907**	**24,890,927**	**24,786,812**

The above statements of financial position should be read in conjunction with the accompanying notes.

Statement of Cash Flows
For the Year ended 30 June 2004

	Consolidated *Inflows (Outflows)*		Parent Entity *Inflows (Outflows)*	
	2004 $	2003 $	2004 $	2003 $
Cash flows from operating activities				
Receipts from customers	87,411,243	84,145,857	85,250,296	83,126,894
Payments to suppliers and employees	(89,166,447)	(91,732,836)	(87,100,459)	(90,416,818)
Interest received	214,126	218,093	213,729	217,892
Goods & Services tax received	1,323,569	1,438,098	1,372,720	1,460,298
Interest paid	(1,414,187)	(1,137,531)	(1,414,187)	(1,137,531)
Net cash used in operating activities (Note 31)	**(1,631,696)**	**(7,068,319)**	**(1,677,901)**	**(6,749,265)**
Cash flows from investing activities				
Payment for property, plant and equipment	(1,436,518)	(873,743)	(1,396,715)	(873,623)
Purchase of intangible asset	(1,337)	(823)	-	-
Payments for investment in associated entity	(480,402)	-	(480,402)	-
Proceeds from sale of fixed asset	23,178	772	23,178	772
Other loan	62,113	(801,852)	62,113	(801,852)
Loans to associated entity	(1,693,827)	-	(1,693,827)	-
Loans to controlled entities	-	-	(43,627)	(329,285)
Net cash used in investing activities	**(3,526,793)**	**(1,675,646)**	**(3,529,280)**	**(2,003,988)**
Cash flows from financing activities				
Proceeds from share allotments	67	116	67	116
Proceeds from borrowings	12,304,854	11,464,394	12,304,854	11,464,394
Repayment of borrowings	(6,472,068)	(1,338,782)	(6,472,068)	(1,338,782)
Dividend paid	(1,025,747)	(769,307)	(1,025,747)	(769,307)
Net cash provided by financing activities	**4,807,106**	**9,356,421**	**4,807,106**	**9,356,421**
Net (decrease) increase in cash held	(351,383)	612,454	(400,075)	603,168
Cash at the beginning of the financial year	3,694,104	3,081,650	3,669,148	3,065,980
Cash at the end of the financial year (Note 30)	**3,342,721**	**3,694,104**	**3,269,073**	**3,669,148**

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

Notes to and forming part of the Financial Statements

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general purpose financial statements have been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and the Corporations Act 2001. Unless otherwise stated, these accounting policies were also adopted in the preceding year.

(a) **Historical cost**

The financial statements are prepared in accordance with the historical cost convention except for certain assets, as noted.

(b) **Principles of consolidation**

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Capilano Honey Limited ("parent entity") as at 30 June 2004 and the results of all controlled entities for the year then ended. Capilano Honey Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

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

(c) **Goods and services tax**

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

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

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

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

(d) **Revenue recognition**

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

Sale of Goods

Control of the goods has passed to the buyer.

Interest

Control of the right to receive the interest payment

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

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

(e) **Land and Buildings**

The directors have established a policy to obtain independent valuations of land and buildings at least triennially and to disclose the details of these valuations in accordance with AASB 1040 "Statement of Financial Position". This was last done in May 2004 as disclosed in note 12.

(f) **Depreciation**

Depreciation is calculated so as to write off the net cost of each item of plant and equipment and motor vehicles over its useful life. Additions are depreciated from the date they are installed ready for use. The amount of depreciation is disclosed separately in note 3.

The principal rates of depreciation in use are:-

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

Notes to and forming part of the Financial Statements

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(g) **Inventories**

All inventories including contracts in progress are valued at the lower of cost and net realisable value. Cost includes direct materials, direct labour and an appropriate proportion of fixed and variable factory overhead expenditure.

(h) **Income tax**

Tax effect accounting procedures are followed whereby the income tax expense is matched with the accounting profit (after allowing for permanent differences). Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at rates which are expected to apply when those timing differences reverse. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of being realised.

Tax Consolidation System

A decision has not yet been made by the consolidated entity to implement the tax consolidation regime. As such, UIG 39 has been applied to the reporting period ended 30 June 2004 and the impact of both the mandatory and elective requirements of the consolidation regime have been considered in the preparation of the financial statements.

(i) **Foreign currency**

Transactions

Amounts payable to and by the company in foreign currencies at year end have been converted to Australian currency at rates of exchange applying at that date.

Sales in foreign currencies are recorded at the exchange rate applicable at the date of the invoice. Any gains or losses arising upon payment are reflected as a gain or loss in the statement of financial performance.

General Commitments

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

Foreign Associated Entity

As the associated entity is a self sustaining foreign entity, its assets and liabilities are, for the purposes of accounting for investments using the equity method, translated into Australian currency at rates of exchange current at balance date, while its revenues and expenses are translated at the average of rates ruling during the period. The investor's share of exchange differences is taken to the foreign currency translation reserve.

(j) **Fixed assets constructed by the economic entity**

The cost of fixed assets constructed by the economic entity includes the cost of all materials used in construction, direct labour worked on the project and an appropriate proportion of variable and fixed factory overhead.

(k) **Employee Benefits**

Wages and Salaries and Annual Leave

Liabilities for wages and salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

Long Service Leave

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

(l) **Intangible Assets & Expenditure Carried Forward**

Brand names are recorded in the accounts at acquisition cost. Trade marks, brand names and other significant items of expenditure, having a benefit or relationship to more than one accounting period, are deferred and amortised to the profit and loss account using the straightline method of calculation over the period of time during which the benefits are expected to arise, but not exceeding twenty years.

Notes to and forming part of the Financial Statements

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(m) **Cash and cash equivalents**

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable value.

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

(n) **Earnings per share**

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

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

(o) **Acquisitions of Assets**

The purchase method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indication of fair value.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.

Where an entity or operation is acquired and the cost of acquisition exceeds the fair value of the identifiable net assets acquired, the difference, representing goodwill on acquisitions is accounted for by increasing proportionately the fair values of the non-monetary assets acquired until the goodwill is eliminated.

(p) **Adoption of Australian Equivalent to International Financial Reporting Standards**

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The consolidated entity’s management, along with its auditors, are assessing the significance of these changes and preparing for their implementation. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The directors are of the opinion that the key differences in the economic entity’s accounting policies which will arise from the adoption of IFRS are:

Impairment of Assets

The consolidated entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset’s use and subsequent disposal. In terms of pending AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use.

Income Tax

Currently, the consolidated entity adopts the liability method of tax effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account either as a provision for deferred income tax or future income tax benefit. Under the Australian equivalent to IAS 12, the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

Derivative Financial Instruments

The consolidated entity does not currently recognise derivative financial instruments in the financial statements. Pending AASB 139: Financial Instruments: Recognition and Measurement will require a change to the method of accounting for derivative financial instruments and hedging activities so that they are recorded in the financial statements.

Equity-based Compensation Benefits

Under the Australian equivalent to IFRS 2: Share-based Payment, equity-based compensation to employees will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

Notes to and forming part of the Financial Statements

		Consolidated		Parent Entity	
		2004 $	2003 $	2004 $	2003 $
2.	**REVENUE**				
(a)	Revenue from Operating Activities				
	Sales revenue	83,848,288	87,814,526	81,770,614	86,771,351
(b)	Revenue from Outside the Operating Activities				
	(i) Drum Hire	30	48	30	48
	(ii) Interest received	214,126	218,093	213,729	217,892
	(iii) Proceeds on sale of non-current assets	23,178	772	23,178	772
	(iv) Insurance proceeds	3,819	544	3,819	544
	(v) Net Foreign Exchange Gain	1,738,417	1,126,943	1,729,519	1,131,909
	(vi) Sundry	174,186	17,046	12,116	10,036
		86,002,044	**89,177,972**	**83,753,005**	**88,132,552**
3.	**OPERATING PROFIT**				
(a)	**Other expenses from ordinary operations**				
	Raw material and consumables	61,311,932	61,376,419	60,186,567	60,854,084
	Change in inventories of finished goods and work in progress	740,712	249,831	915,779	152,681
	Employee benefits	7,845,805	7,336,794	7,412,339	7,089,244
	Depreciation of property, plant & equipment	1,564,291	1,600,208	1,563,245	1,600,010
	Amortisation of intangibles	127,601	1,128,192	124,572	1,126,147
	Transportation costs	1,635,384	2,124,974	1,612,939	2,113,895
	Marketing & Promotion	6,043,120	6,536,305	5,753,168	6,291,308
	Other	4,681,980	3,372,972	4,075,665	3,290,768
		83,950,825	**83,725,695**	**81,644,274**	**82,518,137**
(b)	Profit from ordinary activities before income tax expense, includes the following specific net gains and expenses:				
	Expenses				
	Borrowing costs				
	Borrowing costs	304,892	143,981	304,892	143,981
	Interest and finance charges paid	1,414,187	1,137,531	1,414,187	1,137,531
	Prospectus expenses	27,417	28,355	27,417	28,355
		1,746,496	1,309,867	1,746,496	1,309,867
	Loss on disposal of non-current assets	-	41,525	-	41,525
	Provisions - Employee Entitlements	564,680	414,824	549,517	406,435
	Research & Development	177,017	14,475	26,283	4,690
	Gains				
	Profit on disposal of non-current assets	15,522	-	15,522	-

		Consolidated		Parent Entity	
		2004 $	2003 $	2004 $	2003 $
4.	**INCOME TAX**				
	The aggregate amounts of income tax attributable to the financial year differ by more than 15% from the amounts prima facie payable on the profit from ordinary activities. The differences are reconciled as follows:				
	Profit from ordinary activities before income tax	**18,726**	**4,142,410**	**362,235**	**4,304,548**
	Prima facie tax payable at 30% (2003 – 30%)	5,618	1,242,723	108,671	1,291,364
	Tax effect of permanent differences				
	Depreciation of buildings	3,445	3,445	3,445	3,445
	Amortisation of intangibles	15,025	315,202	14,116	314,588
	Share of net losses of associates	85,799	-	-	-
	Sundry items	56,937	13,862	55,735	12,971
	(Over)/Under provision for previous year	(191,495)	180,381	(179,703)	189,761
	Income tax (benefit) expense	**(24,671)**	**1,755,613**	**2,264**	**1,812,129**
	Comprising:				
	Current	-	-	-	-
	Deferred	34,238	68,144	33,548	68,161
	Benefit	(58,909)	1,687,469	(31,284)	1,743,968
		(24,671)	**1,755,613**	**2,264**	**1,812,129**

Future income tax benefit includes a benefit representing income tax losses carried forward of $3,546,155 calculated at 30% (2003 $3,547,034) in respect of the economic entity and $3,371,855 at 30% (2003 $3,378,608) in respect of the parent entity.

The above benefit in respect of income tax losses is after reducing deferred income tax liability of the economic entity by $1,264,521 (2003 $1,230,267) and of the parent entity by $1,263,831 (2003 $1,230,284).

Realisation of the benefit shall depend upon:

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

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

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

		Parent Entity	
		2004 $	2003 $
5.	**DIVIDENDS**		
	Ordinary shares		
	Final dividend of 5 cents (2003 – 20 cents) recognised as a liability at 30 June 2004 fully franked based on tax paid at 30%	256,609	1,026,433
	Franked dividends		
	Franking credits available for subsequent financial years	2,496,510	2,605,971
	The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking debits that will arise from the payment of dividends recognised as a liability at the reporting date.		

		Consolidated		Parent Entity	
		2004 $	2003 $	2004 $	2003 $
6.	**CURRENT ASSETS – RECEIVABLES**				
	Trade debtors	10,499,596	12,383,695	10,201,040	12,253,286
	Other debtors	643,703	251,502	631,834	251,727
	Related corporations	245,551	-	245,551	-
	Other loan (note 9)	157,810	152,422	157,810	152,422
		11,546,660	**12,787,619**	**11,236,235**	**12,657,435**
7.	**CURRENT ASSETS – INVENTORIES**				
	Raw materials and stores	20,456,685	15,822,429	20,456,685	15,822,429
	Work in progress	205,962	183,952	205,962	183,916
	Finished goods	5,889,244	5,170,542	5,714,962	4,821,229
		26,551,891	**21,176,923**	**26,377,609**	**20,827,574**
	Cost of goods sold				
	Honey levies	279,383	252,191	278,159	251,701
	Other	68,104,823	67,257,589	66,979,821	66,735,389
	Total cost of goods sold	68,384,206	67,509,780	67,257,980	66,987,090
8.	**CURRENT ASSETS – OTHER**				
	Prepayments	**807,283**	**275,610**	**790,075**	**275,610**
9.	**NON-CURRENT ASSETS – RECEIVABLES**				
	Related corporations	1,448,276	-	2,554,375	1,062,472
	Other loan	581,929	649,430	581,929	649,430
		2,030,205	**649,430**	**3,136,304**	**1,711,902**
	The other loan is interest bearing and relates to the sale of plant and equipment. Title to the plant and equipment does not pass to the purchaser until receipt of the final loan instalment in June 2008				

10. **NON CURRENT ASSETS - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity (refer Note 11). Information relating to the associated entity is set out below.

Name of Company	Principal Activity	Country of Incorpor-ation	Ownership Interest		Consolidated carrying amount		Parent entity amount	
			2004 %	2003 %	2004 $	2003 $	2004 $	2003 $
Non traded investments								
Capilano Labonte Inc	Honey packing	Canada	50	-	172,973	-	480,402	-

On 1 July 2003 the company acquired 50% of the issued share capital of Capilano Labonte Inc. for a cash consideration of $480,402. The cash consideration represented 50% of the fair value of CLI's net assets at the date of acquisition.

	Consolidated 2004 $	Consolidated 2003 $
Movements in carrying amounts of investments in associates		
Carrying amounts at the beginning of the financial period		-
New investment during the year	480,402	-
Share of losses from ordinary activities after income tax	(285,997)	-
Share of movement in foreign currency translation reserve	(21,432)	-
Carrying amounts at the end of the financial period	**172,973**	**-**
Results attributable to associates		
Loss from ordinary activities before related income tax	(412,542)	-
Income tax saving	126,545	-
Loss from ordinary activities after related income tax	(285,997)	-
Accumulated losses attributable to associates at the beginning of the financial year	-	-
Accumulated losses attributable to associates at the end of the financial year	(285,997)	-
Income tax saving includes tax losses amounting to $128,438		
Reserves attributable to associates		
Foreign Currency Translation Reserve		
Balance at the beginning of the financial year	-	-
Share of movement in foreign currency translation reserve	(21,432)	-
Balance at the end of the financial year	(21,432)	-
Share of associates' expenditure commitments		
Lease commitments	154,705	-
Summary of the performance and financial position of associates		
The aggregate losses, assets and liabilities of associates are:		
Loss from ordinary activities after related income tax expense	571,994	-
Assets	4,549,780	-
Liabilities	4,203,835	-

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
11. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS				
(a) The investments included in the accounts comprise:				
Shares in controlled entities (note 11(b))	-	-	2	2
Shares in associated entities (note 10)	-	-	480,402	-
	-	-	480,404	2

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

	Country of Incorpor -ation	*Class of Share*	*2004 % holding*	*2004 Cost $*	*2003 % holding*	*2003 Cost $*
Medihoney Pty Ltd	Australia	Ordinary	100	1	100	1
Honey Corporation of Australia Pty Ltd	Australia	Ordinary	100	1	100	1
Medihoney Europe Ltd	England	Ordinary				
				2		2

Medihoney Europe Ltd is a wholly owned controlled entity of Medihoney Pty Ltd and is included in the books of that company at a cost of $1.00. The company was incorporated on 16 February 2004.

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
12. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT				
Land and buildings				
Freehold land – Cost	797,400	797,400	797,400	797,400
Buildings – Cost	7,440,903	7,409,345	7,440,903	7,409,345
Less				
Accumulated depreciation	1,676,491	1,468,477	1,676,491	1,468,477
	5,764,412	5,940,868	5,764,412	5,940,868
Total land and buildings	**6,561,812**	**6,738,268**	**6,561,812**	**6,738,268**
Plant and equipment				
Cost	20,418,148	19,955,955	20,404,390	19,954,201
Less				
Accumulated depreciation	9,708,367	8,544,406	9,707,090	8,544,175
Total plant & equipment	**10,709,781**	**11,411,549**	**10,697,300**	**11,410,026**

		Consolidated		Parent Entity	
		2004	2003	2004	2003
		$	$	$	$
12.	**NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (continued)**				
	Motor vehicles				
	Cost	27,961	27,961	27,961	27,961
	Less				
	Accumulated depreciation	26,467	25,996	26,467	25,996
	Total motor vehicles	**1,494**	**1,965**	**1,494**	**1,965**
	Capital work in progress	**843,746**	**100,480**	**814,184**	**98,719**
		18,116,833	**18,252,262**	**18,074,790**	**18,248,978**
	Reconciliations				
	Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
	Freehold land				
	Carrying amount at beginning of year	797,400	797,400	797,400	797,400
	Carrying amount at end of year	797,400	797,400	797,400	797,400
	Buildings				
	Carrying amount at beginning of year	5,940,868	6,148,108	5,940,868	6,148,108
	Additions	31,558	-	31,558	-
	Depreciation	(208,014)	(207,240)	(208,014)	(207,240)
	Carrying amount at end of year	5,764,412	5,940,868	5,764,412	5,940,868
	Plant and Equipment				
	Carrying amount at beginning of year	11,411,549	11,670,856	11,410,026	11,669,254
	Additions	661,696	1,175,275	649,692	1,175,155
	Disposals	(7,656)	(42,296)	(7,656)	(42,296)
	Depreciation	(1,355,808)	(1,392,286)	(1,354,762)	(1,392,087)
	Carrying amount at end of year	10,709,781	11,411,549	10,697,300	11,410,026
	Motor Vehicles				
	Carrying amount at beginning of year	1,965	2,648	1,965	2,648
	Additions	-	-	-	-
	Depreciation	(471)	(683)	(471)	(683)
	Carrying amount at end of year	1,494	1,965	1,494	1,965
	Capital works in progress				
	Carrying amount at beginning of year	100,480	415,612	98,719	400,251
	Net additions	743,266	-	715,465	-
	Net transfers to property, plant and equipment	-	(315,132)	-	(301,532)
	Carrying amount at end of year	843,746	100,480	814,184	98,719
	Valuations				
	The independent valuation of the consolidated entity's freehold land and buildings carried out in May 2004 on the basis of open market values for existing use resulted in a valuation of land and buildings of $9,310,000. As land and buildings are recorded at cost the valuation has not been brought to account (refer to Note 1).				

Notes to and forming part of the Financial Statements

		Consolidated		Parent Entity	
		2004	2003	2004	2003
		$	$	$	$
13.	**NON-CURRENT ASSETS – INTANGIBLES**				
	Trademarks and brandnames (note 13(a))	3,965,848	3,964,510	3,932,452	3,932,452
	Less				
	Accumulated amortisation	3,069,504	2,941,903	3,061,600	2,937,029
		896,344	**1,022,607**	**870,852**	**995,423**
(a)	This includes the cost of the "Barnes" brand acquired in November 1989; Allowrie honey business acquired May 1995, Greens honey business acquired in January 2000 and Windsor Farms honey business acquired in November 2000.				
14.	**NON-CURRENT ASSETS – DEFERRED TAX ASSETS**				
	Future income tax benefit	**2,735,523**	**2,710,852**	**2,538,544**	**2,540,808**
15.	**CURRENT LIABILITIES - PAYABLES**				
	Beekeeper creditors	4,367,780	4,534,723	4,367,780	4,534,723
	Trade creditors	2,281,468	1,993,218	2,198,166	1,947,693
	Other creditors	1,074,600	490,204	1,051,565	484,915
		7,723,848	**7,018,145**	**7,617,511**	**6,967,331**
16.	**CURRENT LIABILITIES – INTEREST-BEARING LIABILITIES**				
	Secured (note 23)				
	Commercial Bills	750,000	-	750,000	-
	Hire purchase	414,572	387,585	414,572	387,585
	Loans	436,879	5,838,757	436,879	5,838,757
	Total secured liabilities	1,601,451	6,226,342	1,601,451	6,226,342
	Unsecured				
	Loans				
	Deposit fund (note 22)	2,032,109	1,639,579	2,032,109	1,639,579
	Beekeeper retains	554,626	628,058	554,626	628,058
		4,188,186	**8,493,979**	**4,188,186**	**8,493,979**
17.	**CURRENT LIABILITIES – PROVISIONS**				
	Employee entitlements	797,294	760,400	777,336	756,417
	Dividends (note 5)	256,609	1,026,433	256,609	1,026,433
	Income tax (note 4)	-	-	-	-
		1,053,903	**1,786,833**	**1,033,945**	**1,782,850**

		Consolidated		Parent Entity	
		2004	2003	2004	2003
		$	$	$	$
18.	**NON-CURRENT LIABILITIES – INTEREST-BEARING LIABILITES**				
	Secured (note 23)				
	Commercial bills	26,250,000	15,000,000	26,250,000	15,000,000
	Hire purchase	796,163	1,210,735	796,163	1,210,735
	Total secured liabilities	27,046,163	16,210,735	27,046,163	16,210,735
	Unsecured				
	Loans -				
	Deposit fund (note 22)	126,827	214,503	126,827	214,503
	Beekeeper retains	1,415,997	2,025,170	1,415,997	2,025,170
		28,588,987	**18,450,408**	**28,588,987**	**18,450,408**
19.	**NON-CURRENT LIABILITIES – PROVISIONS**				
	Employee entitlements	**505,493**	**446,135**	**454,330**	**445,500**

		2004	2003
		$	$
20.	**CONTRIBUTED EQUITY**		
	Issued and paid-up capital		
	5,132,177 (2003: 5,132,163) ordinary shares, fully paid	5,286,859	5,286,793
	1 (2003 Nil) foundation share, fully paid	1	-
		5,286,860	**5,286,793**

Ordinary Shares

(a) During the year 12 ordinary shares were issued at $4.75 per share to new shareholders who had successfully applied for a Honey Supply Agreement.

(b) During the year 1 ordinary share was issued at $4.80 per share to a new shareholder who had successfully applied for a Honey Supply Agreement.

(c) During the year 1 ordinary share was issued at $5.07 per share to a new shareholder who had successfully applied for a Honey Supply Agreement.

Foundation Share

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

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

		Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
21.	**RESERVES**				
(a)	Composition				
	Asset revaluation	480,381	480,381	480,381	480,381
	Asset replacement	4,238,580	4,238,580	4,238,580	4,238,580
	Foreign currency translation	(21,432)	-	-	-
	Total reserves	**4,697,529**	**4,718,961**	**4,718,961**	**4,718,961**
(b)	Movements				
	Asset revaluation				
	Balance 1 July 2003	480,381	480,381	480,381	480,381
	Movements during the year	-	-	-	-
	Balance 30 June 2004	**480,381**	**480,381**	**480,381**	**480,381**
	Asset replacement				
	Balance 1 July 2003	4,238,580	4,238,580	4,238,580	4,238,580
	Movements during the year	-	-	-	-
	Balance 30 June 2004	**4,238,580**	**4,238,580**	**4,238,580**	**4,238,580**
	Foreign currency translation				
	Balance 1 July 2003	-	-	-	-
	Movements during the year	(21,432)	-	-	-
	Balance 30 June 2004	**(21,432)**	**-**	**-**	**-**

(c) Nature and purpose of reserve

Asset revaluation

Prior to the adoption of AASB1041 Revaluation of non-current assets, the asset revaluation reserve was used to record increments and decrements in the value of non-current assets.

Asset replacement

The amount standing to the credit of the asset replacement reserve resulted from prior period allocations of retained profits for the purpose of replacement of assets in future periods.

Foreign currency translation

The gain or loss generated on translating the financial report of the equity accounted associate into Australian Dollars at the appropriate rates.

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
22. PAYABLES MATURITY ANALYSIS - DEPOSIT FUND				
Debts Payable				
Not later than one year	2,032,109	1,639,579	2,032,109	1,639,579
Later than one year but not later than two	90,883	155,121	90,883	155,121
Later than two years but not later than three	35,944	59,382	35,944	59,382
	2,158,936	**1,854,082**	**2,158,936**	**1,854,082**

The Capilano Deposit Fund (Unsecured Deposit Notes) was created under a Trust Deed dated 17 May 1993. Trust Company of Australia Limited is the Trustee. Deposits have been received pursuant to the issue of a Prospectus dated 13 October 2003.

23. SECURED BORROWINGS

The hire purchase, loans and commercial bills amounting to $28,647,614 (2003: $19,437,077) are secured by a negative pledge, a registered mortgage over certain of the freehold land and buildings of the company and by registered equitable mortgages over certain assets of the company.

24. CONTINGENT LIABILITIES

The Directors are not aware of any significant contingent liabilities at the date of this Report.

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
25. COMMITMENTS				
Capital expenditure commitments				
Contracted for but not provided for or payable: -				
Not longer than one year	347,789	23,072	347,789	23,072
Operating lease commitments				
Future operating lease rentals not provided for in the financial statements or payable:				
Not longer than one year	107,115	103,130	107,115	103,130
Longer than one year but not longer than two years	74,477	50,669	74,477	50,669
Longer than two years but not longer than five years	62,208	21,432	62,208	21,432
	243,800	**175,231**	**243,800**	**175,231**

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
26. AUDITOR'S REMUNERATION				
Amounts received, or due and receivable, by the auditors of the parent entity for:				
Audit or review of financial reports of the entity or any entity in the consolidated group				
- Current Year	51,954	47,510	50,854	46,510
Other Services				
- Current Year	13,472	18,327	12,472	17,327
- Prior Year	-	1,500	-	1,500
	65,426	**67,337**	**63,326**	**65,337**

No other benefits were received by the auditors.

27. SUPERANNUATION COMMITMENTS

The Capilano Group Superannuation Fund was wound up in the 2002 year and benefits rolled over to an accumulation fund under a master trust arrangement.

The company has agreed with a number of the previous defined benefit category members to meet any shortfalls of benefits under the new arrangements compared to those that would have been payable from the Capilano Group Superannuation Fund, subject to continuation of existing company and employee contributions. The agreement covers the period from 30 June 2001 to 30 June 2006 or earlier retirement by the member. At balance date, any potential shortfall is not likely to be significant.

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
28. **RELATED PARTIES**				
Directors and specified executives:				
Disclosure relating to directors and specified executives are included in the directors report.				
Directors who are apiarists trade with the company on the same trading conditions as other shareholders. In view of these arrangements no quantification has been made of the total sum of transactions.				
Controlling Entity:				
The ultimate controlling entity is CBL. Information relating to the controlling entity is set out in note 20.				
Wholly Owned Group:				
The wholly owned group consists of CHL and its wholly owned controlled entites.				
Information relating to the controlled entities is set out in note 11(b).				
Aggregate amounts receivable from entities in the wholly owned group at balance date:				
Non Current Receivable (loans)	-	-	1,106,099	1,062,472
Associated Entity:				
The interest held in the associated entity is disclosed in Note 10.				
Aggregate amounts included in the determination of profit from ordinary activities before related income tax that resulted from transactions with the associated entity.				
Sales to associated entity	3,109,387	-	3,109,387	-
Purchases from associated entity	1,048,078	-	1,048,078	-
Interest revenue	31,342	-	31,342	-
Aggregate amounts receivable from associated entities				
Current receivables (loans)	245,551	-	245,551	-
Non-current receivables (loans)	1,448,276	-	1,448,276	-
Non-current receivable (trade debtors)	197,873	-	197,893	-
Superannuation Plan:				
Information relating to the superannuation plan of the group is set out in note 27.				

29. SEGMENT REPORTING

a)

Primary reporting – geographical segments	30 June 2004 Australia $	Canada $	Consolidated $	30 June 2003 Australia $	Canada $	Consolidated $
Sales to external customers	83,848,288	-	83,848,288	87,814,526	-	87,814,526
Other revenue	2,153,756	-	2,153,756	1,363,446	-	1,363,446
Share of net losses of equity accounted associate	-	(285,997)	(285,997)	-	-	-
Total segment revenue	**86,002,044**	**(285,997)**	**85,716,047**	**89,177,972**	**-**	**89,177,972**
Segment result	**304,723**	**(285,997)**	**18,726**	**4,142,410**	**-**	**4,142,410**
Unallocated revenue less unallocated expenses			-			-
Profit from ordinary activities before income tax expense			18,726			4,142,410
Income Tax Expense			24,671			(1,755,613)
Profit from ordinary activities after income tax expense			43,397			2,386,797
Segment assets	66,027,460	-	66,027,460	60,569,407	-	60,569,407
Segment liabilities	42,060,417	-	42,060,417	36,195,500	-	36,195,500
Investment in associate	-	172,973	172,973	-	-	-
Acquisitions of non current segment assets	1,437,855	-	1,437,855	874,566	-	874,566
Depreciation and amortisation expense	1,691,892	-	1,691,892	2,728,400	-	2,728,400
Other non cash (income) / expenses	(15,522)	-	(15,522)	38,249	-	38,249

Secondary reporting – business segments

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

b) **Equity Accounted Investments**

The consolidated entity owns 50% of Capilano Labonte Inc, a honey packer located in Canada, which is accounted for using the equity method and is allocated to the Canada segment.

		Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
30	**RECONCILIATION OF CASH**				
	For the purpose of the statements of cash flows, cash includes cash on hand and at banks and investments in the money market, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheet as follows:				
	Cash	**3,342,721**	**3,694,104**	**3,269,073**	**3,669,148**
31	**RECONCILIATION OF NET CASH USED IN OPERATING ACTIVITIES TO PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX.**				
	Profit from ordinary activities after income tax	43,397	2,386,797	359,971	2,492,419
	Depreciation	1,564,291	1,600,208	1,563,245	1,600,010
	Amortisation	127,601	1,128,192	124,572	1,126,147
	Loss (Profit) on sale of equipment	(15,522)	41,525	(15,522)	41,525
	Provision for doubtful debts	-	(3,276)	-	(3,276)
	(Decrease) Increase in deferred tax payable	(24,671)	1,755,613	2,264	1,812,129
	Share of loss of associates	285,997	-	-	-
	Change in assets and liabilities				
	(Increase) Decrease in assets				
	Trade debtors	1,884,053	(4,981,829)	2,052,246	(4,906,309)
	Other debtors	(393,896)	96,289	(379,146)	96,137
	Inventory	(5,374,968)	(8,807,167)	(5,550,035)	(8,710,017)
	Prepayments	(531,673)	(63,045)	(514,465)	(63,045)
	Goods & Services Tax received	1,739	155,444	(960)	153,503
	Increase (Decrease) in liabilities				
	Trade creditors	282,962	(43,369)	250,475	(68,230)
	Other creditors	172,685	38,277	149,650	38,277
	Beekeeper creditors	(166,943)	(384,059)	(166,943)	(384,059)
	Provisions	513,252	12,081	446,747	25,524
	Net cash used in operating activities	**(1,631,696)**	**(7,068,319)**	**(1,677,901)**	**(6,749,265)**

		2004 $	2003 $
32.	**FINANCING ARRANGEMENTS**		
	Total facilities		
	Unrestricted access was available at balance date to the following lines of credit:		
	Multi-Option (refer note below)	29,050,000	15,050,000
	Letters of credit	488,000	200,000
	Hire purchase	1,612,000	2,000,000
	Trade Finance Facility	500,000	5,000,000
	Secured loan	-	3,000,000
		31,650,000	**25,250,000**
	Used at balance date		
	Multi-Option	27,000,000	15,000,000
	Letter of Credit	-	-
	Hire purchase	1,210,735	1,598,320
	Trade Finance Facility	436,879	2,838,757
	Secured loan	-	3,000,000
		28,647,614	**22,437,077**
	Unused at balance date		
	Multi-Option	2,050,000	50,000
	Letters of credit	488,000	200,000
	Hire purchase	401,265	401,680
	Trade Finance Facility	63,121	2,161,243
		3,002,386	**2,812,923**

The Multi-Option facility includes bank guarantees required as part of the secured loan agreement. The total amount of the facility including these guarantees is $29,000,000. The Trade Finance Facility is $500,000. These facilities are secured by a negative pledge, a registered mortgage debenture and a mortgage over certain freehold land and buildings.

Interest is charged at variable rates.

		2004 $	2003 $
33.	**EARNINGS PER SHARE**		
	Weighted average number of ordinary shares outstanding during the period used in calculation of basic and diluted EPS	5,132,177	5,132,163
	Earnings used in the calculation of basic and diluted EPS	43,397	2,386,797

34. **FINANCIAL INSTRUMENTS**

Financial Instruments

The information included in this note is provided as required by Accounting Standard AASB 1033 "Presentation and disclosure of Financial Instruments".

(a) **Derivative Financial Instruments**

Derivative financial instruments are used by the consolidated entity to hedge exposure to exchange risk associated with foreign currency transactions. The derivative financial instruments used by the economic entity are not recognised in the financial statements. Transactions for hedging purposes are undertaken without the use of collateral as only reputable institutions with sound financial positions are dealt with.

Unrecognised Financial Instruments

(i) Forward exchange contracts

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

At balance date, there was one outstanding forward exchange contract in respect of the consolidated entity.

(ii) Foreign currency options

From time to time the company enters into arrangements with options to sell US dollars and buy Australian dollars. These options confer no obligation upon the company except where a “kick-in” price is reached and the company is obliged to deal at the agreed option strike rate at the expiry date. Where an agreed “knock-out” rate is reached, the options may be exercised at the more favourable of the strike rate or the spot rate.

At 30 June 2004, put options with a face value of US$3.6m and call options with a face value of US$3.6m were held by the company. In respect of the 2005 year, US$1.8m call options were “knocked out” as at 30 June 2004. The remaining options up to a maximum of US$3.6m have an “out” barrier of US$0.7995, and “in” barrier of US$0.5995 and a strike rate of US$0.7199. In the unlikely event of the US exchange rate dropping below US$0.5995 the remaining call options would fall away and the company would be obliged to deal the remaining put options at US$0.7199

At 30 June 2004, the company held put options with a face value of £360,000. The options have a put rate at £0.3995 and £0.3955 and an “out” rate of £0.4295. As at the date of this report the maximum potential loss on exercising these options at the put rate would be a loss of A$8,175.

(b) **Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the balance sheets and notes to the financial statements.

The credit risk exposure to forward exchange contracts is the potential deferred exchange loss as disclosed in note 34(a).

34. **FINANCIAL INSTRUMENTS (continued)**

(c) **Interest Rate Risk**

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

2004	Weighted Average Interest Rate	Floating Interest Rate $	Fixed Interest maturing in less than 1 year $	Fixed Interest maturing in 1 - 5 years $	Non-interest Bearing $	Total $
Financial assets						
Cash	5.00%	3,263,403	-	-	79,318	3,342,721
Receivables	-	-	-	-	11,143,299	11,143,299
Other loan	5.00%	-	403,361	2,030,205	-	2,433,566
Total financial assets		**3,263,403**	**403,361**	**2,030,205**	**11,222,617**	**16,919,586**
Financial liabilities						
Bank loans & overdraft	5.52%	27,000,000	-	-	-	27,000,000
Hire Purchase	6.75%	-	414,572	796,163	-	1,210,735
Capilano Deposit Fund	4.61%	2,158,936	-	-	-	2,158,936
Beekeeper creditors	-	-	-	-	4,367,780	4,367,780
Beekeeper retains	3.45%	1,970,623	-	-	-	1,970,623
Secured loans	6.72%	-	436,879	-	-	436,879
Trade & sundry creditors	-	-	-	-	3,356,068	3,356,068
Total financial liabilities		**31,129,559**	**851,451**	**796,163**	**7,723,848**	**40,501,021**

2003	Weighted Average Interest Rate	Floating Interest Rate $	Fixed Interest maturing in less than 1 year $	Fixed Interest maturing in 1 - 5 years $	Non-interest Bearing $	Total $
Financial assets						
Cash	4.50%	3,653,688	-	-	40,416	3,694,104
Receivables	-	-	-	-	12,635,197	12,635,197
Other loan	5.00%	-	152,422	649,430	-	801,852
Total financial assets		**3,653,688**	**152,422**	**649,430**	**12,675,613**	**17,131,153**
Financial liabilities						
Bank loans & overdraft	4.85%	15,000,000	-	-	-	15,000,000
Hire Purchase	6.75%	-	-	1,598,320	-	1,598,320
Capilano Deposit Fund	3.97%	1,854,082	-	-	-	1,854,082
Beekeeper creditors	-	-	-	-	4,534,723	4,534,723
Beekeeper retains	3.67%	2,653,228	-	-	-	2,653,228
Secured loans	5.67%	3,000,000	2,838,757	-	-	5,838,757
Trade & sundry creditors	-	-	-	-	2,900,422	2,900,422
Total financial liabilities		**22,507,310**	**2,838,757**	**1,598,320**	**7,435,145**	**34,379,532**

(d) **Net Fair Value**

The net fair value of financial assets and liabilities approximates their carrying value.

Shareholders' Information

As at 31 July 2004

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 a company called CBL

All other shares are ordinary shares in the company.

b) Voting Rights

Ordinary shares entitle their holder to one vote per share, either in person or by proxy, at a meeting of the company.

However, the Foundation Share provides:

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

c) Distribution of Shareholdings

The number of shareholders, by size of holding are:

	Foundation Share		Ordinary Shares	
	Number of Holders	Number of Shares	Number of Holders	Number of Shares
1 – 1,000	1	1	101	25,468
1,001 – 5,000			266	768,880
5,001 – 10,000			182	1,360,393
10,001 – 100,000			168	2,977,434
100,001 and over			-	-
			717	5,132,175

(Included in ordinary shares above are 3,414 unquoted shares)

d) Shareholders holding less than a marketable parcel

There are 58 shareholders holding 810 shares which the company considers to be less than a marketable parcel of shares (value $500), when using a value of $4.10 per share, being the average traded price of shares traded on the Bendigo Stock Exchange.

e) Ten largest shareholders

The names of the ten largest holders of quoted shares are:

		Number of Ordinary Shares	Percentage of Ordinary Shares
1.	Baker Beekeeping Pty Ltd	58,343	1.14
2.	D G, L R, J M, H M, K J Keith & M M McCrystal	57,920	1.13
3.	M A & B K Klingner	56,365	1.10
4.	Hughston & Sons Pty Ltd	55,024	1.07
5.	E N Peadon	53,600	1.04
6.	Gundagai Bee Farms Pty Ltd	51,629	1.01
7.	R J & LR Blackwell	42,640	0.83
8.	M & M R Nelson	40,000	0.78
9.	J T & N R Sloss	38,260	0.75
10.	P F McHugh	34,676	0.68
		488,457	9.52

f) Company Secretary

Mr Errol J Bailey.

g) Registered Office

399 Archerfield Road, Richlands Qld 4077. Telephone (07) 3712 8282.

h) Register of Securities

The Register of Securities is held at 399 Archerfield Road, Richlands Qld 4077.

Condensed Financial History 1995 - 2004

		$000's except as noted								
Year ended 30 June	**2004**	2003	2002	2001	2000	1999	1998	1997	1996	1995
Group total sales revenue	**83848**	87815	61160	59431	59473	55445	55034	59539	46903	40827
Earnings before interest and tax, premiums, interim bonus and loyalty payments	**1433**	7306	2331	6421	4741	1195	3944	3937	3102	2500
Interest expense	**1414**	1138	852	931	1068	944	793	487	530	495
Profit before tax, premiums, interim bonus and loyalty payments	**19**	6168	1479	5490	3673	251	3151	3450	2572	2005
Loyalty bonus payment - Quota & Over Quota Honey	**-**	-	-	-	-	-	930	353	-	-
Interim bonus payment - Quota & Over Quota Honey	**-**	2026	864	729	-	-	-	-	-	-
Operating profit before tax	**19**	4142	615	4761	3673	251	2221	3097	2572	2005
Income tax attributable to operating profit	**(24)**	1756	(1060)	(343)	758	(2034)	(1414)	52	520	517
Operating profit after tax	**43**	2386	1675	5104	2915	2285	3636	3045	2052	1488
Number of issued shares (000's)	**5132**	5132	5132	5132	5132	5102	5064	5136	5109	5213
Earnings per Share (cents)	**0.8**	46.5	32.6	99.5	56.8	44.8	71.8	59.3	40.2	26.4
Dividend per Share (unfranked) (cents)	**-**	-	-	17.0	17.0	5.0	15.0	15.0	15.0	12.0
Dividend per Share (franked) (cents)	**5.0**	20.0	15.0	-	-	-	-	-	-	-
Dividend: Times Covered	**0.17**	2.33	2.18	5.85	3.34	8.96	4.79	3.95	2.61	2.20
Total dividend paid	**256**	1026	769	872	872	255	776	768	784	678
Bonus - year end appropriation	**-**	-	1032	1565	-	-	-	-	-	-
Bonus - per kilogram (cents)	**-**	-	7.0	10.0	-	-	-	-	-	-
Total retained profit at 30 June	**14,156**	14368	13007	13125	10456	8413	5946	5179	4896	3737
Net assets at 30 June	**24,140**	24374	23013	23130	20462	18311	16161	13501	11155	10100
Net asset backing per issued share (NAB)	**$4.70**	$4.75	$4.48	$4.51	$4.00	$3.59	$3.19	$2.63	$2.18	$1.94
Average Traded Price (ATP) *	**$2.87**	$2.53	$2.55	$2.78	-	-	-	-	-	-
Dividend Yield (Based on ATP)	**1.7%**	7.9%	5.9%	6.1%	-	-	-	-	-	-
Total Debt Percentage of Total Assets	**63.5%**	59.8%	53.2%	51.6%	55.8%	56.8%	61.9%	60.6%	60.7%	56.6%
Total Honey Price + Dividend + Retained Earnings (cents/kg)	**$4.38**	$4.40	$2.28	$2.05	$1.93	$1.86	$1.79	-	-	-
Movement Year on Year $	**-$0.02**	$2.12	$0.23	$0.13	$0.07	$0.07	$0.03	-	-	-
Movement Year on Year %	**-0.44%**	92.64%	11.15%	6.71%	3.58%	4.07%	1.85%	-	-	-
Five Year Average	**22.73%**	23.63%	5.47%	4.94%	6.88%	6.81%	4.40%	-	-	-
Number of full time equivalent employees as at 30 June	**126**	122	121	123	N/A	N/A	N/A	N/A	N/A	N/A

N/A - not available

* ATP - based on weighted average of traded prices over twelve months to 30 June, excluding nominated transactions between buyer and seller.

Where necessary, values have been adjusted for share issues and share buy-backs.