



30 November 2009

ANNOUNCEMENT

Chairman's Script - 2009 AGM

Opening

Ladies & Gentlemen

It is my pleasure to declare open the thirty-sixth Annual General Meeting of Capilano Honey Limited, and welcome everyone present.

During the course of the meeting I will refer to this company as CHL, and to Capilano Beekeepers Ltd as CBL.

At this point I remind shareholders that this meeting is the Annual General Meeting of the company and only matters which are AGM matters may be discussed

Financial Statements and Report of the Directors

The next item on the Agenda is to receive the Report of the Directors, the Financial Statements and the Reports of the Auditor for the year ended 30 June 2009 which I will take as having been read. I propose to simply highlight some key points and then open the floor to questions.

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

The excellent work done by all our team to reposition our company as a much more cost effective business without excess capacity and overheads has seen a major reduction in expenses. This work continues and will see us well placed to operate in the low margin sales environment that now exists.

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

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

This result has been achieved after the impact of increasing honey costs and an unfavourable movement in exchange rates included as:

- (a) an increase in Cost of Goods Sold of \$5.5 million as a result of the increase in average price for domestic honey from \$2.55/kg last year to \$3.17/kg this year
- (b) a Foreign Exchange loss of \$618k for the year, almost all of which relates to the year end accounting adjustment to value the Canadian assets at the exchange rate at reporting date.

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

There has been considerable reduction in expenses due to significant changes in all areas of the operation in the way we receive, pack and market honey, resulting in a further reduction in the total number of employees. Our aim is to continue to increase profitability by further reducing expenses and improving the efficiency of our operation.

The Global Financial Crisis that struck the world economy last year has resulted in Banks reassessing their exposure to risk and returns and this has affected many companies loans to security position, including ours.

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

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

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

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

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

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

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

I now invite shareholders to raise any issues they would like discussed from the CHL Annual Report.

I will also invite questions to the Auditor, noting that these questions are only to relate to the Conduct of the Audit or the Audit Report.

Under the CHL Constitution no ordinary resolution can be passed without the affirmative vote of the Foundation Shareholder, CBL. CBL shall also confer 75% of the total number of votes which are able to be cast in relation to special resolutions.

Resolution 1 – Remuneration Report in the CHL Report

I now move to the Resolution dealing with the Remuneration Report.

This year's Report of Directors again contains a separate Remuneration Report– on pages 8 to 11. The Corporations Law provides for shareholders to have a vote on the Remuneration report.

The vote is non-binding, but provides an opportunity for shareholders to indicate their support or opposition to the Board's Remuneration Policy.

In brief, Capilano endeavours to provide remuneration that is comparable with the salaries for similar positions in other companies. Incentives provide opportunity for some employees to achieve improved remuneration in accord with Company performance and / or key personal performance indicators.

The Board uses independent reviews to compare salaries and retains the services of remuneration advisors RPC for further advice on remuneration matters.

The Board considers the Company's Remuneration Policy developed over many years is tried and tested and best suits the Company's needs to attract the most suitable people. The Board would welcome shareholder support for the Company's Remuneration Report.

The motion is now open for discussion.

There being no further business on the motion to adopt the Remuneration Report, I now declare the matter closed, and ask you to vote on this issue by using the voting slip for Resolution 1.

Resolution 2 – Amendments to Constitution

As Shareholders are aware, the global financial crisis has impacted businesses across the world, and resulted in banks reassessing their levels of exposure.

As previously announced, as a result of an annual review of our banking facilities, CHL's bankers, National Australia Bank Limited ("NAB") have notified CHL that, in order for NAB to continue CHL's facility, CHL must reduce its debt by approximately \$10m. The debt reduction timetable is staged, with most of the debt required to be repaid by 31 March 2010. We note that although CHL had met its interest payments and banking covenants in the year ending 2009 the determination of the bank was that a reduction in debt was necessary to comply with the new covenants.

CHL has determined, in the current debt environment, an alternative source of funds to replace our current borrowings is not possible 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.

Changes to our use of working capital and scheduled debt repayments have already occurred in the ordinary course of business. The disposal of investments held in other listed entities are ongoing. However, a core amount of around \$6 million is required to complete the debt reduction. An alternative of considerable contraction in the size of CHL's business in order to release working capital to that level of debt reduction would most likely result in a requirement for far less honey. In the absence of CHL absorbing that honey and selling it on the bulk markets as it used to, it is likely excess honey

would be available to the domestic market. Failure to reduce debt is likely to result in the withdrawal of CHL's bank facility, which is not considered to be in the best interests of shareholders of either CHL or CBL.

With this in mind, a capital raising is proposed to raise the necessary funds.

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. However, if it is undersubscribed external investors will be required to take up any shortfall.

For investors to even 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" restrictions reflect a level of protection introduced to CHL's Constitution to preserve the interests of its Supplier Shareholders, rather than the interests of members of CHL as Shareholders. The directors of CHL are conscious of the position of the Supplier Shareholders. However, they believe that it will not be practicable to raise the capital CHL requires without making the changes required to the Constitution.

The proposed changes will free up CHL's ability to raise capital in the future and use its shares in the same way as other listed companies (eg to acquire other businesses in a "scrip" rather than cash deal).

There are no proposed changes to the existing honey supply agreements between CHL and its Supplier Shareholders.

Resolution 2 is a Special Resolution to approve the amendment of the Constitution of CHL, and in particular certain capital restrictions, including :

- to remove the 10% cap on shareholdings in CHL, allowing Shareholders to build larger stakes in CHL;
- to remove the special voting rights attaching to the Foundation Share, leaving the CHL Shareholders, as a group, to decide on matters at a shareholders meeting, and the protection of the interests of all Shareholders to the ordinary corporate law principles; and
- to reduce the director appointment right of CBL from a majority of CHL directors to two beekeeper directors on the board of CHL. In CHL's view, this will ensure that CBL will continue to have a voice on the board of CHL, without materially impairing CHL's ability to complete its capital raising.

It also contains a number of consequential changes flowing from the removal of the restrictions referred to above and other changes proposed to the CHL Constitution to correct some inconsistencies between the Constitution, the Corporations Act and BSX Listing Rules.

Details of all the proposed changes and their effect are set out in the table in Appendix A.

At a CBL Board Meeting held on 21 November 2009 the CBL Directors, using their constitutional power as detailed in Rule 12.8 of the CBL Constitution, resolved to support the Amendments to the CHL Constitution and the Foundation Share will be voted *IN FAVOUR* of this resolution.

The motion is now open for discussion.

There being no further business on the motion to amend the Constitution, I now declare the matter closed, and ask you to vote on this issue by using the voting slip for Resolution 2 ...

Resolution 3 – Renewal of Partial Takeover Rules

Resolution 3 dealing with the proportional takeover provisions does not change the constitution but rather seeks to maintain existing clauses that are due to expire in May 2010 if not renewed.

For reasons of good corporate governance and to protect the interests of shareholders, the Board seeks to renew Rules 29-35 of the CHL Constitution for proportional takeover approval provisions for a further 3 year period, and needs to do this by way of a special resolution of members. Full details of this resolution are set-out in the Explanatory Memorandum,

The directors recommend you vote in favour of this resolution.

At a CBL Board Meeting held on 21 November 2009 the CBL Directors, using their constitutional power as detailed in Rule 12.8 of the CBL Constitution, resolved to support the Renewal of the Partial Takeover Rules in the Constitution and the Foundation Share will be voted *IN FAVOUR* of this resolution.

The motion is now open for discussion.

There being no further business on this motion, I now declare the matter closed, and ask you to vote on this issue by using the voting slip for Resolution 3

Closure

Ladies and Gentlemen, this brings the 2009 Annual General Meeting to a close. I thank you for your attendance here today, and for your participation in the proceedings.

