



23 November 2009

Dear Supplier Shareholder

## **CHL Constitutional Changes & Capital Raising**

### ***Constitutional Changes:***

At the CHL Annual General Meeting to be held on Monday, 30 November 2009 an item of Special Business will be put to members of that company to change the Constitution. The Explanatory Memorandum contained in the Notice of Meeting for Resolution 2 gives a detailed explanation of the proposed changes including background, reasons for the changes and the advantages and disadvantages for members.

In essence, these changes are necessary to allow CHL to meet the requirements imposed by the company's bankers to reduce debt by approximately \$10m. This has largely arisen out of changes to methods of determining facility limits that are less reliant on asset values and more focused on earnings as a measure of those facility limits. This method is not so kind to Capilano where turn-a-round in the business required honey price to be restored to market levels to secure supply at the expense of corporate profit. Honey price had originally dropped substantially as a consequence of private label impact and highly unfavorable exchange rates occurring at the same time.

As explained in the Notice of Meeting, CHL has determined that, in the current debt environment, it is unlikely that sufficient levels of additional funding can be achieved by simply borrowing elsewhere, and that the debt reduction will need to be achieved by a combination of assets sales, improved use of working capital and a capital raising by way of the issue of new ordinary shares in CHL. It is expected \$4 million will be achieved internally by Capilano, leaving an expectation that \$6 million will be raised externally from either Capilano Shareholders or new investors.

### ***Capital Raising:***

In order to enable all Shareholders in CHL to participate in the capital raising, CHL intends to conduct the capital raising by way of a rights issue where all Shareholders can participate pro rata in the issue.

To assist beekeepers wishing to acquire shares under the rights issue, CHL will on a case-by-case basis consider setting off amounts that CHL owes to beekeepers for honey (including futures) against the application price payable for shares.

CHL needs to be certain that it will raise enough money in the rights issue to pay down the required debt. The Directors believe that the existing Shareholders are unlikely to subscribe for the full amount of the rights issue, for the following reasons:

- most rights issues are undersubscribed;
- the Constitution of CHL prohibits any shareholder holding more than 10% of the shares in CHL, which restricts the ability of any shareholder significantly increasing its stake in CHL; and
- CHL has canvassed many existing Shareholders about their interest in subscribing for more shares in CHL and taken into account the responses received.

As a result, CHL has approached the wider investor market to determine whether, if there is a shortfall in the rights issue, external investors (including those already on the CHL share register) would be interested in taking up the shortfall. The responses from the investor market have indicated that for investors to consider an investment in CHL, the "non-standard" capital restrictions in the CHL Constitution would need to be removed to place CHL on a more commercial footing and allow investors a normal share investment.

These “non-standard” capital restrictions are the cap on any shareholder holding more than 10% of the CHL shares; the special voting rights at shareholders’ meetings attached to the “Foundation Share” held by Capilano Beekeepers; and the special rights given to CBL that ensure that the Beekeeper Directors of CBL are automatically appointed to, and represent a majority of, the Board of CHL.

CHL believes that it will only be able to attract a suitable investor to inject the funds required to fill any shortfall resulting from a Rights Issue, to meet the banks requirements, if these provisions of the Constitution are changed.

There are no proposed changes to the existing Honey Supply Agreements between CHL and its Supplier Shareholders.

**Voting:**

The voting power attached to the Foundation Share is required to pass CHL Resolutions.

Under the CBL Constitution, the Board of CBL may exercise the voting power conferred by any shares CBL holds in another company (rule 12.8 of the Constitution). Consequently, the power to vote the Foundation Share is given to the Directors of CBL who may exercise it in the best interests of CBL.

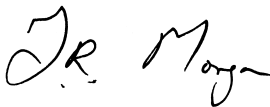
At a meeting of the CBL Board held on 21 November 2009 the Directors have considered the relevant factors in making their decision, including:

- NAB’s repayment and timing requirements;
- The potential sources of new funding and the likelihood and timing of obtaining that funding;
- The potential effect on CHL and, as a result, on CBL if funding is not obtained; and
- The effect of the constitutional amendments on the level of CBL’s control of CHL, taking into account the use of the powers under the Constitution in the past, the proposed future operations of CHL and proposed remaining safeguards in the CHL Constitution and the general law.

After careful consideration of all these issues Directors have decided to vote the Foundation Share ‘in favour’ of Resolution 2 to ensure there are no obstacles to raising sufficient capital to preserve both CHL’s business and the future of CBL’s Shareholders.

Directors have also decided to vote the Foundation Share ‘in favour’ of Resolution 3 to renew Rules 29 – 35 of the Constitution, regarding partial takeovers for a further three year period.

Yours sincerely  
CAPILANO BEEKEEPERS LTD



Trevor Morgan  
Chairman