



ABN 55 009 686 435

RIGHTS ISSUE PROSPECTUS

**An offer of 1.8 New Shares for every 1 Share held
at the Record Date, with a Shortfall Facility,
to raise approximately \$6.5 million.**

12 February 2010

Corporate Directory

Company

Capilano Honey Limited
ABN 55 009 686 435

Registered Office

399 Archerfield Road
RICHLANDS QLD 4077

Ph 07 3712 8282
Fax 07 3712 8286
Email: honey@capilano.com.au
Website: www.capilano.com.au

Postal Address

PO Box 531
INALA QLD 4077

Directors

Peter R Barnes
Roger D Masters
Phillip F McHugh
Trevor R Morgan
Simon L Tregoning

Secretary

Richard P Rivalland

Share Registry

Capilano Honey Limited
399 Archerfield Road
RICHLANDS QLD 4077
Ph 07 3712 8282
Fax 07 3712 8286

Auditors

Cranstoun & Hussein
Chartered Accountants
Level 2
102 Adelaide Street
BRISBANE QLD 4000

Lawyers

Herceg Lawyers
Level 22
Australia Square
264 George Street
SYDNEY NSW 2000

Capilano's Mission Statement

- to enhance Shareholder prosperity through leadership in the marketing of honey and other foods and FMCG in Australia and selected overseas markets by achieving excellence in customer service; product quality; and product innovation.
- to continue a commitment to employee career development and well-being.
- to be an ethical and responsible member of the community and act in a manner conducive to the welfare and protection of the environment.

Corporate Culture and Corporate Objectives

Capilano's corporate culture and objectives aim to:

- recognise, aim for, and encourage high ethical standards;
- encourage responsible and courteous relationships with staff, Shareholders and all who have contact with the Company;
- achieve profitability through good planning funded by adequate profit retention;
- enhance Shareholder prosperity;
- provide adequately for employee well-being through a rewarding, safe and harmonious workplace;
- satisfy the expectations of customers and consumers through product quality, safety and innovation;
- protect Shareholders and all stakeholders in the Company by implementing appropriate compliance procedures and corporate governance.

Important Notice

This Prospectus relates to a pro rata offer of Shares to existing Shareholders.

This Prospectus is dated 12 February 2010 and was lodged with ASIC on that date. No securities will be allotted or issued on the basis of this Prospectus later than 13 months after the date of issue of this Prospectus.

No responsibility for the contents of this Prospectus is taken by ASIC or any of its officers. Capilano Honey Limited is listed on the BSX. The BSX takes no responsibility as to the contents of this Prospectus.

This Prospectus does not constitute an offer in any place, where, or to any person to whom, it would not be lawful to make such an offer.

Applicants should read this Prospectus in its entirety before deciding to apply for Shares. The assumptions underlying any financial forecasts and the risk factors that could affect the financial performance of the Company should be examined. Applicants should carefully consider these factors in light of their personal circumstances (including financial and taxation issues) and seek professional advice from an accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest. The offer does not take into account the investment objectives, financial situation and particular needs of investors.

The Company is a disclosing entity under the Law and is subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office.

A number of terms and abbreviations used in this Prospectus have defined meanings, which appear in the "Defined Terms" section.

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DEFINED TERMS

Applicant

An Eligible Shareholder applying for New Shares under this Offer.

ASIC

Australian Securities and Investments Commission.

Beekeeper Director

A person who is appointed as a CHL director by the Foundation Shareholder.

Board

The board of directors of the Company.

BSX

Bendigo Stock Exchange (www.bsx.com.au).

BSX Listing Rules or Listing Rules

Listing rules of the BSX.

Capilano

A registered trademark owned by the Company.

Capilano-Argentina

A strategic alliance between CHL & HoneyMax s.a in Argentina for the supply and processing of quality controlled Industrial Bulk Honey to export to markets throughout the world.

CBL

Capilano Beekeepers Ltd (ACN 108 568 672).

CCI (*previously known as CLI*)

Capilano Canada Inc. (formerly Capilano Labonte Inc) is a wholly owned subsidiary of CHL. CCI is a honey supply & marketing company incorporated in Canada.

CHL Group or Group

A consolidated entity consisting of CHL, the holding company and all subsidiary companies.

The Company or CHL

Capilano Honey Limited (ABN 55 009 686 435) and where applicable its subsidiaries.

Constitution

The constitution of CHL.

Eligible Shareholder

A Shareholder as at the Record Date who is not a Non-qualifying Shareholder.

Entitlement

An Eligible Shareholder's entitlement to subscribe for New Shares pursuant to the Offer.

Entitlement and Acceptance Form

The personalised Entitlement and Acceptance Form accompanying this Prospectus.

FMCG

Fast moving consumer goods.

Foundation Share

A foundation share in CHL which is on issue to CBL.

Foundation Shareholder

CBL.

FY

Financial Year, being the 12-month period from July to June.

Honey Supply Agreement or HSA

An Agreement between suppliers and the Company for the supply of honey.

Industrial Bulk Honey

Honey used as an ingredient in manufactured food products.

Intermediate Bulk Container or IBC

1400kg honey storage container.

Law

The *Corporations Act 2001* (Cth).

NAB

National Australia Bank Limited (ACN 004 044 937).

New Shares

Shares to be allotted and issued under the Offer including Shortfall Shares.

Non-qualifying Shareholder

A Shareholder as at the Record Date whose registered address is not situated in Australia.

Offer

The pro rata non-renounceable offer to Eligible Shareholders to subscribe for 1.8 New Shares for every 1 Share held to raise up to approximately \$6.5 million at an offer price of \$0.70 per New Share under this Prospectus.

Offer Price

\$0.70 per New Share.

Pfund

A measure of honey colour.

Prospectus

This prospectus dated 12 February 2010.

Quota Price

Price paid to CHL Supplier Shareholders for quota honey supplied in accordance with their HSA.

Record Date

The date and time at which the Company determines who is an Eligible Shareholder being 7pm, Monday 1 March 2010.

Retains

Amounts which may be deducted by the Company pursuant to HSAs, and which may be retained by the Company as unsecured loans for up to five years.

Rights

The rights to subscribe for New Shares pursuant to this Prospectus.

Shareholder

A holder of Shares in CHL.

Shares

Ordinary shares in CHL.

Shortfall Facility

The mechanism under which the Company may issue Shortfall Shares to Eligible Shareholders wishing to take up more than their Entitlement.

Shortfall Shares

The aggregate number of New Shares for which Eligible Shareholders have not taken up their Entitlement.

Supplier Shareholder

A shareholder who is a party to a current HSA.

Timetable

The indicative timetable set out in Section 1 of this Prospectus.

CHAIRMAN'S LETTER

12 February 2010

Dear Shareholder

Capilano Honey Limited (CHL or Company) is now in its fortieth year as a public company and is the leading honey supplier in the Australian market. The Company also exports to many other countries and is at the forefront of packaging and marketing of honey and beeswax, which is purchased predominantly from its Supplier Shareholders. In addition to CHL's principal business, it is involved in other activities including the sale of beeswax and the packaging and marketing of other products for the domestic consumer market.

CHL has recently endured difficult trading conditions but with the debt reduction measures outlined below and changes to its business strategy, including exiting marginal export markets, and with support from its honey producers, the Company believes it will be better positioned going forward.

Over recent years, bank lending has significantly financed the growth in our business, including higher levels of stock and debtors. A major challenge the Company faced in the last six months was operating under reduced borrowing limits as credit tightened following the global financial crisis. Recently, we have significantly reduced working capital, sold Comvita shares, and reduced expenses by approximately a further \$1 million per annum. As at 31 December 2009 we completed a repayment of over \$3.5 million in reduction of our bank facility.

Following an extensive review by NAB, CHL has ongoing bank facilities in place which, as part of their terms, requires CHL to implement a capital raising, further reduce its working capital and potentially implement further asset sales.

In the Explanatory Memorandum included with the notice of meeting sent to shareholders for the 2009 Annual General Meeting, CHL initially advised that a debt reduction of approximately \$10 million (to \$17.5 million) was required, with most of the debt to be repaid by 31 March 2010.

Following their extensive review, NAB has utilised CHL's debt reduction targets and incorporated them into CHL's facility. Both the timing and amount of the required pay down of debt have changed. The revised debt targets are \$18.8 million by 30 June 2010, \$11.5 million by 30 September 2010 and \$10.2 million by 31 December 2010.

CHL plans to achieve the required reduction in debt by a combination of:

- the proceeds of a \$6.5 million rights issue,
- the proceeds from the placement (if any) of any shortfall under the rights issue,
- planned operating profits and improved use of working capital.

If the rights issue, together with the placement of shortfall Shares, does not achieve a raising of at least \$6 million (after costs), it is likely that CHL will implement a sale and leaseback of its land and buildings.

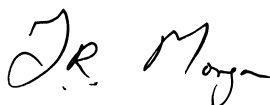
In this case, the 30 September 2010 debt target is \$16.5 million, with the final 31 December 2010 debt target likely to be less than \$10.2 million, reflecting the deduction of additional funds likely to be achieved on a sale of land and buildings.

In line with the debt reduction measures outlined above, CHL is now seeking to raise up to approximately \$6.5 million by way of a non-renounceable offer to Eligible Shareholders of 1.8 New Shares for every 1 Share held on the Record Date at a price of \$0.70 per New Share. Eligible Shareholders will be given an opportunity to subscribe for New Shares in excess of their Entitlement under the Shortfall Facility.

The Company will keep the market informed as to the effect on profitability resulting from the implementation of the business changes outlined above.

Those wishing to take up their Entitlement should see sections 1 and 2 of this Prospectus for how to invest and should use the Entitlement and Acceptance Form accompanying this Prospectus. Supplier Shareholders may be able to use their honey (including futures) to apply for Shares – see section 2.7. Persons wishing to subscribe for Shares are encouraged to read this Prospectus in full.

Yours faithfully



T R Morgan
Chairman

1. DETAILS OF OFFER

INDICATIVE TIMETABLE

Event	Date
Announcement of Offer	Friday, 12 February 2010
Lodgement of Appendix 2A/3B and Prospectus with BSX	Friday, 12 February 2010
Dispatch of notices to Shareholders informing them of the Offer	Monday, 15 February 2010
Shares quoted on ex-entitlement basis	Friday, 19 February 2010
Record Date for determining Entitlements	Monday, 1 March 2010
Offer opens - dispatch of Prospectus and Entitlement and Acceptance Form	Tuesday, 2 March 2010
Offer Closing Date	Friday, 2 April 2010
Company determines allocation of Shortfall Shares	Friday, 9 April 2010
Company notifies the BSX of under-subscriptions	Monday, 12 April 2010
Dispatch of certificates and allotment and issue of New Shares (including Shortfall Shares)	Tuesday, 13 April 2010
Trading of New Shares on BSX expected to commence	Wednesday, 14 April 2010

This Timetable is indicative only and subject to change. The Directors reserve the right to vary these dates, including the Closing Date without prior notice, subject to the Listing Rules. Any extension of the Closing Date will have a consequential effect on the anticipated date for allotment and issue of the New Shares.

The Directors also reserve the right not to proceed with the whole or part of the Offer at any time prior to allotment and issue of the New Shares. In that event, any payments received for Applications will be returned in full without interest.

1. DETAILS OF OFFER

1.1 Overview

CHL is seeking to raise up to approximately \$6.5 million by way of a non-renounceable offer to Eligible Shareholders of 1.8 New Shares for every 1 Share held on the Record Date at a price of \$0.70 per New Share, a discount of 30% to the last trading price for Shares on the BSX before the date of this prospectus.

Fractional entitlements will be rounded up to the nearest whole number of New Shares. An Entitlement and Acceptance Form setting out your entitlement to New Shares accompanies this Prospectus. If you do not take up your Entitlement your shareholding in CHL will be diluted.

Eligible Shareholders should be aware that an investment in CHL involves risks (see Section 8) and Eligible Shareholders should consider the investment in the context of their individual risk profile, investment objectives and individual financial circumstances.

1.2 Size of the Offer

Up to 9,272,000 New Shares will be issued to raise up to approximately \$6.5 million. Subject to rounding, the following number of Shares will be on issue following the Offer depending on the level of acceptances:

Amount raised under offer	Total Shares on issue
\$2,000,000	8,008,209
\$4,000,000	10,865,352
\$6,490,000 (fully subscribed)	14,422,495

1.3 No Rights trading

The Offer is non-renounceable. There will be no trading of Rights on the BSX and Rights may not be sold. However, you may nominate a different person or entity to take up your Rights ("Nominee") (see section 2.6). Any New Shares not taken up may be issued to other Eligible Shareholders who have applied for Shortfall Shares or third parties, as determined by the Board.

1.4 Applying for more than your Entitlement – Shortfall Facility

You may subscribe for New Shares in excess of your Entitlement under the Shortfall Facility. Please refer to section 2.3 for details. Please note that there is no guarantee that you will receive any Shortfall Shares.

1.5 Closing Date

The Closing Date for acceptance of Entitlements is 5pm Brisbane time on 2 April 2010. This date may be varied by CHL without prior notice subject to the Listing Rules. Applications completed incorrectly or received after 5pm on the Closing Date may be rejected at CHL's discretion. CHL reserves the right not to proceed with the whole or part of the Offer at any time prior to allotment and issue of the New Shares.

1.6 Use of Funds

Funds raised under the Offer will be applied towards a reduction of CHL's debt and to pay the expenses of the Offer.

1.7 Offer not Underwritten

This Offer is not underwritten. If the full amount available to be raised under this Offer is not achieved, the Company may place any excess New Shares with third parties. This placement must occur within 3 months after the close of the Offer, and must be at a price not less than the Offer Price.

2. ENTITLEMENT

2.1 Your Choices

You may:

- take up your Entitlement in full (see section 2.2);
- apply for more than your Entitlement under the Shortfall Facility (see section 2.3).
- take up part of your Entitlement and allow the balance to lapse (see section 2.4);
- allow all of your Entitlement to lapse (see section 2.5); or
- appoint a Nominee to take up part or all of your Entitlement (see section 2.6).

2.2 Taking up all of your Entitlement

If you wish to take up your Entitlement in full, complete the Entitlement and Acceptance Form in accordance with its instructions. Your full Entitlement will be shown on your personalised Entitlement and Acceptance Form accompanying this Prospectus.

2.3 Shortfall Facility

Eligible Shareholders may apply for New Shares in addition to their Entitlement under the Shortfall Facility. Subject to the Board's discretion to scale back Applications, the Directors will allocate the Shortfall Shares on a pro rata basis up to the maximum amount that Eligible Shareholders indicate on their Entitlement and Acceptance Form. Related parties of CHL may not apply for Shortfall Shares.

The Directors may scale back Applications for Shortfall Shares in their absolute discretion. Factors that the Directors may take into account in deciding to scale back Applications for Shortfall Shares include control and takeover issues and the overall interests of the Shareholders. If your application for Shortfall Shares is scaled back, the corresponding Application Money will be returned to you (without interest) as soon as practicable after the Offer closes.

Any remaining Shortfall Shares not applied for may be placed with third parties within 3 months of the date the Offer closes.

CHL has received a waiver from BSX Listing Rule 5.2 so that New Shares issued under the Shortfall Facility do not count towards the 15% limit on shares issued by CHL in any rolling 12 month period.

Applicants subscribing for Shortfall Shares will be notified on or about 13 April 2010 of the success of their Application and the number of Shortfall Shares allocated to them.

Eligible Shareholders wishing to take up Shortfall Shares should indicate the number of New Shares in addition to your Entitlement that you wish to subscribe for.

2.4 Taking up part of the Entitlement and allowing the balance to lapse

If you wish to take up part of your Entitlement and allow the balance to lapse, complete the Entitlement and Acceptance Form by indicating the number of New Shares you wish to accept.

The balance of your Entitlement not taken up will lapse and part of your shareholding may be diluted.

2.5 Allow all of the Entitlement to lapse

If you do not wish to accept any part of your Entitlement, do not take any further action and your Entitlement will lapse. By not taking any action and not taking up your Entitlement your shareholding in CHL will likely be diluted.

2.6 Appointing a Nominee to take up your Entitlement

You may nominate another person or entity to accept your Entitlement ("Nominee") in full or in part on your behalf. To nominate a person or other entity, please complete the Nominee's details on the Entitlement and Acceptance Form and indicate how much of your Entitlement you wish your Nominee to accept. To accept your Entitlement in full or in part in respect of your Nominee, you or your Nominee must make a payment for the cost of the New Shares taken up by the Nominee before 5pm on the Closing Date.

2.7 Accepting the Offer and Payments

Complete your Entitlement and Acceptance Form in accordance with its instructions and forward it to the following address so that it is received by not later than 5pm Brisbane time on the Closing Date (2 April 2010). A 'reply paid' envelope is enclosed for your convenience:

CAPILANO HONEY LIMITED
PO Box 531
INALA Q 4077

Payment options:

▪ Cheque

Cheques and bank cheques should be made payable to "Capilano Honey Limited Rights Issue" and marked "Not Negotiable". Send your cheque or bank cheque, together with your completed Entitlement and Acceptance Form, to the above address.

▪ Electronic Funds Transfer (EFT)

Payment can be made by EFT to the account detailed below, noting your Shareholder number as the reference. Funds to be received by 5.00pm on the Closing Date:

BSB: 344-031
Account: 292410169
Reference: insert Shareholder number

When payment is made by EFT the Entitlement and Acceptance Form may be faxed to 07 3712 8287.

▪ Honey (including futures)

To assist Supplier Shareholders wishing to acquire New Shares under the Offer, CHL will, on a case-by-case basis, consider setting off amounts that CHL owes to those Supplier Shareholders for honey (including futures) against the application price for New Shares applied for under the Offer. Supplier Shareholders wishing to pay for New Shares in this manner should contact Richard Rivalland or Annette Zbasnik on (07) 3712 8282.

2. ENTITLEMENT

2.8 Entitlement and Acceptance Form is binding

A completed and lodged Entitlement and Acceptance Form constitutes a binding offer to acquire New Shares (including Shortfall Shares) on the terms and conditions set out in this Prospectus and, once lodged, cannot be withdrawn. If the Entitlement and Acceptance Form is not completed correctly it may still be treated as a valid application for New Shares. The Board's decision whether to treat an Acceptance as valid and how to construe, amend or complete the Entitlement and Acceptance Form is final.

2.9 Brokerage and stamp duty

No brokerage or stamp duty is payable to accept your Entitlement.

2.10 BSX Quotation

The Company has made an application to BSX for the New Shares to be granted quotation on BSX. If permission is not granted for quotation of the New Shares on BSX, then no allotment and issue of any New Shares will take place and Application Monies (without interest) will be returned in full to Applicants.

3. BUSINESS OVERVIEW

3.1 Highlights

CHL was established in 1953 and has grown to be the largest packer and marketer of honey in Australia. Its main objectives are to process, pack and market honey and wax purchased from its Supplier Shareholders.

CHL is listed on the BSX, and the terms of its Shares are governed by its Constitution, the BSX Listing Rules and the Law.

3.2 Outlook and Operations

The primary purpose of the Offer is to satisfy NAB's requirements for debt reduction so as to preserve CHL's banking facilities. This is a key challenge for the Company, and CHL expects to be able to achieve the required debt reduction by a combination of the proceeds of the Offer, the proceeds of any placement of Shares not taken up in the Offer, asset sales and improved use of working capital.

Over a period of time exchange rates have significantly worsened for exporters and the honey crop expected by CHL has been significantly downgraded on the back of further unfavourable weather conditions and increased competition. Furthermore, international conditions for supply of raw honey remain unpredictable. These conditions have had a material unfavourable impact on CHL's profit expectations in the short-term through:

- decreased export revenues and expected 'mark to market' devaluation of assets held in other currencies; and
- higher than expected domestic honey prices to secure supply.

Consequently, the Company has exited certain export market segments, including a significant proportion of the Canadian market. These markets became unattractive and CHL decided not to hold on to them merely in the hope of more favourable exchange rates and a honey crop surplus. This is also part of the plan to free up working capital to be applied towards debt reduction.

Resources have been reduced to match lower production to the expected sales levels. Expenses are expected to fall by approximately \$1 million per annum in consequence. The Company will keep the market informed as to the effect on profitability resulting from the implementation of the business changes outlined above.

3.3 Recent Constitution Changes

At CHL's 2009 Annual General Meeting, the Shareholders of CHL approved a number of changes to the Company's Constitution which contained many "non standard" capital restrictions which were originally in place to preserve the interests of its Supplier Shareholders, rather than the interests of members of CHL as Shareholders.

The changes to CHL's Constitution removed:

- the 10% cap on shareholdings in CHL, now allowing Shareholders to build larger stakes in CHL;
- the special voting rights attached 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
- the director appointment rights of CBL from a majority to two Beekeeper Directors on the board of CHL.

The Directors believe that these changes should place CHL on a more commercial footing and allow investors a more traditional share investment.

3.4 Major activities and financial information

A summary of the major activities and financial information relating to the Company is contained in the Annual Report. A full copy of the Annual Report has been lodged with the BSX and ASIC.

Any person who wishes to obtain a copy of the Annual Report may request a copy from the Company free of charge.

3.5 Risk factors and key features

Investment in shares of a company usually exposes an investor to the same array of business risks and other risks to which the Company is itself exposed. Failure of a company and liquidation of its assets may result in shareholders losing part or all of their investment.

CHL's business is exposed to a variety of commercial and other risks, all of which have some potential to affect its future profitability and to influence both dividends on Shares and prices which it is able to pay Supplier Shareholders for honey delivered. For further details see section 8.

3.6 Summary

This summary is not intended to provide full details of the investment opportunity. Shareholders should read this Prospectus in full, to make a fully informed investment decision.

Persons requiring advice as to whether to invest should seek professional advice.

4. CAPILANO'S BUSINESS

4.1 History

Capilano Honey was founded in 1953, by apiarists Tim Smith MBE and his brother, Bert, who began the business by packing and selling the Capilano brand of honey to grocery stores around Brisbane, Australia. The "Capilano" name has a nostalgic connection with the Capilano district near Vancouver in Canada. It means, "rushing water" in the language of the native Indian tribe who lived there. It was here that Tim Smith met his wife, Jill, while stationed in Canada as an RAAF flying instructor in World War II. In 1956 the business was known as Capilano Apiaries Pty Limited. Expansion interstate and development of export followed as the Company prospered, leading to the establishment of a packing plant and distribution centre at St Marys near Sydney in 1968, followed by another in Maryborough, Victoria, in 1974.

In 1970 the Company became an unlisted public company and in 1974 changed its name to Honey Corporation of Australia Limited. In 1995 it adopted the name Capilano Honey Limited in recognition of the wide appreciation of the Capilano trademark and brand throughout Australia and overseas. In 1997 the factory in Brisbane was redeveloped and the business reduced to a two-plant operation with the closure of the Sydney factory.

CHL markets its products to over 40 countries and is one of the few international honey companies.

In 2003, CHL entered into a strategic alliance, Capilano-Argentina, with HoneyMax s.a in Argentina.

The Argentine strategic alliance underscored the benefit of two honey industry leaders working together, combining business strengths, market intelligence and available honey to service the marketplace. It was the first time that companies from two competing honey exporting countries have joined their efforts and maximised quality and supply to all end users.

Also in 2003, CHL acquired a 50% share in a honey packer in Canada, forming Capilano Labonte Inc (CLI).

CHL listed on the BSX in June 2004.

In June 2007 the Company sold its wholly owned subsidiary Medihoney Pty Ltd to Comvita Limited in return for cash and shares in Comvita Limited.

In February 2008, the Company purchased the remaining half of CLI and renamed it Capilano Canada Inc.

In order to free up working capital to strengthen the Company's balance sheet and to assist in repaying debt, the Company has exited certain export market segments, including a significant proportion of the Canadian market. These markets became unattractive and CHL decided not to hold on to them merely in the hope of more favourable exchange rates and a honey crop surplus.

4.2 Shares

Share Ownership

Since incorporation, CHL has required Supplier Shareholders to hold Shares in accordance with the number of hives used for honey production. The number of Shares required is determined by a Shares-to-hives ratio established by the Board.

At the date of this Prospectus, the Shares-to-hives ratio is sixteen, which means that Supplier Shareholders are required to hold sixteen Shares for each hive of bees employed for honey production. This ratio is not fixed and may be changed in the future.

The Board has the right to utilise funds which may be held on behalf of a Supplier Shareholder to pay for Shares issued to satisfy HSA obligations.

As at 30 June 2009, 5,151,066 Shares were on issue. Of these, 2,413,232 shares were required in accordance with HSAs, to be held by Supplier Shareholders to comply with the Shares-to-hives ratio.

Share Issue

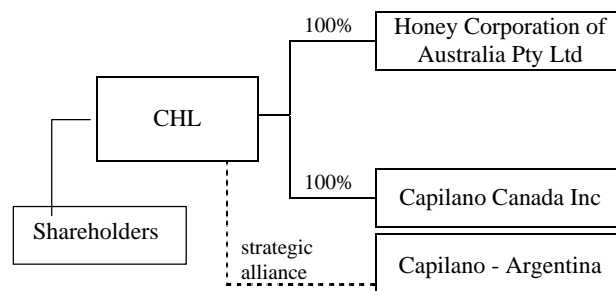
Pursuant to the CHL Constitution, the Board may issue Shares to persons who have applied for and been issued with a HSA, and to Supplier Shareholders to satisfy their HSA obligations.

Share Trading - Bendigo Stock Exchange

CHL listed on the BSX on 18 June 2004 to facilitate share trading. Members of the public and Shareholders wishing to acquire Shares in CHL should acquire them through the BSX.

4.3 Corporate Structure

CHL's corporate structure is set out below:



Capilano Canada Inc. (CCI)

CCI is a wholly owned subsidiary of CHL (see section 10.2).

Capilano-Argentina

In 2003, CHL entered into a strategic alliance with HoneyMax s.a.

This strategic alliance may provide a source of honey for CHL, which cannot always be obtained in Australia, to meet customer requirements. The strategic alliance remains important to provide security of supply for the retail markets, particularly at times of low production in Australia.

CHL and Capilano-Argentina has the ability to offer quality assured honey to meet the requirements of Industrial Bulk Honey buyers anywhere in the world.

4. CAPILANO'S BUSINESS

4.4 Capilano's Business

CHL's principal business activity is the packaging and marketing of honey on a global basis. In the year ended 30 June 2009, this activity generated 97% of total sales revenue.

Consumer honey products and Industrial Bulk Honey are marketed by CHL across Australia and have been regularly exported to many other countries.

CHL's other business activities include:

- sales of unprocessed beeswax supplied by Supplier Shareholders, mainly into export markets;
- packing and marketing of products other than honey;
- a strategic alliance, Capilano-Argentina, for the packing and marketing of honey for the world market.

CHL has business centres for honey packaging, warehousing and distribution functions at Richlands, Queensland and Maryborough, Victoria. Both locations are close to the main honey producing regions of eastern Australia and within reach of major domestic markets and shipping ports for exports. Operational management is regional and presently each business centre is responsible for the following functions:

Richlands Queensland:

- raw material (honey) intake;
- sourcing and purchasing of other inputs;
- invoicing;
- production, warehousing and distribution; and
- local administration.

Maryborough, Victoria

- raw material (honey) intake;
- production of bulk honey;

The CHL corporate head office is located at the Richlands business centre and carries out the following centralised functions:

- marketing and sales management;
- export sales and administration;
- accounting, payroll and financial management;
- central computer system and data processing;
- research and development;
- share registry; and
- corporate administration.

Brands and Trademarks

CHL owns the trade marks and honey brands "Capilano", "Barnes", "Anderson Honey", "Glenrock", "Heather", "Cloverdale" and "Bee Vital" and holds a licence to use the "Allowrie" trade mark for honey products.

In accordance with relevant accounting standards, the acquisition cost of brands and honey businesses are included in the Company's balance sheet as intangible assets and amortised over varying periods according to their expected useful lives.

A value for the Capilano brand is not included in the balance sheet, in accordance with accounting standards. The directors believe this brand is a major asset of the Company and has a substantial value.

4.5 Honey Supply

Honey Supply Agreements

CHL's honey supply base is underpinned by Honey Supply Agreements with Supplier Shareholders. The Company enters into a Honey Supply Agreement and establishes an annual supply quota with these suppliers. The quota is not transferable, but may be re-assigned where the bona fide sale of an apiary business has taken place, subject to a satisfactory history of deliveries against quotas. A non-shareholder honey producer who wishes to purchase CHL Shares and supply honey to the Company may make application for a Honey Supply Agreement and annual supply quota. The Directors set the total quantity of quota available for allocation (the quota pool) from time to time. Reviews of quotas and quantities of honey supplied by shareholders with Honey Supply Agreements are carried out periodically.

Ownership of CHL Shares does not create a right to a Honey Supply Agreement or annual supply quota.

Honey Prices Paid to Supplier Shareholders

Under the terms of HSAs with Supplier Shareholders, the Company agrees to purchase an annual quota quantity at the Quota Price. This price is determined by the commercial value of various honey grades sold into different markets and taking into account market conditions, bulk export volume and market prices, foreign exchange rates, and the Company's profit objectives.

The Company may also purchase honey from Supplier Shareholders over their annual quota at prices determined by negotiation between the Supplier Shareholder and the Company.

The graph in Figure 1 illustrates, on a quarterly basis, movements in prices (average honey purchase prices) over a twenty year period from 1989 to 2009 for 2 different grades of honey. These prices include bonuses and premiums that have been paid to Suppliers.

The Company cannot give any guarantee concerning future purchase prices for honey supplied by Supplier Shareholders.

4. CAPILANO'S BUSINESS

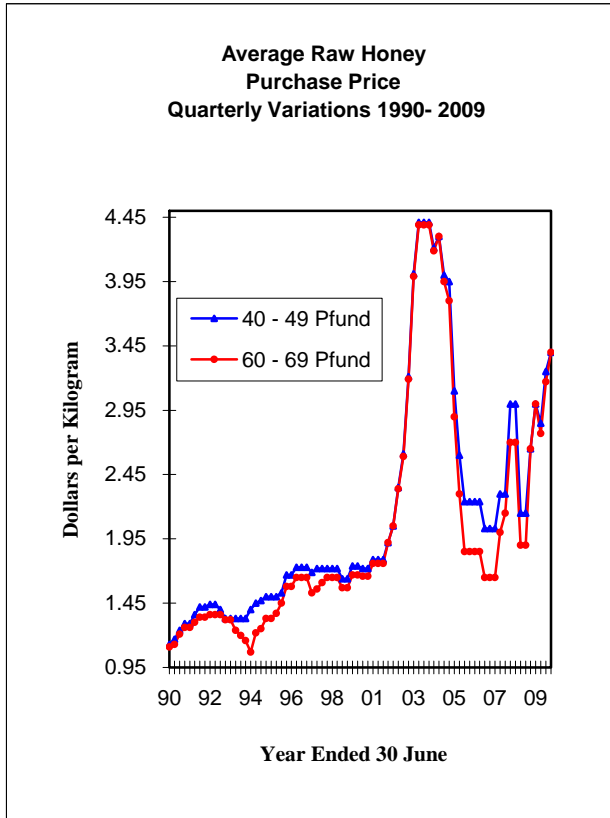


Figure 1

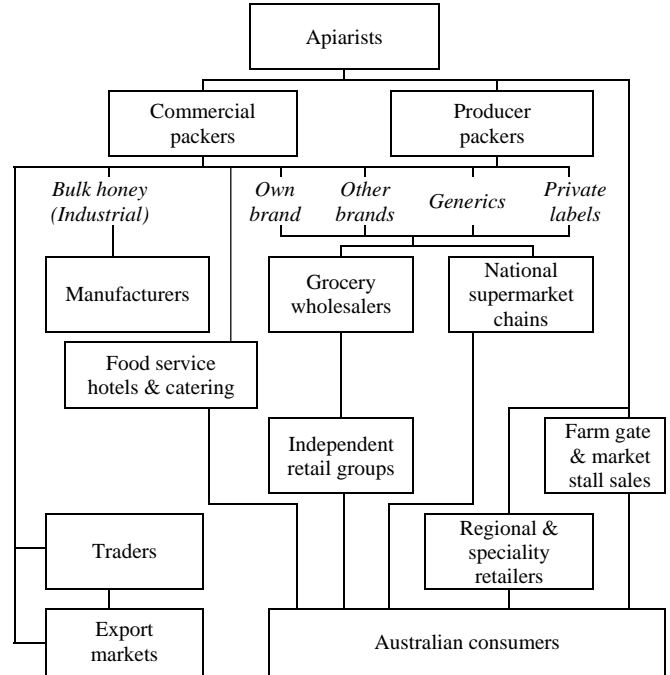
Australian Beekeeping Industry

The overall size of the industry is quite extensive, with managed honey bees being found in all Australian states and territories. The industry reports to have around 637,000 registered hives in Australia, with approximately 467,000 of these operated by beekeepers with a minimum of 200 hives. These represent what is considered to be the commercial industry.

Honey production and supply is dependent upon climatic variations and seasonal conditions, and as a result the annual crop can vary considerably from year to year. Since 1999 Australian Honey production has been lower than previous years because of unfavourable climatic conditions in much of eastern Australia. These conditions, together with a world shortage of honey, led to increased competition for available supplies, which limited the Company's purchases of Australian honey to 11,950 tonnes in the 2004 financial year. Conditions for Australian honey production improved for the following two years and the Company's purchase of Australian honey was 14,466 tonnes in 2005 and 13,564 tonnes in 2006. In 2007 purchases reduced to 10,343 tonnes, dropping further to 6,900 tonnes in 2008 and 8,714 tonnes in 2009 as climatic conditions deteriorated further and competition for supply increased.

During the five years to 30 June 2009, approximately 93% of total honey purchased by CHL was supplied by Supplier Shareholders. In the year to 30 June 2009, 80% of total honey purchased was supplied by Supplier Shareholders. In FY 2009, 2,853 tonnes of imported honey was used to supplement the shortfall of domestic honey. The imported honey was used in industrial and export markets.

The supply, marketing and distribution structure of the honey industry is illustrated below.



The major exporters of bulk honey to world markets are China, Argentina and Mexico, while the major importing countries are Germany, USA, Japan and the United Kingdom.

Australia supplies only a small percentage of world honey and therefore has little opportunity to influence world price levels. Consequently CHL's bulk export sales are mostly contracted at prevailing world market price levels, although premiums may be obtainable in some markets.

Figure 2 illustrates the range of variation in world market prices for blending grade Industrial Bulk Honey from 2005 to 2009.

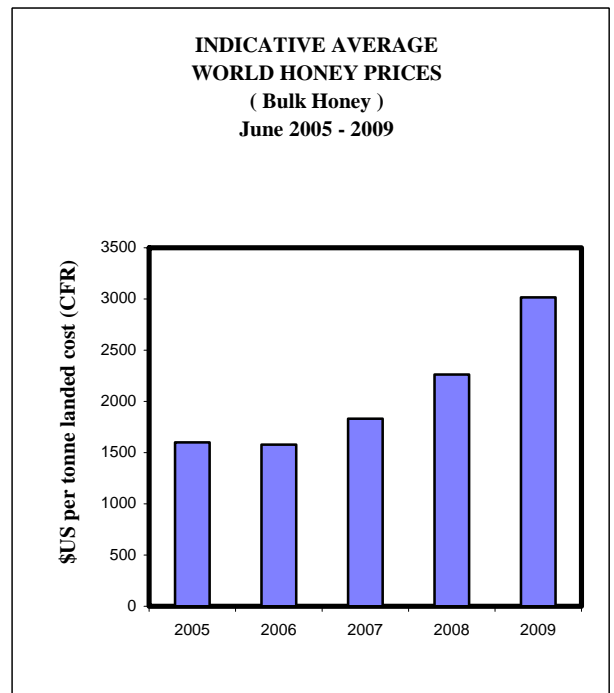


Figure 2

4. CAPILANO'S BUSINESS

4.6 Business Strategies

CHL has a substantial domestic market share in both retail and industrial honey market segments.

Its strategies include:

- maintaining the Capilano brand as the national market leader;
- acquiring and/or developing other honey brands;
- expanding sales of value added consumer products;
- scaling back its activities in unattractive export markets;
- being a low cost manufacturer and food processor and;
- acquiring other synergistic business.

4.7 Performance

The Consolidated Sales Revenue for the Capilano Group is detailed in Figure 3.

The recent increase in consolidated revenue was a result of full consolidation of Capilano Canada Inc in 2009. Revenue streams have been negatively impacted by lower honey supply as a result of prolonged drought in Australia since 2003, and unfavourable exchange rates for export sales.

In order to free up working capital to strengthen the Company's balance sheet and to assist in repaying debt, the Company has exited certain export market segments, including a significant proportion of the Canadian market. These markets became unattractive and CHL decided not to hold on to them merely in the hope of more favourable exchange rates and a honey crop surplus.

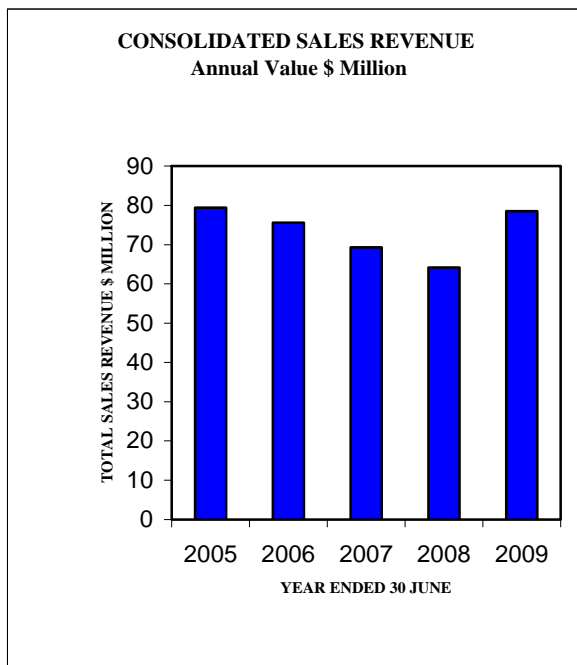


Figure 3

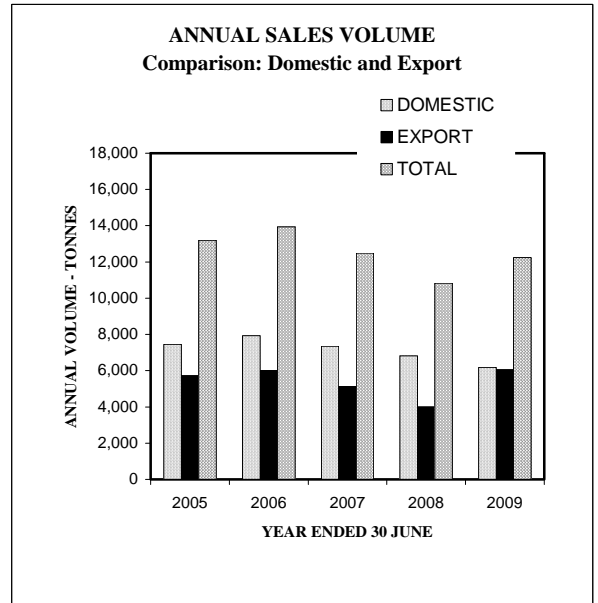


Figure 4

Unfavourable trading conditions affecting profitability have existed for CHL since FY2006 arising from three major factors. Reduced supply resulted in the Company forgoing some profitable business it previously held. There has been increased competition for supply of private label honey products to supermarket retailers resulting in reduced margins to wholesalers. This has been accompanied by a growth in private label market share at the expense of brands. In addition, with about 45% of CHL's business in the export segment, the Company profitability has been negatively affected by unfavourable exchange rate trends since FY2006.

In FY2008 the Company recorded a substantial loss of \$7.4 million which included an asset devaluation in the amount of \$3.6 million of CHL's shareholding in Comvita Ltd; and a write-down of assets and provision for redundancies totalling \$2.5 million.

CHL's profitability in FY2009 arose out of continued changes to group operations and through securing better prices in the marketplace for our products. Further significant expense cuts were achieved through restructuring our Maryborough and Canadian operations.

In FY2009 the net profit after tax for the Group was \$707,000 after allowing for a non-cash foreign exchange write-down of \$(839,000) in respect of asset valuations to market in June 2009. This result is also after an increase in the cost of honey of \$5.5 million on the previous year in order to secure a similar volume of honey in a competitive market affected by drought. Operating Profit after Tax is detailed in figure 5.

4. CAPILANO'S BUSINESS

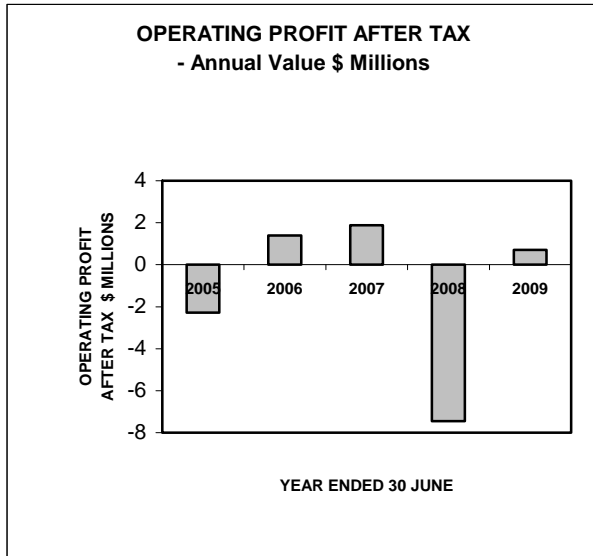


Figure 5

Market fundamentals remain weak. Low Australian honey receipts have resulted in CHL purchasing honey from a wider source, including importing, in order to address the continued shortage.

While exchange rates improved favourably over the 2009 financial year, the currency hedging in place reduced the impact of the extreme currency movements in the first 6 months.

However, over the past 3 years the business has been re-engineered to increase our competitiveness. Excess plant capacity has been reduced as have expenses. Surplus assets are being sold.

CHL has reported a loss before tax (excluding write down of goodwill and future income tax benefits relating to export markets) for the half-year ended 31 December 2009 of \$1.25 million arising mainly from unfavourable foreign exchange conditions and the higher than expected honey prices. Impairments have been quantified as a non-cash write down of goodwill in the amount of \$2.664 million and of future income tax benefits of \$0.575 million.

4.8 Debt Reduction

Following an extensive review by NAB, CHL has ongoing bank facilities in place which, as part of their terms, require CHL to implement a capital raising, further reduce its working capital and potentially implement further asset sales.

In the Explanatory Memorandum included with the notice of meeting sent to shareholders for the 2009 Annual General Meeting, CHL initially advised that a debt reduction of approximately \$10 million (to \$17.5 million) was required with most of the debt to be repaid by 31 March 2010.

Following their extensive review, NAB has utilised CHL's debt reduction targets, and incorporated them into

CHL's facility. Both the timing and amount of the required pay down of debt have changed. The revised debt targets are \$18.8 million by 30 June 2010, \$11.5 million by 30 September 2010 and \$10.2 million by 31 December 2010.

CHL plans to achieve the required reduction in debt by a combination of:

- the proceeds of a \$6.5 million rights issue;
- the proceeds from the placement (if any) of any shortfall under the rights issue;
- planned operating profits and improved use of working capital.

If the rights issue together with the placement of shortfall shares does not achieve a raising of at least \$6 million (after costs), it is likely that CHL will implement a sale and leaseback of its land and buildings.

In this case, the 30 September 2010 debt target is \$16.5 million with the final 31 December 2010 debt target likely to be less than \$10.2 million, reflecting the deduction of additional funds likely to be achieved on a sale of land and buildings.

5. FINANCIAL INFORMATION

5.1 Review of Historical Results

The following table summarises the consolidated audited results for CHL and its subsidiaries for the last three financial years.

The detailed audited financial statements for the year ended 30 June 2009, and the half-year results for the period ended 31 December 2009 are incorporated in this Prospectus by reference.

Information in the table below has been extracted from audited accounts for the last three financial years (see the Independent Accountants' Report in section 7).

These results are stated under the International Financial Reporting Standards (IFRS)

	2007	2008	2009
Total revenue	69,269	64,175	78,493
Operating profit (loss) before tax	1,926	(9,095)	793
Income tax expense (benefit)	51	(1,647)	(86)
Operating profit (loss) after tax	1,875	(7,448)	707
Dividend			
per share	-	-	-
Provided	-	-	-
Consolidated financial position			
Total assets	67,399	61,224	59,200
Equity			
Contributed equity	5,366	5,366	5,366
Reserves	2,750	4,276	3,347
Retained profits	19,982	12,534	13,241
Total Equity	28,099	22,176	21,954

No dividend was declared for any of the above periods.

5.2 Income tax and dividend policy

CHL's Constitution prescribes that directors may determine that a dividend is payable to Shareholders. Directors also have power to pay interim dividends.

In determining the amount of dividend (if any), directors take into account:

- the importance of retaining a portion of profits to provide funds for operations and to provide for future growth; and
- the need to pay dividends to reward Shareholders for their investment in the Company.

Profits retained by the Company after payment of dividends and after taking into account other adjustments will usually be subject to income tax.

As at 30 June 2009 the Company had an accumulated franking account balance of \$2,385,409 based on company income tax paid. This franking account balance can be used to frank future dividends.

No undertaking regarding future dividends is given in this Prospectus.

5.3 Annual Report & BSX Announcements

Details of CHL's financial position as at 30 June 2009 are contained in the Company's Annual Report. The Law requires that sufficient information be given in this Prospectus to persons interested in acquiring Shares to assist them in making an informed investment decision. Therefore, in order to be fully informed, parties reading this Prospectus should also refer to the material contained in:

- the Company's half-year report for the period ended 31 December 2009;
- the Company's 2009 Annual Report;
- the Financial & Statutory Reports of the Company for the financial year ended 30 June 2009; and
- material contained in all other announcements to BSX.

Due to discussions with our bank regarding classification between current and non-current liabilities in our balance sheet, the Financial & Statutory Reports for the year ended 30 June 2009 were lodged 10 days outside the BSX timeframe of 75 days from end of financial year but within the ASIC timeframe of 90 days from end of financial year. The late BSX lodgment resulted in CHL being suspended from trading on the BSX for a period of 10 days.

Persons wishing to obtain a copy of the Company's half-year report for the period ended 31 December 2009, the 2009 Annual Report or copies of continuous disclosure announcements since the date of the 2009 Annual Report and this Prospectus should write to CHL, at either PO Box 531, Inala Qld 4077, fax on 07 3712 8287 or email honey@capilano.com.au for a copy to be forwarded free of charge. Alternatively, this information can be obtained from the BSX website www.bsx.com.au. Investors should receive the Company's Annual Report within 5 days of making a request. Any complaints may be directed to the regional office of ASIC in their State.

CHL is a disclosing entity and is subject to regular reporting and disclosure obligations. Copies of documents lodged by the Company with ASIC and BSX may be obtained from or inspected at an ASIC office and/or the BSX website.

6. DIRECTORS & MANAGEMENT

The core purpose of the Board is to guide the affairs of the Company to best serve the interests of and continuously add value for its Shareholders.

6.1 Directors' profiles

- **Trevor R. Morgan**, FAICD
*Chairman, Non Executive Director
Commercial Apiarist*
Mr Morgan has been a director since 1998, was elected Deputy Chairman in 2004 and Chairman in 2005. He is a second-generation beekeeper with over 30 years experience in honey production. He has been widely involved in industry matters for many years at both State and National level, serving on the South Australian Apiarist Association Executive for more than ten years, including 2 years as President. He is a Fellow of the Australian Institute of Company Directors and holds a Company Directors' Advanced Diploma. Mr Morgan is Chairman of the Company's Nomination Committee and a member of the Honey Supply & Industry Committee.
- **Phillip F. McHugh**
*Deputy Chairman, Non Executive Director
Commercial Apiarist*
Mr McHugh has been a director since 1993. He is well known in the NSW apiculture industry and his family have been CHL Shareholders since 1975. Mr McHugh previously served as Branch President of the NSW Apiarists Association for a number of years. Mr McHugh is Chairman of the Honey Supply & Industry Committee and a member of the Company's HR and Nomination Committees.
- **Roger D. Masters**, B.Com, MBA, CA
Managing Director
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 an extensive career in Senior Management with significant experience in finance, marketing and business development. Prior to joining CHL Mr Masters was Finance Director at Bullivant's Natural Health Products. Mr Masters is a member of the Company's Audit & Compliance and Honey Supply & Industry Committees. He is also a Director and President of Capilano Canada Inc.
- **Simon L. Tregoning** B.Com
Independent Non-Executive Director
Mr Tregoning has been a director since 2006. He is also a director of Grain Corp, and St Lukes Care. He was formerly a director of Australian Co-operative Foods (Dairy Farmers). Prior to that he was Vice-President, Kimberly-Clark Corporation. He has had broad FMGC experience in Australia, Africa and Asia. Mr Tregoning is Chairman of both the Audit & Compliance and HR Committees.
- **Peter R Barnes**
Non Executive Director, Commercial Apiarist
Mr Barnes has been a director since 2007. He is a third generation commercial apiarist with 18 years experience and his family have been Shareholders of CHL since 1968. He is actively involved in industry affairs, having served 3 years on the Queensland Beekeepers Association Management Committee,

including holding the position of Wide Bay Branch Management Representative. Mr Barnes is a member of the Company's Honey Supply & Industry, Audit & Compliance and Nomination Committees.

6.2 Senior Management

CHL's senior management group consists of:

- **Roger D. Masters**, B.Com, MBA, CA
Managing Director, 13 years service
(for details see section 6.1).
- **Richard Rivalland** B.Com, CPA
*Company Secretary, Financial Controller
6 years service*
Mr Rivalland has a Bachelor of Commerce Degree majoring in Accounting and Management Accounting and is a Certified Practising Accountant. He has in excess of fifteen years experience in accounting roles in South Africa, the United Kingdom and Australia, predominantly in manufacturing environments for both large multinationals and SME's. Mr Rivalland joined the Company in March 2003 as Management Accountant and was appointed to his current position in November 2004. Mr Rivalland was appointed Company Secretary on 1 March 2008 in addition to his role as Financial Controller.
- **Peter McDonald** B.Int.Bus (Hons)
*General Manager - International Business,
9 years service*
Mr McDonald has a Bachelor of International Business Degree (Honours) and a Diploma of Export Management. Prior to joining CHL, Mr McDonald spent 3 years in London with the Queensland Government Trade and Investment Office, promoting agribusiness and food products in Europe. Mr McDonald joined the Company in December 2000 as Business Development Manager (Europe), was promoted to International Business Manager in January 2002 and to his current position as General Manager – International Business in May 2005.
- **Ben McKee** B.Agr.Sci. (Hons), PhD
Group Operations Manager, 6 years service
Dr McKee has a Bachelor of Agricultural Science Degree (Honours) and a PhD in a field of study related to the honey industry. Previously, Dr McKee worked with the University of Melbourne and within the Victorian Department of Primary Industries as well as managing his own commercial beekeeping enterprise. At CHL, he has managed the Groups Quality Assurance and advanced to Operations Manager of the Brisbane site before being promoted to the Group Operations Manager in December 2006.
- **Simon Bluck**
National Sales Manager, 2 year service
Mr Bluck has extensive experience in sales with national accounts and state field operations, gained during more than thirteen years in the FMCG industry in New Zealand and Australia. He holds a National Certificate in Business and an Institute of Management Certificate. Mr Bluck joined the Company as National Business Manager in November 2007 and was promoted to his current position of National Sales Manager in June 2008.

7. INDEPENDENT ACCOUNTANTS' REPORT



Principals
Andrew J Cranstoun
John Feddema
Masood Ayoob
Junaide A Latif
Paul A Copeland
Julie D Smith

Consultants
David J Cranstoun
Yusuf Hussein

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Website www.cranstounandhussein.com.au
ABN 11 603 627 400

12 February 2010

The Directors
Capilano Honey Limited
PO Box 531
INALA QLD 4077

Dear Sirs

INDEPENDENT ACCOUNTANTS' REPORT

Introduction

We have prepared this Independent Accountant's Report at the request of the Directors of Capilano Honey Limited (CHL) for inclusion in a Prospectus to be dated on or about 12 February 2010.

Scope

We have conducted an independent review of the summarised financial report of CHL, comprising the summary balance sheet and the summary income statement for the years ended 30 June 2007, 2008 and 2009, included in Section 5.1 of the Prospectus, which were derived from the financial reports of CHL for the years ended 30 June 2007, 2008 and 2009. We expressed an unmodified auditor's opinion on those financial reports.

The Responsibility of the Directors for the Summarised Financial Report

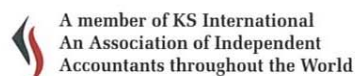
The directors are responsible for the preparation and presentation of the summarised financial report. We disclaim any responsibility for any reliance on this report or on the financial information to which it relates for any purposes other than that for which it was prepared. This report should be read in conjunction with the full prospectus.

Auditor's Responsibility

Our responsibility is to express a conclusion on the summarised financial report based on our review. We have conducted our review in accordance with Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* in order to state whether on the basis of the procedures described, anything has come to our attention that causes us to believe that the summarised financial report included in Section 5.1 of the Prospectus is not consistent in all material respects with the financial reports from which they were derived.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and

Cranstoun & Hussein
Chartered Accountants & Business Advisers



consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the summarised financial report included in Section 5.1 of the Prospectus is not consistent in all material respects with the financial reports from which they were derived.

Subsequent Events

Other than detailed in Sections 3.3, 4.7 and 4.8 of the Prospectus, to the best of our knowledge and belief there have been no material items, transactions or events subsequent to 30 June 2009 which require adjustments to this report or which would cause reliance on this report to be misleading.

Disclosure

Cranstoun & Hussein have no pecuniary interest that could reasonably be regarded as being capable of affecting their ability to give an unbiased conclusion in this report. Cranstoun & Hussein will receive a professional fee for the preparation of this report. Cranstoun & Hussein and their principals do not hold or have any interest in the Company except as auditors, independent accountants and tax agents to the Company.

Cranstoun & Hussein

CRANSTOUN & HUSSEIN
Chartered Accountants

J A Latif
A Member of the Firm

Liability limited by a scheme approved under Professional Standards Legislation

8. BUSINESS & INVESTMENT RISKS

Investment in the shares of a company usually exposes an investor to the same array of business risks and other risks to which the Company is itself exposed. Failure of a company and liquidation of its assets may result in shareholders or note holders losing part or all of their investment.

CHL's business is exposed to a variety of commercial and other risks, all of which have some potential to affect the future profitability of the Company and to influence both dividends on Shares and prices which the Company is able to pay Supplier Shareholders for honey supplied.

The risks detailed below should not be taken as exhaustive of the risks faced by CHL or its investors, but rather risks that have been encountered to date or that are reasonably foreseeable at this time.

Apiculture industry

The supply of honey to the Company can be adversely affected by reduced access to floral resources, bee diseases, and beekeeper diversification into non-honey producing activities such as crop pollination and the export of packaged bees. Any future changes in government regulation regarding floral resources can have a significant negative impact on honey supply.

Bulk export sales

Generally the total annual quantity of honey supplied to CHL exceeds the quantity required to satisfy demand for domestic market retail products and industrial honey and value added retail packed exports. Consequently, the Company has been a consistent exporter of Industrial Bulk Honey onto the world commodity honey market.

The net value in Australian dollars of Industrial Bulk Honey exports is subject to wide variations resulting from movements in export market prices (usually quoted in US dollars) and the exchange rate value of the Australian dollar against the US dollar and other currencies.

Variations in price, exchange rates and market conditions are outside the control of CHL and can have a significant effect on prices paid for honey purchased and received for honey sold, and profits.

Climatic Conditions

The production and supply of honey can be adversely affected by unfavourable weather (drought) and environmental and climatic conditions. Continued drought may have, and has had, a negative impact on CHL's financial performance.

Consumer perceptions

Australian consumers traditionally regard honey as a natural, healthy food product. However, it should be recognised that changes in lifestyles and eating habits could affect future demand.

Customer attitudes

The Company's profitability can be affected by changes in customer perception and attitudes towards honey and to branded and non-branded products.

Funding

CHL's operations are largely funded by debt and rely on the Company's continued ability to borrow funds.

CHL has accepted an offer of ongoing funding from its bank subject to execution of final documentation. The facility is subject to an annual review (as in previous years) and requires a reduction in bank debt to \$10.2 million by 31 December 2010, or less if CHL implements a sale and leaseback of its land and

buildings (refer section 4.8). It is expected that the reduction in debt will be achieved by a combination of this capital raising, the proceeds of a placement of shares (if any) not taken up in the Offer, operating profits, asset sales and improved use of working capital. There are no guarantees that CHL's bank will not require further debt reductions in the future, or otherwise vary the terms on which it may be prepared to provide facilities to CHL. Furthermore, there is no guarantee that the planned asset sales, operating profits and working capital reductions will be successful.

General economic conditions

The operating and financial performance of the Company is influenced by a variety of general economic and business conditions.

A prolonged deterioration in general economic conditions in Australia or overseas could be expected to have a corresponding adverse impact on the operating and financial performance of CHL.

Government action

Economic, regulatory or taxation policies of government in Australia and protectionist policies and other actions by governments in countries where CHL exports are sold may influence future profitability.

Honey pricing and supply

Honey purchase prices are dependent on prevailing supply and demand. Consistently high honey purchase prices will have a significant negative impact on the Company's financial performance.

CHL's access to honey supply may be constrained by natural or competitive reasons thereby limiting CHL's volume of sales.

Industrial action

CHL has a good record of harmonious relationships with employees and unions, and has entered into Union Collective Agreements with factory employees at both packing plants. However, industrial action such as strikes, black bans, or secondary boycotts, whether originating in the Company's workforce or elsewhere, could disrupt business and adversely affect results.

Low barriers to entry

There are few barriers to entry for packing honey for the Australian market.

Market concentration

The retail grocery market in Australia is dominated by a small number of powerful groups who, between them, account for the majority of annual retail grocery sales. The consequent concentration of buying power can be a disadvantage to CHL.

Overseas activities

CHL operates its business overseas, and in conjunction with other entities in various countries. There are risks inherent in doing business on an international level. To the extent that it is a party to a strategic alliance and reliant on third parties CHL may be subject to the effect of their partners' business practices and strategic decisions. The Company may also be subject to any change in economic or political conditions in another country, as well as changes in exchange rates.

8. BUSINESS & INVESTMENT RISKS

Overseas conditions

Any outbreak of hostilities or pandemics may have an effect on global economic conditions in addition to the Company's direct export performance. This may have an adverse effect on the Company's financial performance.

Price competition

Price competition is common and often aggressive at both wholesale and retail levels of the domestic market. In the generic and house brand retail product market and the industrial honey market, competition is almost exclusively on a tendered price basis, and consequently, margins are often low.

Product concentration

CHL derives substantial strength from the concentration of its management resources in the packing and marketing of honey supplied by its Supplier Shareholders, and relies on this activity for a significant proportion of its profitability. Any event or circumstance which reduces the supply or demand for honey in Australia or overseas, or restricts CHL's access to markets will have a material effect on the profitability of the Company.

Product contamination

Adverse publicity resulting from product contamination or malicious tampering could have serious consequences for the Company and the industry as a whole through reduced demand for honey. Any residues of chemicals or other unnatural substances in local or overseas honey could restrict the markets in which such honey could be sold or render the honey unacceptable to consumers in any market. Contamination could result in a product recall at considerable cost to the Company and threat to future business.

9. MATERIAL AGREEMENTS

9.1 Inspection of Significant Documents

The directors are of the opinion that certain agreements and associated information are significant to this Prospectus or may be relevant to potential purchasers of Shares in CHL.

The directors consider that the contracts described below and elsewhere in this Prospectus are those which a Shareholder would reasonably regard as material and which they and their professional advisers would reasonably require to make an informed assessment of the Shares offered under this Prospectus.

Set out in this section is a brief summary of the more important provisions of these material contracts.

Copies of the following documents are available for inspection during normal office hours at the registered office of the Company for 13 months after the date of this Prospectus.

- the Constitution; and
- the consents to the issue of this Prospectus.

9.2 CHL Constitution

A summary of the rights attached to the Shares and certain provisions of the Constitution of the Company are set out below. The summary is not intended to be exhaustive and must be read subject to the full text of the Constitution.

Lien

The Company has a first lien or charge for unpaid calls, instalments and related interest and any amount it is legally required to pay in relation to a Shareholder's Shares. The lien or charge also extends to all dividends declared in respect of the Shares.

Alteration of rights

The rights and restrictions attached to any class of shares (unless provided by the terms of issue of the shares of that class), can only be varied with the consent in writing of members with at least three-quarters of the votes in that class, or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class.

Voting rights

Each Shareholder has the right to receive notices of, and to attend, general meetings of the Company.

Subject to restrictions on voting from time to time affecting any class of shares in the Company, and any restrictions imposed by the *Corporations Act*, the Shares in the Company carry the right to cast one vote on a show of hands and, on a poll, one vote for each fully paid share held. Voting may be in person or by proxy, attorney or representative.

Foundation Share

One Foundation Share is currently on issue.

The Foundation Shareholder is entitled to receive notice of, attend, speak but not vote at any general meeting of CHL.

The Foundation Share confers no right to participate in the capital or profits of the Company other than the right in a winding up to a distribution of capital on an equal footing with other members entitled to share in a distribution of capital in a winding up.

General meetings

An annual general meeting of the Company shall be held in accordance with the provisions of the Law. All other meetings of the Company are called general meetings. Any director may call a general meeting at their discretion.

While the Company is listed on the BSX the Law requires 28 days notice, specifying the place, the day and the time of meeting and in the case of special business the general nature of that business and any other matters required by the Law, shall be given to such persons as are entitled to receive such notices from the Company.

Proceedings at general meetings

No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business. Ten members present in person constitute a quorum. Member includes a person attending as a proxy or a representative of a member that is a corporation for the purposes of a quorum.

Directors

For as long as the Foundation Share is on issue, the Foundation Shareholder may appoint two Beekeeper Directors to the board of directors of the Company from time to time by written notice to the Company. The Foundation Shareholder may then remove or substitute the Beekeeper Directors appointed under this rule by written notice to the Company.

The number of directors shall not be less than 3 nor more than 8 and shall comprise the Beekeeper Directors, Independent Directors and may include a Managing Director.

At every annual general meeting, one third of the Independent Directors or, if their number is not a multiple of 3, then the number nearest, but not less than one third must retire from office provided that no Independent Directors who has served less than 2 years in office since his last election shall be required to retire.

The total amount of directors' fees payable must, from time to time be determined by the Company in general meeting and may be divided amongst directors at their discretion. Directors' fees are deemed to accrue from day to day. The directors may also be paid all travelling, accommodation and other expenses properly incurred by them in attending and returning from meetings of the directors or any committee of the directors or general meetings of the Company or in connection with the business of the Company.

Powers and duties of directors

The business of the Company is to be managed by the directors, who may pay all expenses incurred in promoting and registering the Company, and exercise all powers of the Company as are not, by the Law or by the Constitution, required to be exercised by the Company in general meeting.

9. MATERIAL AGREEMENTS

Proceedings of directors

The directors meet together for the despatch of business and otherwise regulate their meetings as they think fit provided that a meeting of the directors in person is held at least 6 times per year at intervals of approximately 2 months. The directors may at their discretion hold additional meetings.

Financial reports

The directors must ensure proper financial and other records are kept and must distribute copies of reports as required by the Law. The directors may determine the circumstances under which the Company financial records are to be accessible for inspection by members.

Dividends and reserves

The directors may, from time to time, determine that a dividend is payable to Shareholders. The dividend is generally payable on all Shares in proportion to the amount of total issue price paid up in respect of the Shares. The dividend may be paid at a rate per annum in respect of a specified period provided that no amount paid on a share in advance of calls is to be treated as paid on that share.

The directors may, from time to time pay interim dividends if it appears to the directors that the payment is justified by the profits of the Company.

Amendments to the Constitution

Subject to the Law, the Company may by special resolution amend the Constitution.

If the Law or any declaration or exemption from the provisions of the Law granted by ASIC requires that the Constitution contain certain provisions, then those provisions:

- (a) are deemed to be incorporated into the Constitution to the extent they are required to be included; and
- (b) prevail over any other provisions of this Constitution to the extent of any inconsistency.

While the Company is admitted to the official list of the BSX:

- (a) if the Listing Rules prohibit an act being done, the act is not to be done;
- (b) nothing contained in the Constitution prevents an act being done that the Listing Rules require to be done; and
- (c) if any provision of the Constitution is or becomes inconsistent with the Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency,

subject to the terms on which the Company may have been admitted to the official list of any approved stock exchange.

Partial takeover bids

The Company may prohibit registration of transfers purporting to accept partial takeover bids unless and until a resolution of the Company has been passed approving the offers in accordance with the provisions of the Constitution.

Indemnities

The Company must indemnify current and past directors, secretaries and executive officers of the Company against any liability incurred by them by virtue of their holding office as, and acting in the capacity of, director, secretary or executive officer, other than a liability owed to the Company or a related body corporate of the Company or a pecuniary penalty order or compensation order or where the liability does not arise out of conduct in good faith. Indemnities also apply to employees in circumstances designated under the Constitution.

Insurance

The Company may also pay insurance premiums for officers and employees in certain designated circumstances but not where the liability arises out of wilful breach of duty to the Company or an improper use of position or inside information, as prohibited by the Law.

9.3 Honey Supply Agreement

Each Supplier Shareholder is required to enter into a HSA.

The main purposes of this agreement are to provide CHL with an assured supply of honey in varieties, grades and quality to satisfy demands of its customers and to provide its Australian Supplier Shareholders with the security of a reliable buyer for their honey.

Under this agreement, the Company agrees to purchase and the Supplier Shareholder agrees to supply its annual quota provided such honey can be sold by the Company on the Australian domestic and/or export market, and such honey complies with quality standards established by law or by CHL.

Neither party will be in breach of its obligations under this agreement where it is prevented from buying or selling, or producing and supplying the honey (as applicable) through any cause beyond the parties' reasonable control.

Prices to be paid by CHL for honey supplied in any year up to the annual quota shall be at prices determined from time to time by the Company taking into account the selling prices obtainable on the domestic and export market, and the proportions of various grades of honey expected to be sold into each market. These prices are subject to change without prior notice and CHL will inform a Supplier Shareholder in writing of any changes as and when they occur.

The Supplier Shareholder agrees not to purchase or otherwise acquire honey from any other person for supply to the Company. The total amount of honey required by the Company ('Quota') shall be fixed by the Board and reviewed annually and any portions of annual Quota relinquished by or withdrawn from Supplier Shareholders may be reassigned at the discretion of directors. The Company may agree to purchase from a Supplier Shareholder any quantity of honey in excess of that Shareholder's annual Quota at a price agreed prior to delivery.

9. MATERIAL AGREEMENTS

The Supplier Shareholder is required to declare at the date of execution of the agreement, the number of productive hives used to produce honey for supply under the agreement. The Supplier Shareholder agrees to inform CHL in writing if any future change in the ownership of hives from which honey is supplied. The Supplier Shareholder agrees to purchase and hold Shares in the Company in accordance with the Shares-to-hives ratio determined from time to time by the Company.

In the event that the Supplier Shareholder does not comply with the Shares-to-hives ratio the Company is authorised to use funds held on their behalf to pay for Shares, either:

- purchased on the BSX on the Shareholder's behalf at the weighted average traded price of the last five trades of CHL Shares on the BSX preceding the day the buy order is lodged; or
- issued at the weighted average traded price of the last five trades of CHL Shares on the BSX preceding the date of issue.

The Company may at any time without further notice to the Supplier Shareholder set off or apply the funds held by the Company on the Supplier Shareholder's behalf for the purchase or issue of Shares in the Company to meet the Supplier Shareholder's obligation to maintain its Shares to hives ratio. The Supplier Shareholder will also appoint the Company and its officers to be their attorney to enter into all documentation which may be required.

Delivery of honey shall be in accordance with this agreement, which includes being accompanied by the relevant documentation, in containers of such materials type and size as specified, and comply with weight requirements and on arrival shall be sampled at CHL's factory, and such details be included in a monthly statement to Supplier Shareholders.

Delivery of honey in excess of a Supplier Shareholders monthly delivery quantity shall not be made without prior approval by the Company. Title to and ownership of the honey shall pass to the Company on delivery to a company factory or depot.

The Supplier Shareholder agrees to support CHL's quality assurance policy, which has the objective of ensuring that the Company's products and services always fulfil the expectations of those who purchase or use them. The Supplier Shareholder warrants that all honey supplied shall be natural honey, and shall be produced, extracted and stored in accordance with guidelines contained in the Company's 'Reference Manual for Honey Extracting Facilities and Food Safety Program', and any additional quality standards notified by the Company. The Supplier Shareholder agrees to co-operate in a quality audit if requested.

The Supplier Shareholder agrees that an amount not exceeding 5% of the amount payable by the Company for honey supplied can be deducted from each payment to Supplier Shareholders and retained by the Company for not longer than 5 years commencing at the end of each financial year in which deductions were made. These sums constitute a loan by the Supplier Shareholder to the

Company, on which interest may be paid at a rate decided by the directors of the Company. These loans, referred to as Retains, are recorded in a monthly statement together with interest and accumulative balance of the amount of Retains held to the Supplier Shareholders account.

In certain circumstances the Board may exercise its discretion to allow Retains to be used to acquire Shares issued pursuant to Rule 74 of the Constitution, and to acquire Shares on the BSX.

The Board currently intends to continue the suspension of Retains deductions.

CHL can reject or buy at a reduced price honey which does not comply with prescribed quality standards. At its discretion CHL may require that rejected honey be retrieved by the Supplier Shareholder at the Supplier Shareholder's expense. In the event the honey is contaminated or breaches a food regulation or health standard, it may be destroyed at the direction of a regulatory authority. The Supplier Shareholder may be required to pay for the costs of destruction.

The agreement is to continue until terminated by 28 days written notice from either party.

10. SIGNIFICANT INFORMATION

10.1 Incorporation

The Company now known as CHL (see section 4.1) was incorporated on 1 July 1958 and has a financial year-end of 30 June.

10.2 Capilano Canada Inc.

In 2003, CHL acquired a fifty percent interest in CLI by purchasing shares and by subscribing for additional capital.

In February 2008, the remaining fifty percent of CLI was purchased and the name subsequently changed to Capilano Canada Inc (CCI). CCI is incorporated in Quebec, Canada. Further details of this transaction can be found in the 2008 Annual Report.

Roger Masters and Richard Rivalland, are Chairman and Secretary of CCI respectively.

The Company has exited certain export market segments, including a significant proportion of the Canadian market. These markets became unattractive and CHL decided not to hold on to them merely in the hope of more favourable exchange rates and a honey crop surplus.

10.3 Capilano-Argentina

In 2003, CHL entered into a strategic alliance, Capilano-Argentina. This strategic alliance uses CHL's expertise and HoneyMax s.a.'s ability to source honey to supply high quality Industrial Bulk Honey to export to markets throughout the world.

10.4 Honey Quota

CHL reviews the total quota issued on an annual basis for the purpose of:

- a) ensuring contracted Supplier Shareholder deliveries closely resemble their average production;
- b) facilitating the movement of quota via a 'quota pool' from Supplier Shareholders reducing their beekeeping activity to those beekeepers increasing their production;
- c) facilitating the entry of new suppliers who wish to become contracted Supplier Shareholders.

Quota Categories

Applications for quotas in these categories are considered at an annual review in July/August of each year. All Supplier Shareholders are subject to an annual quota review.

10.5 Total Quality Management

CHL operates a total quality management program which requires that all honey purchased and sold must satisfy a number of defined quality standards. Routine sampling and testing of honey received from Supplier Shareholders and others is undertaken as a part of the quality assurance function and system verification.

The Company has a comprehensive, fully documented Quality Policy and Quality Assurance System. All company production sites have HACCP Food Safety Certification that is independently audited. In addition, specific customer quality system requirements are met as required, such as the British Retailers Consortium (BRC) and Woolworths Quality Assurance (WQA), which means that CHL conforms to the stringent quality standards of the major retailers.

10.6 Consents & Disclaimers

None of the parties referred to below has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as specified below. Each of the parties referred to below, to the maximum extent permitted by law, expressly disclaims, and takes no responsibility for, any part of this Prospectus, other than the reference to its name and a statement included in this Prospectus with the consent of that party, as specified below.

Each director has given, and has not withdrawn, written consent to the issue of the Prospectus.

Cranstoun & Hussein has given its written consent to being named as Auditors and Independent Accountants to the Company and for the inclusion in this Prospectus of their Independent Accountants' Report in the form and context in which it appears and has not, prior to lodgment of this Prospectus, withdrawn its consent.

Herceg Lawyers has given its written consent to being named as Corporate Lawyers to the Company and has not, prior to lodgment of this Prospectus, withdrawn its consent.

10.7 Interests of Experts and Advisers

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus:

- has any interest or has had any interest during the last two years, in the formation or promotion of CHL, or in property acquired or proposed to be acquired by CHL in connection with its formation or promotion, or the offer of the Shares; and
- no amount has been paid or agreed to be paid, and no benefit has been given, or agreed to be given, to any such person in connection with the services provided by the person in connection with the formation or promotion of CHL, or the offer of the Shares.

Cranstoun & Hussein has acted as Independent Accountants and has performed certain work in relation to due diligence inquiries. Cranstoun & Hussein was only involved in the preparation of the Independent Accountants' Report in section 7 and the disclosures under this heading and the heading 'Interests of Experts'. The Company has agreed to pay approximately \$1,000 (exclusive of GST) to Cranstoun & Hussein in respect of these services.

Herceg Lawyers has acted as Corporate Lawyers to the Company and performed certain work in relation to due diligence enquiries and sections 9.2 and this paragraph of 10.7 of this Prospectus. The Company has agreed to pay approximately \$100,000 (exclusive of GST) to Herceg Lawyers in respect of these services. Herceg Lawyers may receive further payments in accordance with its normal time based charges.

10. SIGNIFICANT INFORMATION

10.8 Interests of Directors

Other than as set out below or elsewhere in this Prospectus:

- i) no director or proposed director of the Company and no firm in which a director or proposed director of the Company is or was at the relevant time, or has, or has had in the two years before the date of this Prospectus, any interest in the promotion of, or in any property proposed to be acquired by, the Company;
- ii) no amounts, whether in cash or shares or otherwise, have been paid or agreed to be paid to any directors or proposed directors of the Company (or to any firm in which he/she is or was a partner) either to induce him/her to become, or to qualify him as a director, or otherwise for services rendered by him/her or by the firm in connection with the promotion or formation of the Company.

The current level of directors' remuneration of \$236,285 per annum comprising \$210,015 for directors' fees and \$26,270 for Superannuation Guarantee Contributions and Directors & Officers Liability Insurance premiums was approved by Shareholders at the Annual General Meeting held on 1 October 2004.

As at 12 February 2010, the directors of CHL or their associates have a relevant interest in the following Shares:

- Mr P R Barnes is a partner in a partnership, which holds 25,000 Shares. He also individually holds 2,000 Shares with a further 2,000 Shares held in trust, by him or his wife, for their children.
- Mr P F McHugh holds 44,276 Shares, of which 33,676 are held in his Superannuation Fund and 9,600 recently acquired from an estate.
- Mr T R Morgan is a partner in a partnership which holds 13,260 Shares;
- Mr S Tregoning holds nil Shares;
- Mr R D Masters holds 11,001 Shares of which 11,000 are held in his Superannuation Fund.

Transactions with related parties

Directors P R Barnes, P F McHugh and T R Morgan were all parties to HSAs as at 12 February 2010.

10.9 Litigation

CHL is not involved in any material legal or arbitration proceedings nor, so far as it is aware, are any material proceedings pending or threatened against it.

10.10 Expenses of the Prospectus

Expenses for this Prospectus including BSX listing fees, ASIC fees, printing costs and other miscellaneous expenses, but excluding fees detailed in section 10.7 are estimated to be approximately \$15,000, if the Offer is fully subscribed.

10.11 Electronic Prospectus

This Prospectus is available in electronic form at either www.capilano.com.au or www.bsx.com.au. Any person receiving this Prospectus electronically will on request be sent a paper copy of the Prospectus by CHL free of charge during the period of the Offer.

CHL will not accept Entitlement and Acceptance Forms electronically. Applications must be made by completing a paper copy of the Entitlement and Acceptance Form.

The Entitlement and Acceptance Form may only be distributed attached to a complete and unaltered copy of the Prospectus. The Entitlement and Acceptance Form included with this Prospectus contains a declaration that the Shareholder had personally received the complete and unaltered Prospectus prior to completing the Entitlement and Acceptance Form.

CHL will not accept a completed Entitlement and Acceptance Form if it has reason to believe that the Applicant has not received a complete paper copy or electronic copy of the Prospectus or if it has reason to believe that the Entitlement and Acceptance Form or electronic copy of the Prospectus has been altered or tampered with in any way.

While CHL believes that it is extremely unlikely that during the period of the Offer the electronic version of the Prospectus will be tampered with or altered in any way, CHL cannot give any absolute assurance that this will not occur. Any Shareholder in doubt concerning the validity or integrity of an electronic copy of the Prospectus should immediately request a paper copy of the Prospectus directly from CHL or a financial adviser.

10.12 Authorisation

Each director of CHL has consented to the lodgement of this Prospectus with ASIC.

Dated 12 February 2010.



S L Tregoning
Independent Non-Executive Director