

Annual Report 2004



ANNUAL GENERAL MEETING

The 2004 Annual General Meeting will be held at

**THE GOLDEN NUGGET TABARET
HIGH STREET
MARYBOROUGH VIC 3465**

SCHEDULE OF ACTIVITIES

FRIDAY, 1 OCTOBER 2004

11.30am

Annual General Meeting
Registration from 11.00am

6.30pm

Annual Dinner
*in conjunction with the Maryborough
Plant's 30th Anniversary celebrations*

For further details please refer to:

- Notice of Meeting page: 2
- Attendance Form page: 41
- Proxy Form page: 43





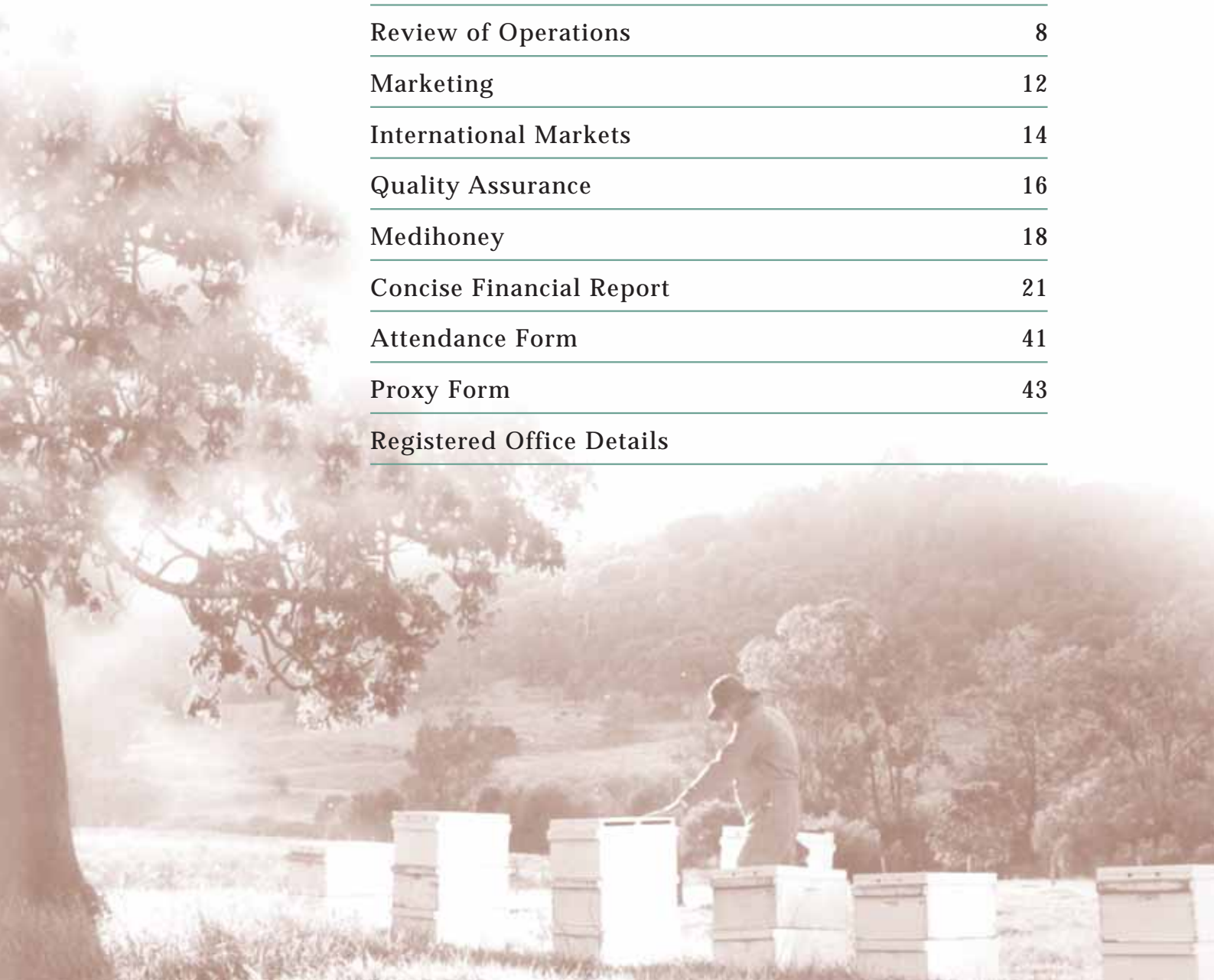
Annual Report

2004



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NOTICE OF MEETING

Notice is given that the thirty-second Annual General Meeting of shareholders of Capilano Honey Limited ('CHL') ACN 009 686 435 will be held at The Golden Nugget Tabaret, High Street Maryborough Victoria on Friday 1 October 2004 commencing at 11.30am.

AGENDA – ORDINARY BUSINESS

• Financial Statements and Reports

To receive and consider the Financial Statements, Director's Declaration and the Reports of the Directors and the Auditors for the year ended 30 June 2004.

• Resolution – Increase in Directors' Remuneration

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

'That, in accordance with rule 114 of the Constitution, approval is given to the Company increasing remuneration to the Directors on the terms and conditions contained in the Explanatory Memorandum forming part of this Notice of Meeting.'

In accordance with section 224(1) of the Corporations Act and Listing Rules 7.16 and 11.23 of Bendigo Stock Exchange any votes cast in relation to this resolution by any director or their associates will be disregarded.

However the Company need not disregard any such vote if:

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

Dated this THIRTEENTH day of AUGUST 2004

By Order of the Board



CAPILANO HONEY LIMITED
Errol J Bailey
Company Secretary

THIS IS AN IMPORTANT DOCUMENT

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

INSTRUCTIONS

If you are unable to attend the meeting and wish to vote, you are requested to complete the Proxy Form on page 43 of this Annual Report.

If you are planning to attend the Annual General Meeting please complete the Attendance Form on page 41 of this Annual Report.

NOTES

- a) Information about the Resolution appears in the accompanying Explanatory Memorandum.
- b) A member who is entitled to attend and cast a vote at the meeting is entitled to appoint a proxy.
- c) The proxy need not be a member of the Company. A member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.
- d) If you wish to appoint a proxy and are entitled to do so, then complete and return the attached proxy form.
- e) A corporation may elect to appoint a representative in accordance with the Corporations Act 2001 in which case the Company will require written proof of the representative's appointment which must be lodged with or presented to the Company before the meeting.



Resolution - Increase in Directors' Remuneration

A resolution will be moved to increase the total remuneration of directors to \$379,997 using a 6.76% smoothing average of shareholder returns for the past five years as the recommended rate of increase. This amounts to an increase in directors fees to \$341,885, Superannuation Guarantee Contributions to \$30,770 (at the legislated rate of 9%), and Directors and

Officers Liability Insurance premiums of \$7,342 with the increase to be effective from 1 July 2004 and to be paid as follows:

Chairman	\$71,330
Deputy Chairman	\$ 6,815 (in addition to the amount payable in his capacity as a non-executive director)
Independent non-executive directors	\$57,060 each
Beekeeper non-executive directors	\$37,405 each
Superannuation Guarantee Contribution	\$30,770
Directors & Officers Liability Insurance	\$ 7,342

The Board encourages shareholders to support this recommendation. To provide adequate remuneration for current directors and to ensure the company's ability to attract suitable successors when necessary.

Note: Under the Constitution no ordinary resolution can be passed in a general meeting without the vote of Capilano Beekeepers Limited ('CBL') being cast in its favour.

The CBL Constitution provides that no remuneration be paid to its Directors. The Directors of CBL receive their remuneration from their positions as directors of CHL. However, because the Directors of CBL are also the current directors of CHL, they will not vote because they would receive a benefit from the passing of the resolution.



Recognising and capitalising on opportunities during this most challenging of years has been a major part of the Capilano story this year. Following a year of record high honey prices, the Company is reporting a lower profit result but has positioned itself well for the future in both its domestic and global markets.

The 50 Year Anniversary celebrations provided an opportunity to increase recognition of the Capilano brand and the Capilano story to consumers, customers, business associates and Government. The celebrations drew a focus on Capilano's leadership in the Australian honey industry and the global reach of our business. Our 50 Year Anniversary dinner with co-founder Tim Smith as guest of honour was well attended by shareholders and was a very special night that will remain as a fond memory.

The successful restructure of the Company provides shareholders with a market for share trading through the Bendigo Stock Exchange after changes to the law required the closure of the Capilano Exempt Stock Market.

Thankfully, relief from the drought allowed most supplier shareholders to take some advantage of the year's very high prices.



Overview of Results

Net Profit for the year was \$0.04 million compared with \$2.387 million last year.

Total Capilano sales for the year declined due to the impact of very high prices and some ill informed publicity on the domestic retail market.

A number of factors impacted on profit for the year:

- drought induced record farm gate prices for honey reflected in an average shareholder price of \$4.38/kg, an increase of 8.5% over the previous year.
- a 10.5% reduction in sales in the domestic market our most profitable.
- a steep decline in world honey prices in the last three months. This coincided with the first surge in supply of Australian honey for some years, following some relief from the drought. Bulk export earnings were dramatically affected.

On the positive side Capilano maintains its strong domestic market share and the return to 100% Australian honey, supported by promotion and advertising, has reversed the downward sales trend. Export retail sales have grown by 45% as the Company's strategy to value add, and to reduce bulk exports, comes to fruition.

Medihoney sales doubled as this subsidiary's product range increased and gained increased acceptance in Australia and Great Britain.

The Board declared a five cents per share fully franked dividend from profits retained in previous years.

Challenges and Opportunities

The worst drought in 100 years has reduced supply to Capilano over the past four years and resulted in a decision two years ago to import honey to meet sales commitments. As a result Capilano developed a relationship with HoneyMax, a major Argentine exporter, which has resulted in a joint venture operation. Capilano's honey processing knowledge and quality assurance standards are now united with a large supplier of Argentine honey to provide blended honey to meet honey buyer requirements anywhere in the world.

The identification of nitrofurans residues in some Argentine honey caused a delay in commencement of sales from this joint venture. Capilano and HoneyMax have responded to the heightened focus this has drawn on quality assurance with honey testing protocols capable of ensuring product integrity. Honey is now being sold on behalf of the joint venture.

Capilano's well-developed quality assurance procedures have proved very beneficial for Capilano Labonte and Capilano in Canada. We have been able to retain the trust and support of major Canadian customers following alleged detection of nitrofurans residues in honey in that country. As a result, sales are expanding rapidly, underpinning the future success of our Canadian subsidiary.

Capilano Restructure

The great strength provided to the Company by its close ties with shareholder suppliers is retained in the Company restructure. The Company's core business, selling packed honey, has been built on the assured supply from its supplier shareholders. Mutual benefit exists through assured sales for supplier shareholders.

The listing of Capilano Honey Limited on the Bendigo Stock Exchange in June, 2004 provides the first opportunity for members of the public to join in ownership of the Company and we welcome their participation. Capilano Beekeepers Ltd maintains control of Capilano Honey Limited, endorsed by an overwhelming majority of shareholders. The shareholding of Capilano Beekeepers Ltd after August 2005 will consist only of supplier shareholders with a Honey Supply Agreement.



Capilano Honey Limited's move from an unlisted public Company to a listed public Company is a significant step in the Company's development.

Medihoney

The development of Medihoney is gaining pace as more and more medical professionals witness successful results, more clinical trials take place and the story of Medihoney is presented at wound care conferences around the world. Medihoney's high potency antibacterial honey has the potential to provide relief from suffering to millions around the world, as well as enormous savings to health agencies through reduced infections and length of hospital stays. Medihoney's ability to fight antibiotic resistant bacteria could provide an answer to this growing challenge to human health.

In parallel with establishing high potency antibacterial honey as an important aid for medical professionals in healing wounds, Medihoney is expanding its family of health care products for sale through pharmacies and supermarkets.

Our expectations for the growth of Medihoney are high. Congratulations to Medihoney Chief Executive Officer Anthony Moloney and the Medihoney team for achieving 100% sales growth for the year.

Capilano Labonté Inc. (CLI)

CLI, Capilano's 50% owned Canadian subsidiary's first nine months have involved significant review of products, markets and production facilities to meet the new company's strategic plan.

The nitrofurans issue in Canada placed an added workload on CLI and caused significant disruption to trading. The excellent relationship with customers established through effective handling of this issue will benefit CLI into the future.

Andrew Bond moved to Canada as General manager of CLI to assist in establishing procedures that integrate well with those at Capilano.

Quality Assurance

Residue issues with honey from the world's largest suppliers, China and Argentina, and others, have heightened surveillance of honey around the world. Clearly and rightly, consumers are demanding residue free honey.

Capilano is determined to be a leader in the marketing of clean and safe honey as it expands as a global honey company through its Argentine and Canadian businesses. To this end, Dr Ben McKee has been appointed Quality Assurance Manager with responsibility for quality assurance throughout the Group.

To manage the high cost of the exhaustive testing now required, Capilano has invested in its own 'in-house' laboratory, soon to be in operation.

Australia has an enviable record for clean honey that we must guard through responsible production management practices.

Management and Staff

Congratulations to our team of people who have turned very significant challenges into opportunities during this most difficult of years.

Poor supply due to drought has given our honey blenders a herculean task to meet customer and consumer expectations. Our domestic sales team have had to persevere as sales slumped, while consumers resisted the very high prices occasioned by the domestic shortage of honey and also by the adverse publicity. Now, through their efforts we observe sales rise again. We also celebrate with the export sales team the increase in export retail pack sales, and particularly with the Canadian team members as all their efforts begin to bear fruit.

Thanks to you all as you successfully fulfil your role in Capilano, keeping our Company at the leading edge of the honey industry.

Your Board

The need to restructure the Company and the many challenges that have arisen this year have placed an added workload on your Board. The Board is greatly encouraged by the support provided by shareholders as we worked our way through the issues that confronted us this year.

The strong sense of belonging that was evident at our 50 Year celebration and as we dealt with the restructure and other issues this year is evidence we belong to a great company.

I acknowledge the professionalism of the contribution my fellow Directors make to our Company.

Don Keith
Chairman of Directors



BOARD OF DIRECTORS



DONALD G. KEITH, FAICD, AM.

Chairman, Commercial Apiarist

Age 65

(Appointed Director 1989, Deputy Chairman March 2000 and Chairman October 2000)

Mr Keith has been a Director since 1989, and was appointed Deputy Chairman in March 2000 and Chairman in October 2000. He is well known in the apiculture industry as a honey producer. During more than thirty years of active involvement in industry affairs, he has served three terms as President of the Queensland Beekeepers Association, and from 1986 to 1989 held the position of National President of the FCAAA. He is a Fellow of the Australian Institute of Company Directors and holds a Company Directors' Diploma. He was made a member of the Order of Australia in 1999. He was also a recipient of the Goodacre Memorial Award in 2000.

Mr Keith is also a Director of Medihoney Pty Ltd.



IAN A. CANE

Deputy Chairman, Commercial Apiarist

Age 46

(Appointed Director 1990 and Deputy Chairman 2000)

Mr Cane has been a Director since 1990 and was appointed Deputy Chairman in 2000. He is a third generation beekeeper with extensive experience in honey production. Mr Cane is a qualified carpenter and joiner and has conducted his own business in the building industry.



ROGER D. MASTERS, B.Com, MBA, CA.

Managing Director

Age 49

(Appointed Director 1996)

Mr Masters was appointed by the Board as Managing Director in 1996. He has a Bachelor of Commerce Degree, a Masters Degree in Business Administration and is an Associate of the Institute of Chartered Accountants. He has had a distinguished career in senior management with significant experience in finance, marketing and business development. Prior to joining Capilano, Mr Masters was Finance Director for Bullivant's Natural Health Products.

Mr Masters is also a Director of Medihoney Pty Ltd and Capilano Labonté Inc.



PHILLIP F. McHUGH

Non-Executive Director, Commercial Apiarist

Age 47

(Appointed 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.



TREVOR R. MORGAN, FAICD

Non-Executive Director, Commercial Apiarist
Age 49
(Appointed Director 1998)

Mr Morgan was elected as a Director in 1998. 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 ten years, including two years as President. He is a Fellow of the Australian Institute of Company Directors and holds a Company Directors' Diploma.



ROSEMARY DOHERTY, GAICD

Non-Executive Director, Commercial Apiarist
Age 54
(Appointed Director 2000)

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



WARWICK B. WILSHIRE, FAICD, JP (C.Dec)

Independent Non-Executive Director
Age 66

(Appointed Chief Executive 1983, Managing Director 1984 & Independent Non-Executive Director 1996)

Mr Wilshire has extensive experience in manufacturing, marketing, financial and general management gained during more than forty years in management positions. He is a Fellow of the Australian Institute of Company Directors and holds a Management Certificate from Sydney Technical College and the Company Directors' Diploma.

Mr Wilshire is also a Director of Medihoney Pty Ltd.



BERNARD J. BALLANTYNE,

Independent Non-Executive Director
Age 57
(Appointed Director 1991)

Mr Ballantyne is the Group Managing Director of Castlegate VGS Pty Ltd which is involved in the marketing and distribution of grain and grain by-products. He has had extensive experience in Agribusiness in senior management positions encompassing operations, sales, marketing and general management. Prior to his appointment to the Capilano Board as Independent Director in 1991, Mr Ballantyne had been the AFAL Nominee Director for six years.

Mr Ballantyne is also Chairman of Medihoney Pty Ltd and Capilano Labonté Inc.



Honey Supply

The supply of honey remained one of the critical issues of 2003-2004 as the impact of the drought continued to be felt in the first half year. Receipts of imported honey mitigated the damage that could have been caused by a failure to meet customer's requirements. Our Australian honey receipt level of 11,949 tonnes was up from 9,527 tonnes last year, but still required the support of 2,384 tonnes of imported honey to ensure retention of our market for future years. As the crop situation became more evident, on 1 January 2004 Capilano was able to initiate a switch back to 100% pure Australian honey in the domestic retail market, fulfilling the promise to shareholder suppliers that we would do so when we were able.

In the first half-year Australian beekeepers benefited from high prices supported by the continuing honey shortage offshore caused by the ban on Chinese honey in the European Union and the anti dumping legislation against Argentine honey in the USA. Some Australian packers and beekeepers took advantage of the high offshore prices to export direct, which moved scarce Australian honey out of the local market. Honey buying prices hit record levels as Capilano competed for that honey, and the increase over last years prices consumed an extra \$3.8 million.



The Residue Issue

The handling of the issue of residues in honey became controversial when a few local beekeepers elected to use the media to voice their dissatisfaction with imported honey blended with Australian honey, by making public allegations of contamination by nitrofurans residues. FSANZ issued public statements that there was no health risk related to the honey. There is substantial disagreement over the validity of the test methods used to assess the level of this residue in a honey matrix. The leader in the field of testing honey for residues stated in January 2004 "no method for the detection of Nitrofurans metabolites in honey has been published and substantiated through official interlaboratory testing". Twenty-four international laboratories undertook ring testing of results, following an International Symposium on Nitrofurans in January 2004 in Montreal, to ensure a competent result from a validated method would be available. What is certain from the outcome of the impact of the media reporting is a 10.5% sales decline in the honey category on last year, which has affected all honey packers. Capilano took action through a promotion and advertising campaign to restore sales of its brands and was rewarded with an increase in market share, albeit in a reduced category.

Business Development

The important issue of growth in Capilano's strategic plan is being realised as the global network of honey supply and distribution becomes a reality. The commissioning of the factory operated through a joint venture in Argentina, and the upgrade of our plant in Canada owned through a subsidiary now means we can supply blends of Australian, Argentine and other origin honey as customers require. Our export retail sales have grown by 45% to 2,449 tonnes, continuing to switch us from the bulk export segment. Our diversification into therapeutic honey products through our subsidiary, Medihoney Pty Ltd, is gathering momentum with a 100% increase in sales to \$A2.07 million this year.

The combination of reduced domestic sales and high honey buying prices were to the detriment of the company's net profit. Sales were \$83.85 million, while net profit was \$0.04 million compared with \$2.387 million last year. The future profitability will largely depend upon the improvement in the available crop, movement in honey buying prices and realisation of sales from our growth strategies. At present the forecast is for a better crop than 2004, honey prices have already fallen substantially, and the outlook is for improved sales in Canada. The weakness of the Australian dollar against the US dollar, the re-entry of China to the EU, and the lifting of some dumping duties for Argentine honey into the USA will see a more competitive area for export bulk sales.

Significant Events

- Record honey prices
- Listing on the Bendigo Stock Exchange
- 100% increase in Medihoney sales
- 45% increase in export retail sales
- Commissioning of joint venture plant in Argentina
- Negative television publicity about nitrofurans residues in Australia
- 10.5% volume decline in domestic honey category in supermarkets over the year
- Low receipts at 11,949 tonnes but relief from the drought in sight
- Negative competitor behavior in Canada sparking nitrofurans crisis
- Strengthening of relationship with Canadian customers
- Construction of analytical laboratory





FINANCIAL OVERVIEW

Profitability	2004 \$'000	2003 \$'000	2002 \$'000
Gross Sales Revenue	83,848	87,815	61,160
Earnings before Interest and Tax	1,433	5,280	1,467
Net Profit after Tax	43	2,387	1,675

Although the honey category is down 10.5% in volume due to a combination of higher prices and negative publicity from the sensationalist television reporting of residues, Capilano has held its market share. Its sales were assisted by an excellent performance by Medihoney, whose sales doubled to \$2.07 million.

Honey supplied by shareholders rose in cost from \$4.03/kg to \$4.38/kg, and had a great impact on profitability, costing an extra \$3.8 million more than last year.

Foreign exchange gains of \$1.7 million compared with \$1.1 million the previous year.

Net asset backing as at 30 June 2004 is \$4.70/share. The average traded price (ATP) of shares was \$2.88 during the year, while recent sales in July on the Bendigo Stock Exchange are at levels greater than \$4.00.

	2004 \$'000	2003 \$'000	2002 \$'000
Shareholders Equity	24,140	24,374	23,013
Return on Equity	0.2%	9.8%	7.3%
Earnings per share	0.8	46.5	32.6

The dividend yield is 1.9% based on the average traded price of \$2.88 per share and a fully franked dividend of five cents.

Balance Sheet

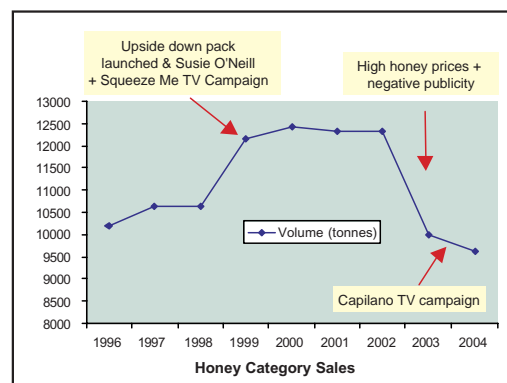
	2004 \$'000	2003 \$'000	2002 \$'000
Current ratio	3.26:1	2.19:1	2.02:1
Debt Ratio (Total Liabilities/Total Assets)	64%	60%	53%
Interest Coverage (EBITDA/Interest)	2.21	7.04	3.99
Total Assets (\$'000s)	66,200	60,569	49,203
Cash at year end (\$'000s)	3,343	3,694	3,082

The strength of the balance sheet is shown by the total assets of \$66.2 million, with liabilities being 64% of assets, a solid position. The increase in debt ratio reflects the current stock holding of honey bought at high prices. The current honey buying price will reduce the working capital investment in stock, improve the debt ratio and increase liquidity. The Group's strong liquidity is reflected in a good current ratio of 3.26 and the cash position shown above. The interest coverage ratio reflects our strong ability to meet interest commitments.

SALES & MARKETING

Domestic

The greatest challenge to present itself this year in the domestic market related to the impact of high prices and the effect of the adverse television publicity on the consumer. Sales dropped considerably, and during the first quarter 2004 the honey category was down by 13.4% in volume on a moving annual total (MAT) basis (Source – AC Nielsen).



The lack of domestic supply required Capilano to use imported honey in its products for the first six months. Improved supply enabled a return to Australian honey from 1 January 2004. However, the practice by campaigners against imported honey of tagging it with residue claims was to attach the image to all honeys. This has been countered by an extensive promotion and advertising campaign for Capilano honey which featured a 'back to Australian honey' theme.

Export

In export, considerable sales improvement was gained in the United Kingdom and Canadian markets. However, a strategy employed by some of our competitors in both markets involved the taking of Capilano packed products off the shelf and lodging quality complaints against the product. Legal action was taken against the UK complainant who alleged Capilano had substituted Chinese honey for Australian, with the result of an apology and costs awarded against the complainant. Damages were not sought in that instance. In Canada, similar action was undertaken by competitors. Although it was originally alleged this was part of a 'random surveillance program' it was admitted that an initial testing was the subject of a complaint and supply of products packed by us. A voluntary recall was instituted by our customer although a series of questions exists concerning the legitimacy of the validity of the tests and health risk assessment. Following intervention by the Australian High Commission it seems the testing was then expanded with the consequential effect that Canadian packers were also implicated, with one having to recall products packed from 1 January 2003. We understand another packer was affected when other residues were found in their products.

The Canadian market is an importer of honey for up to half of its domestic needs. We are upgrading the Canadian plant to enable us to supply Argentine, Australian and Canadian honey to the Canadian and USA markets. This investment will not only benefit Australian beekeepers but will benefit Canadian beekeepers by extending the reach of Canadian honey through our distribution channels overseas. It will also introduce a competitive element for the benefit of Canadian consumers.

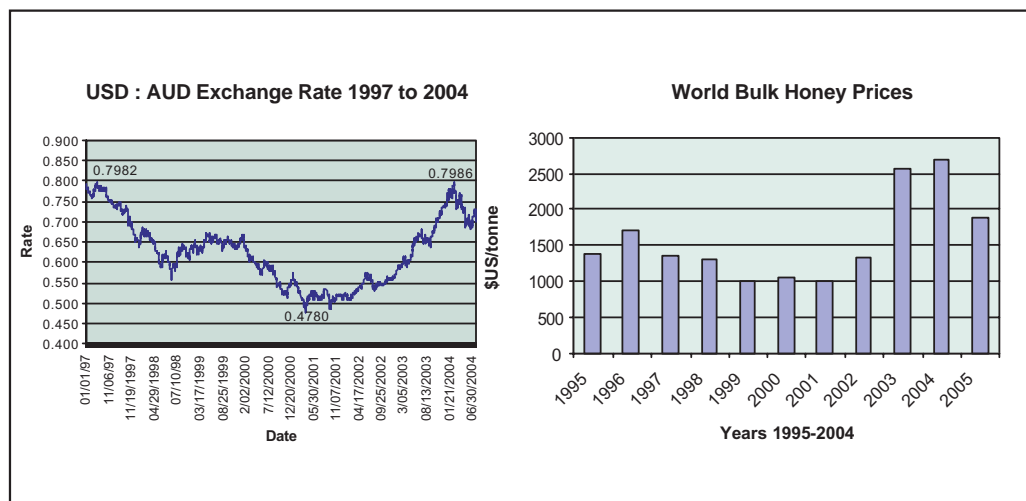
We expect to increase our sales to Canada by 2,200 tonnes per annum in addition to our existing export retail sales.

One of the initiatives to flow from the increased regime of testing was for Capilano to build its own laboratory for accreditation to NATA standards. This will enable quick turnaround of tests and ensure proper quality surveillance is carried out.

The overall outcome this year was an increase of export retail sales from 1,688 tonnes to 2,449 tonnes, a 45% growth. Our supply chain from Australia and Argentina will be an important link in achieving our goals.

OPERATIONS

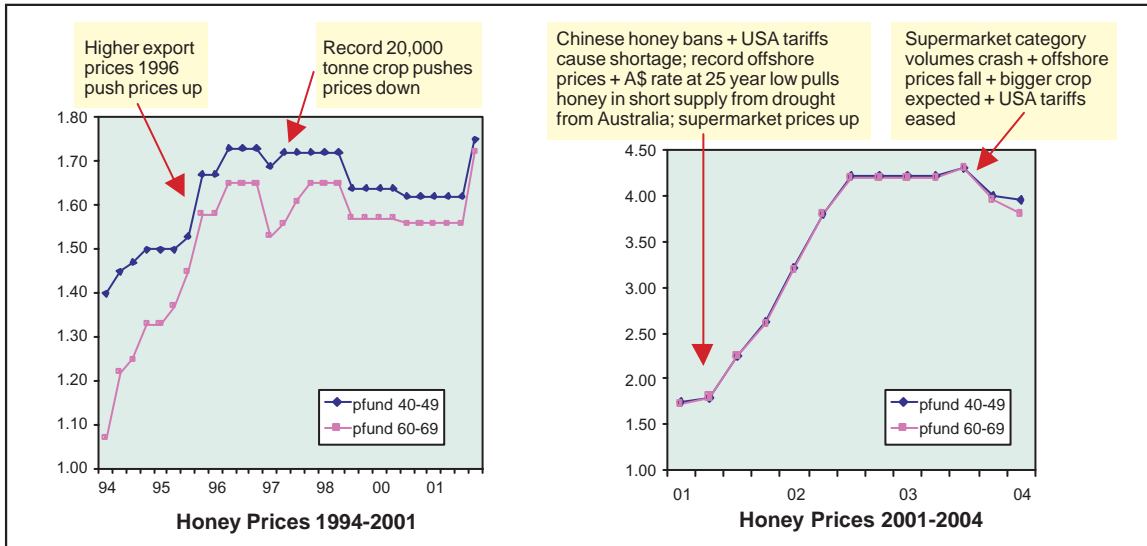
The supply of honey remained one of the critical issues of 2003-2004 as the impact of the drought continued to be felt in the first half year. Our Australian honey receival level of 11,949 tonnes was up from 9,527 tonnes last year, but we required the support of imports to ensure our markets were retained for years when we will have normal crop levels. In that situation, Capilano would be forced to sell the surplus into the bulk export market if it loses existing domestic retail markets.





For many years the bulk export price was less than the honey buying price paid to beekeepers. The requirement to sell bulk export honey dragged down Capilano's buying prices. In financial 2001-02 over a small period of time the Australian dollar experienced record lows against the US dollar. In financial 2003-04 export bulk prices were supported by the ban on Chinese honey from Europe and the anti dumping legislation in the USA against Argentine honey.

Some beekeepers were attracted by the proposition of becoming bulk exporters. The situation has again returned where the combination of exchange rate and current export bulk prices are lower than current buying prices for export bulk honey. There will be minor exceptions to the rule, where special honeys are traded and small tonnages are involved – but for the 10,000 tonne surplus in the Australian market it will remain an exception.



Our honey buying price rose from \$1.50/kg to \$1.82/kg or 21.5% over the 5 year period 1996-2001, during which time dividends of \$3.5 million were paid and shareholders benefited by a growth in net assets of \$12 million. Over the 3 years 2002-2004 the unusual conditions noted above allowed for a meteoric rise of 140.2%. However, export prices for bulk honey have fallen by up to one third in the last quarter, with the A\$/US\$ exchange rate now trading in a band of 0.70-0.78, the export bulk prices are around the \$2.70/kg level.

The re-entry of Chinese honey into the EU notified by circular on 19 July 2004, together with the revision of dumping margins to zero in the USA of a number of Argentine exporters, is expected to have a depressing effect on world prices. Capilano will benefit to the extent that previous suppliers who chose to leave to trade in the bulk export market have reduced the crop surplus we had to sell into a segment historically categorised by low prices. We will continue our long term strategy of focusing on value added products.

Imported honey has not cost our shareholder suppliers anything, and we continue to buy all that our shareholder suppliers can produce at sustainable prices. To the contrary, imported honey saved the markets in Australia for our shareholders to re-supply as soon as they were able. Our Australian honey supply can now be attached to our Argentine and Canadian supply capability, allowing us to capitalise on customers requirements for international blends.

FUTURE

We have positioned ourselves as a global supplier and distributor of honey. We are now able to supply consistent blends of honey for both retail and industrial uses at competitive prices globally. We can provide our global customers with real Quality Assurance support in respect of our honey. Our customers require innovation in products and packaging, which we can deliver.

We have a loyal shareholder supplier base which allows us to continue on the path of building prosperity for them. We also have a loyal and dedicated employee group who have shown a tenacity in dealing with challenges that beset us this year and ingenuity in developing the business.

Together we have dealt with some negative competitive behavior overseas and some 'tall-poppy' treatment at home, which in some cases turned back on the competitors. Our view is that we will keep moving forward.

Roger D Masters
Managing Director



DOMESTIC SALES

Capilano's total domestic gross sales this year were \$58.3M against \$69.0M last year, following a significant reduction in domestic retail volume from our inability to maintain supply of Homebrand to Woolworths who switched to an imported product.

However, our Capilano brand, again achieved gross sales of \$30.3M despite a number of major issues which affected our industry, and which depressed overall company performance during the last twelve months.



For example, the continuing effects of drought significantly reduced the amount of honey available for sale. Offshore bulk prices had risen to unprecedented levels due to the effect of the ban on Chinese honey in the EU and anti dumping tariffs in the USA, creating demand for Australia's already scarce honey resource. As buying prices rose in Australia then recovery of those costs began, driving prices paid by the consumer to extraordinary levels. Also, we experienced negative television reporting about the issue of nitrofurans in honey and, whichever way you look at it, it damaged honeys image and sales to the consumer.

Promotional and marketing activity in the first part of the year was significantly reduced since difficulty would be experienced in supplying any promotion driven demand. In the latter part of the financial year however, as it became evident that the honey crop was beginning to improve and we could sustain a return to all Australian honey, a television campaign featuring Don Keith, Chairman and Capilano product champion Susie O'Neill, was featured promoting the Capilano brand as 100% Pure Australian. The ever popular 'Squeeze Me' jingle was continued together with the flagship upside down pack. This activity coincided with an injection of promotional funds and with the re-instatement of in store promotional activity.

In the early part of the year security of supply became a major concern from a supermarkets perspective due to the diminished domestic crop. Our inability to supply at the going price resulted in the loss of some major private label business in favour of imported product. This was despite our strategy of retaining our existing markets by replacing some products with blended imported stock as required, where we could easily return to all Australian product as conditions improved. No other packer or beekeeper exporter came forward to supply the honey about to be replaced with an imported product, either having insufficient honey or preferring the offshore profits available at the time. Major retailers then focussed on range rationalisation in order to minimise the effects of possible out of stocks from suppliers.

For our industrial customers who use honey as an ingredient, high prices have impacted on the costing of their final products. Major research has been undertaken by many of them in developing alternatives to honey, or in re-formulating their products to reduce the amount of honey used. This has seen the loss of some long standing industrial customers.

The above factors combined with misleading and inaccurate media stories in December 2003 through to April this year surrounding nitrofurans in honey, have all contributed to the decline in overall performance of the industry and Capilano.

OTHER PRODUCTS

Honey & Ginger

Early in 2004 Capilano began work with Buderim Ginger, a well known Queensland company, in developing a new product combining the expertise of both organisations. In May 2004, we introduced a new and innovative Honey & Ginger product to the market under the Capilano brand.

Capilano Honey & Ginger spread is available in a 375g Upside Down pack and a 235g square PET pack.

This new initiative is important as it will create and attract new users to the honey category and help to restore growth.





Flavoured Toppings

During the course of the year a sophisticated range of Capilano branded ice cream flavoured toppings were added to our product portfolio.

Six exciting new flavours were developed and early results in a major supermarket chain indicate a 10% share of the flavoured toppings market has been achieved in a relatively short time frame.

These products will provide ongoing additional profit to shareholders, and further enhance our non honey activities.

Golden Syrup

Smith's Golden Syrup continues to hold nearly 30% market share, capitalising on previous television advertising campaigns.

A new 250g pack was launched in June to keep the Smith's brand growing.

UPSIDE DOWN PACK UPDATE

The multi Award winning innovative design of the Upside Down pack has been a huge success with consumers, and now accounts for 37.7% of all unit sales. (MAT 04/07/04, AC Nielsen).

This revolutionary pack has allowed Capilano to maintain its premium price on shelf as customers show their appreciation of quality and convenience. Capilano also markets other food categories, such as Toppings, Golden Syrup and Honey & Ginger products in this versatile pack.

FUTURE

Supply conditions have improved allowing us to maintain the all Australian offering to the retailers, and we are implementing strategies to retain consumer confidence and improve market share.

Kevin Fenton
National Sales Manager

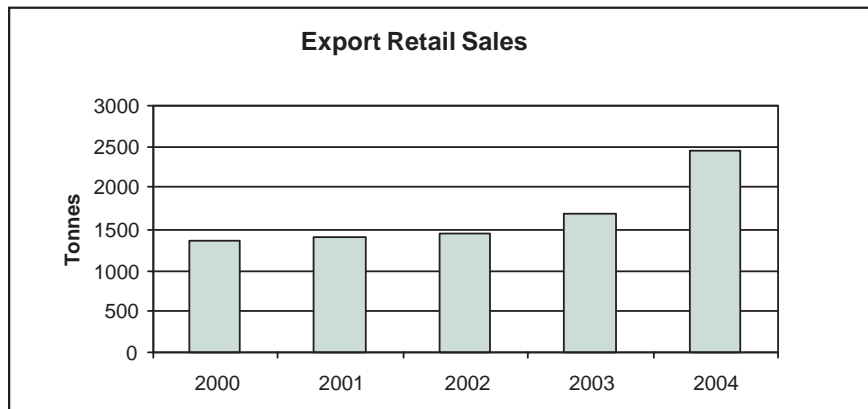


Only 12 months ago, we wrote about the changing dynamics of the international honey market caused by the EU's ban on the importation of Chinese honey. The effects of this ban continued to be felt throughout the year, with honey prices reaching record levels as buyers demanded residue free honey.

In recent months, the international honey price has begun to fall on expectations of improved crops and the announcement that China will re-commence exports to Europe in September 2004.

Against this backdrop of higher international honey prices, we have achieved further strong growth in export sales. Export sales totalled \$20.67 million, reflecting a volume increase of 45% over the previous year.

Importantly, the Company's strategy of adding value to honey previously sold as bulk export has gained considerable momentum throughout the year.



Indeed, for the first time, Capilano's export retail sales to the United Kingdom have surpassed the total Australian industry bulk honey sales to the United Kingdom over the past year (Source: Australian Bureau of Statistics).

EXPORT RETAIL

Canada

In Canada, Capilano Labonté was successful in winning a further private label contract for Canada's largest supermarket chain. This contract, initially for supply to Western Canada, has been extended to include Eastern Canada from September 2004. We are also launching our Capilano Labonté product into Quebec.

Our success in Canada reflects many years of hard work by Rob Eustace, Capilano's Business Development Manager for North America. Supermarkets in Canada recognise Capilano's commitment to quality assurance, innovative packaging and on-going support to further develop the honey category.

The successful incorporation of Capilano Labonté will see further sales growth in both retail and industrial bulk sales in the coming year.

Our presence in Canada utilises not only Australian and Argentine honey, but also Canadian. We hope that our overseas distribution network can be used for exporting some of Canada's fine honeys also.

United Kingdom

Since entering the market in 2002, our retail sales have grown significantly. We again showcased our Capilano brand at the BBC Good Food Show and received an excellent reception from consumers.

Capilano brand Golden Syrup has also been launched in the United Kingdom. We are concentrating on gaining further market penetration for this price sensitive product.

Ireland

Following on from our success in the United Kingdom, we have successfully launched the Upside Down pack in the Republic of Ireland. Sales of the Upside Down pack have grown strongly, competing against old-fashioned glass jars. Our distributors in Ireland have done a tremendous job in launching our brand and gaining market share.



Middle East

The flood of Chinese honey into markets across the Middle East has continued, resulting in lower sales in key markets such as Saudi Arabia. Unscrupulous packers continue to claim Chinese honey packed in Saudi Arabia as "Product of Australia", which further impacts on our sales.

The introduction of more western style supermarkets and hypermarkets has provided the opportunity to grow sales in some markets across the region. Capilano brand remains one of the market leaders and we continue to receive strong consumer support in the United Arab Emirates, Oman and Kuwait.

South East Asia

The rising Australian dollar has placed increasing pressure on our retail prices in key South East Asian markets. While Capilano brand continues to hold a strong market share in Singapore, Malaysia and Hong Kong, our efforts to further increase sales to Indonesia and Thailand have been hampered by the dollar and rising honey price.

As conditions improve this year, we expect to regain much of the lost ground in these new markets. We also plan to expand distribution to other markets in the region, including southern China and India.

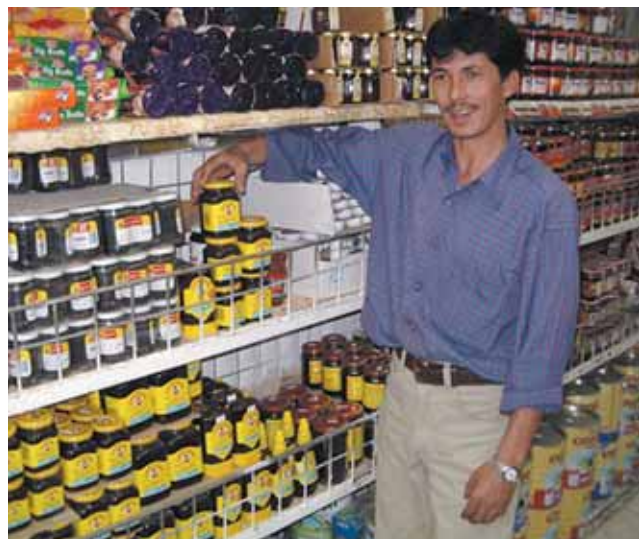
EXPORT BULK

Bulk export sales increased to 1,812 tonnes, continuing our focus on industrial customers rather than traders. Sales last year totalled 1,290 tonnes. We expect to develop further industrial sales in the coming year, backed by additional supply from Argentina. There is a great deal more emphasis on QA and service in those areas, with direct communication and support from our QA department.

CAPILANO ARGENTINA

Our joint venture with HoneyMax has resulted in the completion of the processing facility and quality assurance audits by both independent auditors and our international customers. Sales from this joint venture will commence early 2004/05.

Peter A McDonald
Export Manager



Background

As Capilano expanded internationally and imported honey for the first time, it became clear to Senior Management that another Department specialising in Quality Assurance (QA) was required. Capilano had in place excellent quality control and food safety systems, nevertheless, a formal Department was established to oversee all quality issues in early 2003. The introduction of an independent QA Department with global responsibilities has been very timely, especially considering the range of quality issues the honey industry has faced over the last 12 months.



The QA Department is basically responsible for controlling the quality of honey purchased, processed and sold (Bulk & Retail) at Capilano sites in Argentina, Canada and Australia. The primary function of the Department is to ensure that our customer's specifications and expectations are consistently met. This is accomplished by a range of competent staff working with an extensive Hazard Analysis Critical Control Point (HACCP) Food Safety Management System, which addresses all risks in the manufacturing process.

Major Activities

This year we have witnessed a heightened interest in the quality of honey products on supermarket shelves in Australia. This has been due to a greater market share of imported honey domestically and attempts by some Australian beekeepers, in association with the media, to remove imported honey from Australian shelves. Although Capilano returned to using 100% Australian honey in domestic retail products from 1 January 2004 we recognise competition may exist from imported products, like many other agricultural commodities. What we need to ensure is that imported honey meets the same quality expectations as domestically produced honey. This has been achieved by industry and the Australian Quarantine Inspection Service (AQIS) with the implementation of an Imported Food Program for the testing of honey before release.

One of the major challenges for the global honey industry over the last 12 months or so has been the issue of nitrofurans, an antibiotic residue that has been detected in honey from a variety of origins around the world. Many residues have no legitimate maximum residue limit for honey because they have not been registered for use in beekeeping and therefore should not be found in honey and are consequently deemed banned. Nitrofurans, which comes into this category, has been a complicated issue to resolve, primarily as a result of the lack of scientific validation for the metabolite's detection in honey and uninformed debate over the health and safety implications to humans. The threefold approach taken by Capilano was quite simple:

- establish whether nitrofurans residues in honey pose any risk to human health and safety.
- develop validated and replicable analytical protocols to detect nitrofurans metabolites in honey.
- implement a stringent testing regime to ensure that nitrofurans residues were not present in Capilano products or its supply chain.

To complete point one, we turned to the food regulator Foods Standards Australian and New Zealand (FSANZ). FSANZ had undertaken a thorough scientific risk assessment of such residues in food products and concluded that nitrofurans residues pose no risk to human health and safety at the levels detected in honey.

Developing a robust, reliable and commercially feasible analytical protocol for the detection of nitrofurans in honey was not as easy. Detection methods took time to develop and many incorrect or unsubstantiated results were reported. Capilano set out to help resolve the issue by organising an International Symposium with technical experts on detection methods and by conducting inter-laboratory trials with Nestlé QA and the world's best honey analytical laboratories. Following acceptable validation of nitrofurans detection methods, Capilano implemented stringent testing procedures throughout the honey supply chain.

The retrospective publicised reaction to the issue of nitrofurans in honey by Canadian regulators has been perplexing due to the following factors: international precedents set by other regulators, health and safety risk assessments, problems surrounding detection methods and opposing analytical results to those of the Canadian Food Inspection Agency's laboratory.

The use of imported honey in Capilano products due to shortfalls in domestic supply resulted in a need to increase the communication between the company and consumers of our products. The QA Department worked closely with the Capilano Operations Department to review customer feedback and continually improve the consistency and taste profile of our honey blends during a time of critically short supply.



Global Quality Assurance

Honey from origins other than Australia has provided the QA Department with extra work in ensuring the continued residue-free status of our honey products. As Capilano's operational sites have expanded from Australia into Canada and Argentina there has been a need to implement the Company's quality driven policies, procedures and management systems to international sites. This process is essential to ensure the integrity of the 'Capilano' Brand and that our customers receive a consistent quality product that conforms to specifications and regulations, regardless of the Capilano site or country where the honey has originated from.

Capilano Argentina has implemented a quality system designed here in Australia that is just as sophisticated as the 'state of the art' manufacturing plant recently installed. This Quality System reflects the risks associated with purchasing Argentine honey and is especially detailed. The Quality System has already passed a major industrial customers audit and will ensure the quality of Argentine honey supply to Capilano manufacturing sites around the world.

Capilano Laboratory

The centralised management of honey stocks following QA testing and release has been problematic and expensive when using external laboratories. As a result of this and the need to take control of research into analytical testing, the Board resolved to build a central laboratory for the management of QA testing requirements for the Capilano Group.

Capilano Laboratory is a new venture within the Group and will become an essential part of the QA Department, equipped to conduct both microbiological and analytical testing of honey. Microbiological testing capabilities will include the ability to test for antibacterial activity levels in honey, which will be essential as Medihoney sales grow and we further investigate honey as a therapeutic good.

The main purpose of the laboratory is to deliver consistent, internationally validated and accepted analytical testing of honey for Capilano sites in Argentina, Canada and Australia. To accomplish this, we have employed a specialist Chemist and have purchased a sophisticated analytical instrument, known simply as an LC/MS/MS triple quad. The laboratory, which represents a substantial investment in quality, will enable the Group to give customers unparalleled assurances as to the quality of our products. In addition, it will facilitate the conduct of significantly more analytical tests in an economically feasible manner.

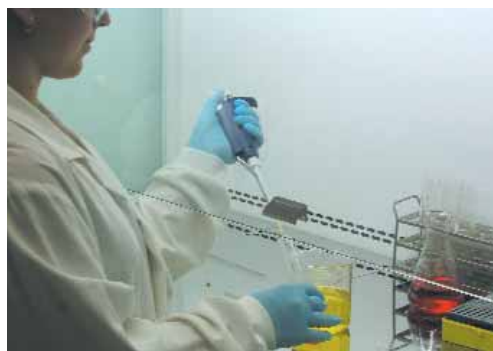
Medihoney

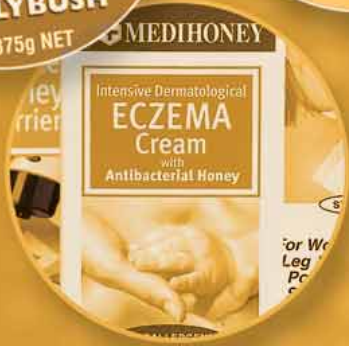
A constant challenge for Capilano's operation in Brisbane is the delivery of medicinal grade antibacterial honey and the sub-contract manufacture of therapeutic products for Medihoney. With respect to QA, we have worked with the Medihoney Technical Manager to develop and implement an ISO based Quality Management System that is to be audited by the Therapeutic Goods Administration (TGA). Conformance by Capilano to this Quality System will enable Medihoney to achieve CE Mark Certification and expand export markets internationally due to the recognition of this Quality System by overseas authorities.

The Future

The QA Department faces some exciting challenges over the next 12 months, including completion of the Quality Management System reviews and implementation for Medihoney, Capilano Argentina and Capilano Labonté (Canada), as well as the development and introduction of Capilano Laboratory to the Operations of the Capilano Group. The QA Dept will continue to address the relevant honey quality issues, provide protection to the integrity of the Capilano Brand while serving the needs of our customers, as they require quality assurances and product support.

Dr Ben McKee
Quality Assurance Manager





CREATING
BETTER
SOLUTIONS
FOR
HEALTH
CARE



Medihoney continued to achieve strong growth in 2003 – 2004 with revenue up 100% to \$2.078 million. Growth in the Australian domestic market underpinned this result with the ranging of products in grocery and the introduction of product extensions.



Growth in 'over the counter' consumer sales was a key driver and tapping into this strong consumer driven interest will continue to be crucial to future growth plans. As results start coming through on some of the studies on our products, direct medical sales will become important in developing new international markets.

Clinical Education

To encourage broader clinical understanding and acceptance of our advanced wound care products we have appointed experienced clinical educators in Australia. With broad nursing and commercial experience our clinical educators actively provide in service training to wound care clinicians in hospitals and care facilities, train pharmacy and broker sales staff, provide representation at professional meetings and support ongoing clinical research. The role of clinical education will also underpin medical sales in international markets.

Web Site

The first stage of the redevelopment of our web site www.medihoney.com was completed in May. The new site provides a far more user-friendly interface, allowing an easy look-up facility for each of our products. The design also allows for the internationalisation of our products and the differing claims we can make in each country.

The latest clinical research is also detailed along with recent media releases. Future improvements to the site will include information specifically intended for clinicians. Education and training web pages will support the work being done by our Clinical Educators and will provide detail on dressing protocols.

Professional Meetings

Presenting and attending at professional meetings is an important driver in raising awareness of our products amongst clinicians and their peers. It also provides good feedback that is used to refine our research priorities and drive product development.

Brisbane hosted the International Asia Pacific Burns Conference. The presence of Medihoney at the meeting created a lot of interest. The potential for Eczema Cream to help treat pruritus, a sometimes-severe problem in children after serious burns was of special interest. Wound Gel is also a potential front line product for burns patients because of its powerful antimicrobial properties. A group from South Africa's largest children's burns hospital attended the meeting and has started pre-clinical trials on Medihoney Wound Gel. If Medihoney is as effective as the standard silver based dressing; Medihoney will become their standard dressing. Wound infecting bacteria are becoming resistant to their existing silver dressings.

In March, at the initiation of the Chief Medical Officer for Wales, we were invited to present to the Welsh Microbiology Conference. Drug resistant bacteria have become a serious international problem. In the United Kingdom it is never far from the front page of the tabloids. The highest profile multi-drug resistant bacteria is *Staphylococcus aureus* (MRSA), otherwise known as a 'superbug', is also the most sensitive bacteria to the standardised honeys used in Medihoney. Medihoney's exceptional antibacterial activity has created a lot of interest throughout the United Kingdom.

Research conducted by Queensland Health Scientific Services Unit was presented at the Australian Infection Control Conference in Hobart by a scientist from the unit. The research involved screening Medihoney against 107 drug resistant bacteria collected from patients over the past 14 years. The results showed that both the MRSA and VRE 'superbugs' are extremely sensitive to our medical honeys.

The most sensitive 'superbug' to Medihoney is MRSA. Typically only a 4% concentration of Medihoney is sufficient to completely inhibit this highly problematic bacteria. MRSA is responsible for high levels of morbidity and mortality around the world. Our advanced wound care products therefore have enormous potential in helping to manage this growing international problem.



Media

A number of current affair style programs and high profile TV documentaries featured some of the research being conducted on Medihoney products. ABC TV Catalyst program ran a story in October 2003 called Honey Cure. The story covered the Medihoney clinical trial at Princess Alexandra Hospital in their dialysis unit. This study is the first international study comparing Medihoney against a standard antibiotic, widely used as a topical agent.

Medihoney also featured in a German/French documentary on honey earlier this year. The story featured clinical trials being conducted in Bonn, Germany. Norwegian prime time science program on NRK TV called Schrodinger's Katt also featured Medihoney and used Australian footage showing patients being treated with Medihoney.



Sales and Marketing

With strong international interest in both our advanced wound care products and our honey based creams, a lot of background work as been done in addressing international regulatory issues. Wound care products must be CE marked before they can be sold in Europe. Both Medihoney and Capilano technical staff have been working closely together and final regulatory approvals are expected late 2004 to market our advanced wound care products in Europe. Initially they will be made available to hospitals in the UK followed by mainland Europe. Work has also started on meeting USFDA requirements.

Increased distribution through Woolworths has provided significant sales growth. In April a 'hang-sell' promotion was run in Woolworths. The 'hang-sell' units hold product for sale and literally hang off the shelves. They are used as a promotional item, offering significant product exposure to passing aisle traffic in the store.

Capilano's square honey packs were used to cross promote Medihoney products. Medihoney back labels were run on the back of Capilano packs for 4 months early 2004. Using back labels provided a novel way of using Capilano's market strength to help introduce Medihoney to honey customers.



Research and Clinical Studies

Medihoney products are being used in a number of clinical studies both in Australia and internationally. These are investigations on human subjects intended to discover or verify therapeutic effects and identify any potential adverse effects. Results from these studies are presented at professional meetings and published in peer reviewed journals. Both regulatory authorities and new international standards require ongoing surveillance of our products through these studies and post market feed back.

The UK Journal of Wound Care published the first completed clinical study on Medihoney in May 2004, representing a significant milestone. Conducted in the UK, it is one of the first clinical studies published on a standardised medical honey and will be cited in most future investigations on medical honeys. The aim of the study was to evaluate Medihoney Antibacterial Honey Barrier on non-healing leg ulcers. Study outcomes were very positive with lower levels of pain, significant reduction in wound size and rapid wound deodorisation.

An ophthalmic clinical study completed this year, investigated the effects of Medihoney Ophthalmic Honey on the ocular surface in dry eye syndrome and eyelid disease. Results of the study are currently being written up by the researches for presentation at an international Ophthalmology Meeting later this year. The initial results from this study look very promising.

Research continues on identifying bio-actives in Australian honeys. Australia has one of the richest floral diversities in the world and this gives great potential for identifying non-described compounds with therapeutic potential. Research is also being conducted on Australian bee's wax with initial investigations indicating that it may also have some unusual medical properties.



Outlook

The outlook for Medihoney is exciting. We have built a strong domestic base for the business in grocery, pharmacy and acute and extended care. Interest is growing in all major international markets. Existing export business already represents a significant portion of our revenue. As regulatory approvals are obtained in each market, the opportunity to expand medical sales offers significant long-term growth potential. As we move into new markets, pressure is coming from existing competitors to form strategic alliances. Given the relative size and resources of our competitors, this may be necessary to realize the full potential of Medihoney.



Anthony P Moloney
Chief Executive Officer Medihoney



Concise Financial Report 2004



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This concise report has been derived from the full financial report for the year ended 30 June 2004. 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 2004.

DIRECTORS

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

Donald Gordon Keith (<i>Chairman</i>)	Rosemary Doherty
Ian Alfred Cane (<i>Deputy Chairman</i>)	Phillip Francis McHugh
Roger David Masters	Trevor Richard Morgan
Bernard James Ballantyne	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-

- the operations of the consolidated entity;
- the results of those operations; or
- 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 :-

	<i>% increase / (decrease) of 2004 over 2003</i>	<i>2004 \$</i>	<i>2003 \$</i>
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 receivables. 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

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

Report of the Directors

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 themselves 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:

<i>Directors</i>	<i>Directors Meetings of the Company</i>		<i>Committee Meetings of Directors</i>		<i>Directors Meetings of Controlled Entities</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 (*)	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	Total
	Cash salary and fees \$	Incentive Scheme \$	Non monetary benefits \$	Super-annuation \$	Options \$	
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, Director



R D Masters, Director

Corporate Governance Report

During the 2004 financial year, CHL has continued to use Board Committees to achieve proper corporate governance. Significant efforts have been focused on the financial position of the company, strategic planning issues and the opportunities for achieving value for shareholders.

THE ROLE AND FUNCTION OF THE BOARD

The Constitution determines the composition of the Board of CHL.

Currently the Board consists of:

- Five non-executive beekeeper directors, one of whom is the Chairman, and one of whom is the Deputy Chairman.
- Two non-executive independent directors
- 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.
Corporate Structure	to review corporate structure when appropriate and modify or recommend changes for approval by shareholders if required
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
Annual Budgets	to approve annual operating budgets and monitor progressive performance
Capital Investment	to define policies to ensure efficient use of capital and approve annual capital expenditure budgets
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

BOARD FUNCTIONS *(continued)*

Financial Statements & Audit	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:

Audit & Compliance	<p>The objectives and specific responsibilities of this Committee are to ensure that:</p> <ul style="list-style-type: none">• 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 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;• the external audit plan is approved and the proposed External Auditor's fees approved in conjunction with management; and• 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.
Remuneration	This Committee is responsible for reviewing executive management remuneration and incentive schemes 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 qualification, skills and expertise for appointment to any vacancy occurring from time to time.

Consolidated Statement of Financial Performance

For the year ended 30 June 2004

	2004 \$	2003 \$
Revenue from operating activities	83,848,288	87,814,526
Revenue from outside the operating activities	2,153,756	1,363,446
Total Revenue from ordinary activities	86,002,044	89,177,972
Borrowing cost expense	(1,746,496)	(1,309,867)
Other expenses from ordinary activities	(83,950,825)	(83,725,695)
Share of net loss of associate accounted for using the equity method	(285,997)	-
Profit from ordinary activities before income tax	18,726	4,142,410
Income tax benefit / (expense)	24,671	(1,755,613)
Net profit attributable to members of CHL	43,397	2,386,797
Net exchange differences on translation of financial report of associate accounted for using the equity method	(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
Earnings per share (cents)	0.8	46.5
Diluted earnings per share (cents)	0.8	46.5
<i>The above statements of financial performance should be read in conjunction with the accompanying notes.</i>		

Movement in Retained Earnings

For the year ended 30 June 2004

	2004 \$	2003 \$
Retained profits at the beginning of the financial year	14,368,153	13,007,275
Net profit attributable to members of CHL	43,397	2,386,797
Dividend provided for	(255,923)	(1,025,919)
Retained profits at the end of the financial year	14,155,627	14,368,153

Discussion & Analysis

Consolidated Statement of Financial Performance

1. Total group sales revenue was \$83.8 million, a decrease of \$4 million (4.5%) on 2003.
2. Domestic retail sales totalled \$45.7 million compared with \$55.1 million in 2003.
3. Domestic bulk sales decreased by \$1.3 million to \$12.6 million in 2004.
4. Export bulk sales increased by \$1.5 million to \$8.1 million in 2004.
5. Retail packed export sales of \$12.0 million was up \$3.5 million on the previous year.
6. Australian shareholder raw honey prices increased by an average of 8.5% over the whole year consuming an additional \$3.8 million on last year. The continuing drought and short supply during the first seven months of the year resulted in Australian honey prices increasing significantly. Supply changes for the latter half of the year saw honey prices reduce accordingly. Offshore markets during the latter part of the year also had significant price decreases for honey.
7. Operating profit before income tax was \$18,726. The major factors contributing to the reduced profit for the year were:
 - record high honey buying prices due to drought and international market conditions
 - lower sales volumes on the domestic retail market
 - falling world selling prices in export bulk honey resulting in an erosion of margins
8. Operating profit before income tax includes depreciation expense of \$1.6 million. The Australian dollar strengthened against the US dollar over the course of the year. This enabled foreign currency contracts to be completed at hedge rates resulting in a foreign exchange gain for the year of \$1.7 million.

Discussion & Analysis

Movement in Retained Earnings

1. The Board has declared a fully franked dividend of 5¢/share, absorbing \$256,609 from retained profits.
2. Retained profits decreased to \$14.2 million.

Consolidated Statement of Financial Position

As at 30 June 2004

	Notes	2004 \$	2003 \$
CURRENT ASSETS			
Cash		3,342,721	3,694,104
Receivables		11,546,660	12,787,619
Inventories	1	26,551,891	21,176,923
Other		807,283	275,610
TOTAL CURRENT ASSETS		42,248,555	37,934,256
NON-CURRENT ASSETS			
Receivables		2,030,205	649,430
Investment accounted for using the equity method		172,973	-
Other financial assets		-	-
Property, plant & equipment	2	18,116,833	18,252,262
Intangibles		896,344	1,022,607
Deferred tax assets	3	2,735,523	2,710,852
TOTAL NON-CURRENT ASSETS		23,951,878	22,635,151
TOTAL ASSETS		66,200,433	60,569,407
CURRENT LIABILITIES			
Payables	4	7,723,848	7,018,145
Interest-bearing liabilities	5	4,188,186	8,493,979
Provisions	6	1,053,903	1,786,833
TOTAL CURRENT LIABILITIES		12,965,937	17,298,957
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	5	28,588,987	18,450,408
Provisions		505,493	446,135
TOTAL NON-CURRENT LIABILITIES		29,094,480	18,896,543
TOTAL LIABILITIES		42,060,417	36,195,500
NET ASSETS		24,140,016	24,373,907
EQUITY			
Contributed equity	7	5,286,860	5,286,793
Reserves		4,697,529	4,718,961
Retained profits		14,155,627	14,368,153
TOTAL EQUITY		24,140,016	24,373,907

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

Discussion & Analysis

Consolidated Statement of Financial Position

1. Inventories increased in value by \$5.4 million. The significant factor is an increase in raw honey stocks, coupled with the increase in average cost per kilogram of honey.
2. The written down value of property, plant and equipment decreased by \$0.1 million to \$18.1 million at year end due to depreciation, offset by asset purchases.
3. Deferred tax assets amount to \$2.7 million. This amount is based on a company tax rate of 30%.
4. Payables increased by \$0.7 million to \$7.7 million.
5. Current and non-current interest-bearing liabilities combined, increased by \$5.8 million during the year. Additional funding was required to fund the increased level of inventories.
6. Current provisions of \$1.1 million includes the provision for dividends of \$256,609.
7. Contributed equity remained at \$5.3 million.
8. Net asset backing per share is \$4.70 in 2004 compared to \$4.75 at June 2003.

Consolidated Statement of Cash Flows

For the year ended 30 June 2004

		<i>Inflows (Outflows)</i>	
		2004	2003
		\$	\$
Cash flows from operating activities			
Receipts from customers	1	87,411,243	84,145,857
Payments to suppliers and employees	1	(89,166,447)	(91,732,836)
Interest received		214,126	218,093
Goods & Services tax received	2	1,323,569	1,438,098
Interest paid		(1,414,187)	(1,137,531)
Net cash (used in) provided by operating activities		(1,631,696)	(7,068,319)
Cash flows from investing activities			
Payment for property, plant and equipment		(1,436,518)	(873,743)
Purchase of intangible asset		(1,337)	(823)
Payments for investment in associated entity		(480,402)	-
Payments for investment in controlled entity		-	-
Proceeds from sale of fixed asset		23,178	772
Other loan		62,113	(801,852)
Loans to associated entity		(1,693,827)	-
Loans to controlled entities		-	-
Net cash used in investing activities	3	(3,526,793)	(1,675,646)
Cash flows from financing activities			
Proceeds from share allotments		67	116
Proceeds from borrowings		12,304,854	11,464,394
Repayment of borrowings		(6,472,068)	(1,338,782)
Dividend paid		(1,025,747)	(769,307)
Net cash provided by (used in) financing activities		4,807,106	9,356,421
Net increase (decrease) in cash held	4	(351,383)	612,454
Cash at the beginning of the financial year		3,694,104	3,081,650
Cash at the end of the financial year	5	3,342,721	3,694,104

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

Discussion & Analysis

Consolidated Statement of Cash Flows

1. Net cash used by operating activities for the year was \$1.6 million. Payments to suppliers were \$1.8 million higher than receipts from customers.
2. Cash provided by operating activities includes a net goods & services tax (GST) refund of \$1.3 million in respect of amounts paid to suppliers and assets purchased during the year.
3. Cash used in Investing Activities was \$3.5 million. These funds were used as follows:
 - Investment in assets \$1.4 million
 - Investment in associated entity \$0.5 million
 - Loan to associated entity \$1.7 million
4. Net cash decreased by \$ 0.3 million during the year, as follows :-

Net increase in borrowings	\$ 5.8 million
Less - cash absorbed by operating activities	\$ (1.6) million
- payment of dividend in November 2003	\$ (1.0) million
- cash absorbed in investing entities	\$ (3.5) million

Net cash decrease	\$ 0.3 million

5. Cash held at 30 June 2004 was \$3.3 million.

Notes to the Consolidated Financial Statements

The Accounting Policies adopted are consistent with those of the previous year, except as set out below.

1. Segment Reporting

a) Primary reporting – geographical segments	30 June 2004			30 June 2003		
	Australia \$	Canada \$	Consolidated \$	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, namely the processing and sale of honey.

2. Dividends

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

The directors have now declared an ordinary dividend of five cents per share fully franked absorbing \$256,609 for the year. This has been recognised as a liability at the reporting date.

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 amount to \$2,496,510 (2003 \$2,605,971).

3. Full Financial Report

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

Directors' Declaration

1. In the opinion of the directors of Capilano Honey Limited:
 - (a) the concise financial report for the year ended 30 June 2004 as set out on pages 29 to 35 complies with Accounting Standard AASB 1039: Concise Financial Reports.
 - (b) the financial statements and specific disclosures included in the concise financial report have been derived from the full financial report for the year ended 30 June 2004.
 - (c) 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 the consolidated entity as the full financial report, which as indicated in Note 3, is available on request.

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



D G Keith, Director



R. D Masters, Director

Independent Audit Report to Members

Scope

The concise financial report and directors' responsibility

The concise financial report comprises the consolidated statement of financial performance, consolidated statement of financial position, consolidated statement of cash flows, discussion and analysis of and notes to the financial statements, and the directors' declaration for Capilano Honey Limited for the year ended 30 June 2004.

The directors of the company are responsible for the preparation of the financial report in accordance with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

Audit approach

We conducted an independent audit of the concise financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the concise 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 have also performed an independent audit of the full financial report of the Company for the financial year ended 30 June 2004. Our audit report on the full financial report was signed on 16 August 2004 and was not subject to any qualification.

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

- testing that the information included in the concise financial report is consistent with the information in the full financial report
- examining, on a test basis, information to provide evidence supporting the amounts, discussions and analysis and other disclosures in the concise financial report which were not directly derived from the full financial report, and
- reviewing the overall presentation of information in the concise financial report.

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

Independence

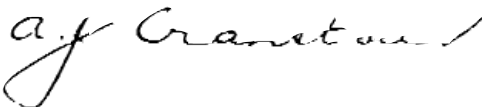
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit Opinion

In our opinion, the concise financial report of Capilano Honey Limited complies with Accounting Standard AASB 1039: *Concise Financial Reports*.



CRANSTOUN & HUSSEIN
Chartered Accountants



A.J. Cranstoun
A Member of the Firm

Brisbane, 16 August 2004

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 Capilano Beekeepers Ltd ('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	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			-	-
			<u>717</u>	<u>5,132,175</u>

(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:

	<u>Number of Ordinary Shares</u>	<u>Percentage of Ordinary Shares</u>
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
	<u>488,457</u>	<u>9.52</u>

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

Year ended 30 June	\$000's except as noted									
	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	14156	14368	13007	13125	10456	8413	5946	5179	4896	3737
Net assets at 30 June	24140	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.

ATTENDANCE FORM 2004

CAPILANO HONEY LIMITED

ACN 009 686 435

Office Use Only Slip no _____ No. of shares _____

Office Use Only Slip no _____ No. of shares _____

Please complete this form to formally indicate whether or not you are attending the AGM and/or Annual Dinner. The purpose of this is to finalise arrangements with the venue and to speed up registration.

Shareholder No:

Name:

Address:

I/we propose to attend the following functions being held on Friday, 1 October 2004:

● **ANNUAL GENERAL MEETING**

11.00am Registration
11.30am Annual General Meeting

Insert number attending and list names below

● **ANNUAL DINNER**

6.30pm Annual Dinner

Special Dietary Requirements: _____

Insert number attending and list names below

PLEASE LIST NAMES OF THOSE ATTENDING:

Please return this form by fax on (07) 3712 8287 or to PO Box 66, Richlands QLD 4077 no later than 5.00pm on Friday, 17 September 2004.

PROXY FORM

CAPILANO HONEY LIMITED

ACN 009 686 435

Office Use Only Slip no _____ No. of shares _____

Office Use Only Slip no _____ No. of shares _____

Shareholder Number: _____

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

Of _____
(please print full address)

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

Of _____
(please print full address)

or failing him/her, the Chairman of the Meeting, as my proxy) to attend and exercise _____ of my votes (refer note 1) on my behalf at the Annual General Meeting of the Company to be held on 1 October, 2004 at 11.30am and at any adjournment thereof.

Instructions for voting on Resolution:

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

RESOLUTION	For	Against	At Discretion <i>Refer Note 2</i>	Abstain
Increase in Directors' Remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature of shareholder/s _____ Date: _____

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

Note 2: By marking 'at discretion', you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest.

INSTRUCTIONS FOR APPOINTMENT OF PROXY

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

1. A shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote for them. A proxy need not be a shareholder of the company.
2. Proxies can be directed on how to vote by inserting an "X" in the appropriate box against each resolution, otherwise the proxies will vote as they see fit, or abstain from voting.
3. The proxy form must be signed personally by the shareholder or their attorney. If a proxy is given by a corporation it must be executed in accordance with the corporation's constitution.
4. In the case of a partnership, all partners must sign the proxy form unless the company has written advice to the contrary.
5. If the proxy is signed under power of attorney then the signatory declares that they have no notice of revocation of the power of attorney. A certified copy of the relevant power of attorney authorising that person to sign must be enclosed with this proxy form.
6. Shareholder/s' signatures do not require witnessing.
7. **For this proxy form to be valid, it must be received at the Registered Office of the company not less than forty-eight (48) hours before the start of the Annual General Meeting (see Rule 98). Accordingly, all proxy forms must be received at 399 Archerfield Road (PO Box 66, Richlands Q 4077) or by facsimile (07) 3712 8287 no later than 11.30am on Wednesday 29 September 2004.**

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

Rules 10.9 and 11.1 of the company's Constitution, reproduced below for information, outline the circumstances and manner in which a poll is conducted.

Rule 10.9(b)

“A poll may be demanded by:

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

Rule 11.1 - Voting Rights

Subject to the restrictions on voting from time to time affecting any class of shares and subject to rules 5.4(d), 11.3 and 11.7:

- (a) on a show of hands, each shareholder present has one vote;
- (b) where a shareholder has appointed 2 persons as proxies for that shareholder, neither proxy may vote on a show of hands;
- (c) where a person is entitled to vote by virtue of rule 11.1(e)(ii) in more than one capacity, that person is entitled only to vote on a show of hands;
- (d) if the person appointed as proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands; and
- (e) on a poll, each shareholder present:
 - (i) has one vote for each redeemable preference share held; and
 - (ii) has one vote for each fully paid share held.”

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

However, as has customarily been the case at previous General Meetings and to afford all shareholders the opportunity to have their vote recorded, the Chairman will, in accordance with Rule 10.9(a) above, declare at the commencement of the Annual General Meeting, that all resolutions shall be the subject of a poll.

If you are unable to attend the Annual General Meeting, but wish to exercise your right to vote, please complete and return the Proxy Form to reach us by 11.30am on 29 September 2004. If you wish to do so, please assist the person you nominate as your proxy by directing them to vote in the manner in which you require. You can do this by placing an “X” in the appropriate “FOR”, “AGAINST” or “ABSTAIN” space on the Proxy Form.

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



E.J. Bailey
Company Secretary.

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

Registered Office & Head Office:

399 Archerfield Road
Richlands QLD 4077
Telephone: (07) 3712 8282
Fax: (07) 3712 8286

Branches:

Queensland

399 Archerfield Road
PO Box 66
Richlands QLD 4077
Telephone: (07) 3712 8282
Fax: (07) 3712 8286

Victoria

Capilano Street
PO Box 49
Maryborough VIC 3465
Telephone: (03) 5461 0700
Fax: (03) 5461 0777

Email:

honey@capilano.com.au

Websites:

www.capilano.com.au
www.medihoney.com

Capilano Group:

Capilano Beekeepers Ltd
Capilano Honey Limited
Medihoney Pty Ltd
Honey Corporation of Australia Pty Ltd
Capilano Labonté Inc
Capilano Argentina (joint venture)

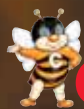
399 Archerfield Road
PO Box 66
Richlands QLD 4077
Telephone: (07) 3712 8282
Fax: (07) 3712 8286

Bankers:

National Australia Bank Limited

Auditors:

Cranstoun & Hussein, Chartered Accountants



CAPILANO
Honey Limited

Capilano Honey Limited
399 Archerfield Road, Richlands, 4077 Australia