

CAPILANO



HONEY LIMITED

ABN 55 009 686 435



2010

ANNUAL REPORT 2010

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Chairman's Report



During this past year we have seen significant changes at Capilano.

A review of our banking facilities by our bankers started a process requiring Capilano to reduce debt levels, in the first instance, by conducting a capital raising. In the event that insufficient funds were raised, the bank directed that Capilano would have to sell its land & buildings to be applied to its bank debt.

There had been many examples of capital raisings during the period after the global financial crisis of 2008 as banks generally tightened credit.

In the initial period following the banks request for debt reduction, we contemplated a significant placement to an external shareholder in order to achieve the level of capital raising required.

We began with changes to the Constitution that put Capilano more in line with other publicly listed companies where all shareholders have equal rights in decision making and determining outcomes.

At the time Capilano received offers from a few external investors to take up 50% of the company. It was recognised that such action would have resulted in a significant dilution of current shareholder ownership. It was also understood that a forced sale of land & buildings may not achieve the best sale price. However, there was considerable pressure by our bank to achieve the debt reduction targets within the 12 month time frame.

Capilano then outlined a program to reduce debt by \$10 million in line with the requirements of our bankers.

Capilano had been maintaining its marginal export markets for the benefit of its supplier shareholders in anticipation of an upswing in production when the drought broke. The export markets were also supported for their potential increase in profit when the cycle of unfavourable exchange rates reversed. However, an increase in the number of suppliers who sell their honey on the open market and a downgrade in our crop forecasts changed our position on maintaining those markets.

It was decided to exit selected export markets and release the working capital held in stock and debtors.

I am pleased to report we have achieved a reduction in bank debt by \$10.4 million over the period from 1 July 2009 to 30 June 2010 through:

- A significant reduction in Working Capital by exiting selected export market segments made marginal by unfavorable exchange rates;
- A successfully completed Rights Issue that raised over \$2 million and saw the issue of 3,369,132 new shares in the Company;
- The sale of assets in the form of an investment in Comvita Limited; and
- Contributions from Capilano's ongoing cash flows.

A change in bankers at the end of the financial year avoided the need to place the shortfall from the Rights Issue with an external investor at a level that would have significantly diluted ownership of current shareholders. It also avoided

the prospect of a forced sale and lease back of the land and buildings. It is also pleasing to note that the new banking arrangements have actually resulted in a reduction in the cost of our ongoing financing.

The Board remains conscious of the Companies overall debt level and it will continue to make improvements whenever possible.

Results

Capilano's reported result is a loss of \$5,978,995, which includes a goodwill impairment of \$5,108,423 and the loss of income tax credits of \$1,241,897 both of which are non-cash and result from our withdrawal from marginal export business. This leaves an underlying operating profit of \$170,717. On a normalised basis, when further adjusted for the impact of \$1.2m non-recurring capital restructuring costs, the result would be \$1.37m.

It should be noted that all the results include an increase in the cost of domestic honey of \$1.7 million over the previous year, driven by higher prices in response to short supply.

Changed Business

Undoubtedly the major focus for this year has been to meet the debt reduction targets arising from changes to our bank facilities. At the same time we have withdrawn from marginal business, particularly that which faces a high degree of exposure to risk factors such as volatile and unfavourable exchange rates.

Capilano now has a supply base that more closely matches its requirements. Following the decision by some producers to sell their honey on the open market Capilano adjusted the remaining quota pool by matching supplier's quota more closely to their expected average production. These factors will allow us to focus on the more profitable sectors of our business and avoid maintaining markets just to sell surplus honey during periods of higher production. The industry will no longer have the benefit of the export markets developed by Capilano.

This will result in a company that is potentially smaller in terms of total sales but one that is better able to respond to changes in market conditions and take advantage of opportunities as they arise. Combined with the low cost operation that we have developed over recent years, we are much better placed to consistently produce good results. The improvement is already evident as seen in the improved result achieved in the second half of this year.

For those supplier shareholders who have maintained their Honey Supply Agreements it means Capilano is better placed to consistently pay competitive prices for their honey.

The People

It has been a very difficult year for management and staff, and I commend them for their solid capital restructuring achievements, while at the same time continuing to successfully operate and improve the base business.

I would also like to thank my fellow Board members for their dedication and effort during the last year.

Trevor Morgan
Chairman



Board of Directors



Trevor R. Morgan, FAICD
Chairman, Non-Executive Director, Commercial Apiarist

Age 55

Appointed and elected Director 1998, then Deputy Chairman 2004, and Chairman in 2005

Mr Morgan has been a director since 1998, was Deputy Chairman from 2004 – 2005 and was elected 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 10 years, including 2 years as President. He is a Fellow of the Australian Institute of Company Directors and holds a Company Directors' Advanced Diploma.



Roger D. Masters, B.Com, MBA, CA
Managing Director

Age 55

Appointed Director 1996

Mr Masters was appointed 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.



Phillip F. McHugh
Deputy Chairman, Non-Executive Director, Commercial Apiarist

Age 53

Elected Director 1993

Mr McHugh has been a Director since 1993. He is well known in the NSW apiculture industry and his family have been Capilano shareholders since 1975. Mr McHugh is active in industry affairs having served as Branch President of the NSW Apiarists Association.



Peter R. Barnes
Non Executive Director, Commercial Apiarist

Age 36

Elected Director 2007

Mr Barnes was elected director in October 2007. He is a third generation commercial apiarist with 20 years experience and his family have been Shareholders of CHL since 1968. He is actively involved in industry affairs, having recently served 3 years on the Queensland Beekeepers Association Management Committee, including holding the position of Wide Bay Branch Management Representative.



Simon L. Tregoning, B.Com
Independent Non-Executive Director

Age 62

Appointed Director 2006

Mr Tregoning has been a director since 2006. He is also a Director of Grain Corp and St Luke's Care. He was formerly a director of Australian Co-operative Foods (Dairy Farmers) and was Vice-President of Kimberly-Clark Corporation. He has had broad FMCG experience in Australia, and overseas.

Review of Operations 2009-2010



For the financial year 2010 we report an operating profit of \$170,000 before asset write-downs following significant changes to our business during the year.

This result includes a second half profit of \$1.42 million (before asset impairments) being a \$2.67 million turnaround from the first half loss of \$1.25 million (before assets impairments).

The operating profit includes over \$1.2 million in one-off expenses, including bank fees & charges, legal costs and redundancy costs relating to a capital raising and business changes.

The group net loss for the full year is \$5.97 million after asset impairments.

The asset write-downs were triggered by actions taken to ensure compliance with financial covenants revised in September 2009, necessitating a reduction of debt in the order of \$10 million within 12 months.

The asset impairments specifically relate to writing down the carrying value of goodwill and future income tax benefits following the decision to exit marginally profitable export markets due to the continued unfavourable exchange rate environment. This action freed up considerable working capital employed in carrying stock and debtors.

The result also includes an increase in the domestic cost of honey of \$1.7 million over the year based on average costs.

The investment in Comvita was sold for \$1.4 million and the funds applied to the reduction of bank debt.

Capilano's bank debt reduced from \$28.5 million on 1 July 2009 to \$18.1 million as at 30 June 2010.



Capital Raising

Following the annual review of our banking facility in July 2009 it became a requirement for the facility's continuation to effect a reduction in bank debt of \$10 million within 12 months. These circumstances were notified in the Chairman's Letter to Shareholders in Capilano's Annual Report 2009, including reference to a capital raising. An Explanatory Memorandum was issued on the 27 October 2009 in the Notice of Meeting for the 2009 AGM outlining the process for reduction of debt. This included proposing Special Resolutions for the removal of non-standard clauses in CHL's Constitution, paving the way for a capital raising by way of a Rights Issue.

Special Resolutions were passed by more than 84% entitled to vote at the AGM to a) remove the cap on any shareholder holding more than 10% in CHL; b) remove the special voting rights attaching to the Foundation Share held by CBL; and c) remove the non standard restrictions relating to appointment of Directors.

Subsequently a Prospectus was issued on 12 February 2010 explaining that the bank's debt reduction program had changed and that a Rights Issue would be conducted with a targeted raising of \$6.5 million to meet these revised debt targets. The prospect of a sale of land & buildings was countenanced if the capital raising target was not met.

On the 9 April 2010 shareholders were notified that Capilano had accepted an offer for banking facilities with a new bank, with the change to be effective 1 July 2010. This new banking facility provided an alternative to either the placement of any Rights Issue shortfall to a cornerstone investor to achieve the capital raising target of \$6.6 million, or a sale of land & buildings, as outlined in the Prospectus.

On the 22 April 2010 the Rights Issue closed and \$2,028,597.90 in new capital was raised. An additional 471,135 shares were placed pursuant to Clause 2.3 of the Rights Issue Prospectus bringing the total new capital raised to \$2,361,860.22

New capital raised	\$2,361,860.22
Ordinary Shares on Issue after Rights Issue on 14 th April 2010	8,049,063
Ordinary Shares Issued under Rights Issue Shortfall Facility on 9 th July 2010	471,135
Total Ordinary Shares on Issue after closure of Rights Issue Shortfall Facility	8,520,198

Financial

Our Group results are shown below:

(\$,000's)	2008	2009	2010
<i>Revenue</i>	64,175	78,493	72,156
<i>Earnings before Interest & Tax</i>	(6,991)	2,537	(3,716)
<i>Net Profit after tax</i>	(7,448)	707	(5,978)
<i>Cash generated from Operating Activities</i>	1,659	2,295	8,495

Included in our results are quite significant non-cash and one-off write-downs arising from changes made in Capilano to deal with an environment very different from five years ago. These items are shown below.

(\$,000's)	2008	2009	2010
<i>Goodwill impairment</i>			(5,108)
<i>Comvita writedown</i>	(3,641)		(127)
<i>FX loss – non-cash end of year asset translation</i>	(845)	(839)	
<i>Redundancies</i>	(694)		(174)
<i>Accelerated depreciation</i>	(720)		
<i>Cost associated with capital raising</i>			(736)
<i>Cost of exiting markets</i>			(207)

The 2010 profit includes the impact of:

- The non cash write-down of intangible assets by \$(5,108)k
- Costs associated with the capital raising of \$(736)k
- An increase in the cost of honey of \$(1,700)k as the average honey price moved up.

Revenue declined by \$6.5 million with the exiting of certain marginally profitable export markets.



Review of Operations 2009-2010

The second half of the year has improved very significantly over the first half. This reflects the incurring of the majority of one-off costs associated with the capital raising in the first half, and the reduction in honey costs implemented from 1 January 2010.

The net asset movement reflects the reduction in bank debt through the sale of Comvita shares together with reduction in working capital and the write-down in intangible assets of \$5.1 million.

	2008	2009	2010
Current Ratio	3.14	1.57	2.02
Debt (Total Liabilities / Total Assets)	63.8%	62.9%	59.4%
Interest Cover (EBIT D&A and Goodwill / Interest)	-1.55	2.34	2.49
Net Assets (\$'000's)	22,176	21,954	18,700
Total Assets (\$'000's)	61,224	59,200	46,011

Changes in Our Business

Capilano was built with a capacity to process large honey crops, exporting the surplus to our domestic requirements, and subsidising any commodity loss from our local profits.

Five years of prolonged drought, unfavourable exchange rates and increased local competition substantially affected Capilano's earnings. The need to deal with a crop surplus became redundant but Capilano was left with the large infrastructure. Lower domestic margins and lower export earnings produced significant drops in the price paid for honey, particularly in 2005.

Four years ago, Capilano commenced a program to change its cost structure to enable meeting the market price for honey paid by low-cost packers not affected by export earnings, and to support the return to a satisfactory profit level.

Our performance in respect of the first objective to meet market price for honey, is shown by the rising incremental cost of honey over recent years.

	2008	2009	2010
Incremental cost of shareholder honey (\$'000's)	4,500	5,500	1,700
Average honey price \$/kg	2.55	3.17	3.40

This was largely made possible through changes to achieve a lower business cost structure.

Until this year Capilano retained its export markets as a potential source of increased profit and as a means of disposal of future crops, should the unfavourable exchange rates cycle end and the drought break.

Large investments had been made to develop these export markets which enabled a further 3,000 tonnes of value added retail product to be sold overseas.

This represented a heavy burden for Capilano under conditions of lower supply, unfavourable exchange rates and

loss of honey buying competitiveness compared with other local packers operating only in the local market.

The decision was taken to withdraw from marginally profitable export markets. It allowed Capilano to use the working capital tied up in such markets to reduce its bank debt. However, it also required a re-assessment of the carrying value of goodwill and tax benefits relating to the development of those export markets, resulting in the write-down of such intangible assets.



Capilano further adjusted its operational capacity with changes to both factories in Richlands and Maryborough.

Capilano is now a far leaner organisation with supply being matched to its markets.

Honey Supply

Domestic receivals were 7,388 tonnes compared with 8,714 tonnes last year. An amount of 2,952 tonnes of imported honey was used to supplement the shortfall of domestic honey. The imported honey was used in industrial and export markets.

Australian honey will be used in preference to imported honey subject to its price enabling a competitive and profitable product.

Outlook

Last year our retail packing was consolidated into one plant in Richlands, reverting to bulk packing in Maryborough.

The re-configuration of our factories remains under consideration, with a view to rationalising our investment in land and buildings.

We continue to focus on expense reduction, packing efficiencies and working capital management. Employee numbers have now been reduced to a level of 54 from 64 last year.

We have endeavored to maintain a positive relationship with our export customers in markets that we have exited with a view to the future should opportunities arise to benefit us both.

We will continue to examine alternatives which will give Capilano the best return on capital employed.

I thank our suppliers for their support this year. It has been quite unsettling for them given the challenges presented to Capilano.

The past role expected of Capilano was to look after the honey surplus that existed in Australia and protect the price that honey was sold at. That role may have been in the interests of our shareholders when almost all were suppliers. That role was not sustainable as our shareholder base changed, and more small packers emerged together with increasing numbers of beekeepers choosing to "play the field". Our future is as a very efficient honey packer whose aim is to look after our shareholders and loyal suppliers.

Roger Masters
Managing Director



Concise Financial Report 10

This concise report has been derived from the full financial report for the year ended 30 June 2010. The full financial report and auditor's report is available free of charge on request.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Capilano Honey Limited and its controlled entities as the full financial report.

Report of the Directors

Your directors present their report on the consolidated entity consisting of Capilano Honey Limited ('CHL') and the entities it controlled at the end of or during the year ended 30 June 2010.

→ DIRECTORS

The following persons held office as directors during the financial year and up to the date of this report:

- Peter Barnes
- Roger D Masters, *Managing Director*
- Phillip F McHugh, *Deputy Chairman*
- Trevor R Morgan, *Chairman*
- Simon L Tregoning

→ ACTIVITIES

The principal activity of the consolidated entity during the year continued to be packing of honey for domestic and export sales.

→ CONSOLIDATED RESULTS

The operating loss of the consolidated entity for the year after income tax was \$5,978,995

→ DISTRIBUTIONS

No dividend was paid during the year.

No dividend has been provided for or declared for the year ending 30 June 2010.

→ REVIEW OF OPERATIONS

Sales revenue of \$72,037,247 for the consolidated entity was \$6,350,149 below the previous year's result. An analysis of this sales decrease is as follows:-

	% increase / of 2010 over 2009	2010 \$	2009 \$
Capilano Honey Limited	(8.9%)	65,982,799	72,402,353
Capilano Canada Inc.	(17.7%)	14,261,748	17,327,400
Intercompany sales	(27.6%)	(8,207,300)	(11,342,357)
Consolidated entity	(8.1%)	72,037,247	78,387,396

The decrease in revenue for the consolidated revenue was a result of the decision to withdraw from export markets that were made marginally profitable by exchange rates. This withdrawal released substantial working capital, contributing to the achievement of debt targets.

→ MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

- a) There is at the date of this report no matter or circumstance which has arisen since 30 June 2010 that has significantly affected or may significantly affect:-
 - i) the operations of the consolidated entity;
 - ii) the results of those operations; or
 - iii) the state of affairs of the consolidated entity in financial years subsequent to 30 June 2010.
- b) On Friday 9 July 2010, the Board resolved to issue 471,135 shares under the Rights Issue Shortfall Facility, raising \$333,262 in new capital. These shares commenced trading on the BSX on Friday, 16 July 2010.

→ SIGNIFICANT CHANGES

There were no other significant changes in the state of affairs of the consolidated entity during the year.

→ LIKELY DEVELOPMENTS

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

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



Report of the Directors

→ INFORMATION ON DIRECTORS

<i>Director</i>	<i>Qualifications/ Experience</i>	<i>Special Responsibilities</i>	<i>Shares held in Parent entity</i>
Peter BARNES	Commercial apiarist. Director since 2007.	Non-Executive Beekeeper Director of Capilano Honey Limited. Non-Executive Beekeeper Director of Capilano Beekeepers Ltd. Member of the Honey Supply & Industry, Audit & Compliance and Nomination Committees.	P Barnes is a partner in a partnership which holds 70,000 shares. He also individually holds 37,520 shares, with a further 11,400 shares held in trust for his children.
Roger David MASTERS	B.Com, MBA, CA Managing Director since July 1996	Managing Director of Capilano Honey Limited. Member of the Audit & Compliance and Honey Supply & Industry Committees. Managing Director of Capilano Beekeepers Ltd. Director and President of Capilano Canada Inc.	R D Masters holds 1 share. He is also the beneficiary of an entity holding 330,800 shares.
Phillip Francis McHUGH	Commercial apiarist. Director since 1993 <u>Deputy Chairman</u> since 2007	Non-Executive <u>Deputy Chairman</u> of Capilano Honey Limited. Non-Executive Deputy Chairman of Capilano Beekeepers Ltd. Chairman of the Honey Supply & Industry Committee and Member of the HR and Nomination Committee.	P F McHugh holds 10,600 shares. He is also the beneficiary of an entity holding 33,676 shares.
Trevor Richard MORGAN	FAICD Commercial apiarist Director since 1998 <u>Chairman</u> since 2006	Non-Executive <u>Chairman</u> of Capilano Honey Limited, Chairman of Nomination Committee and a member of the Honey Supply & Industry Committee. Non-Executive Chairman of Capilano Beekeepers Ltd.	T R Morgan is a partner in a partnership which holds 37,128 shares.
Simon Lucien TREGONING	B.Com Independent Director since July 2006.	Independent Non-Executive Director of Capilano Honey Limited. Independent Non-Executive Director of Capilano Beekeepers Ltd. Chairman of both the Audit & Compliance and HR Committees.	Nil
Company Secretary			
Richard RIVALLAND	B.Com, CPA Company Secretary since 1 March 2008.	Mr Rivalland has a Bachelor of Commerce Degree majoring in Accounting and Management Accounting and is a Certified Practising Accountant. Mr Rivalland joined the Company in March 2003 as Management Accountant and was appointed Financial Controller in November 2004. Mr Rivalland was appointed Company Secretary on 1 March 2008 in addition to his role as Financial Controller.	R Rivalland holds 1,400 shares. He is also the beneficiary of an entity holding 43,000 shares.

→ MEETINGS OF DIRECTORS

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

<i>Directors</i>	<i>Directors Meetings of the Company</i>		<i>Committee Meetings of Directors</i>		<i>General Meetings of the Company</i>	
	No. of Meetings Attended	No. of Meetings Held (*)	No. of Meetings Attended	No. of Meetings Held (*)	No. of Meetings Attended	No. of Meetings Held (*)
P Barnes	18	18	13	13	1	1
R Masters	18	18	15	15	1	1
P McHugh	18	18	14	14	1	1
T Morgan	18	18	15	15	1	1
S Tregoning	17	18	12	13	1	1

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

Report of the Directors

→ ENVIRONMENTAL REGULATIONS

The consolidated entity's operations are subject to environmental regulations under legislation in Queensland and Victoria in relation to its honey packing and construction, installation and plant maintenance operations.

Senior management of the parent entity is responsible for monitoring compliance with environmental regulations.

Based upon the results of enquiries made, the directors are not aware of any significant breaches during the period covered by this report.

Compliance with the requirements of environmental regulations was achieved across all operations.

→ PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

→ REMUNERATION REPORT

1. CAPILANO HR COMMITTEE

▪ Role

The Committee is responsible for reviewing the remuneration of executive management and the Board, executive incentive plans and reporting to the Board on these matters.

The responsibilities of the Committee include:

- (i) Formulation of remuneration policy. This involves ensuring that the policy:
 - attracts, retains, develops and motivates executives of the calibre appropriate to deliver Capilano's strategic goals and objectives;
 - reflects a clear relationship between remuneration and individual and Capilano performance;
 - is internally consistent; and
 - contributes to the overall integrity of the Capilano remuneration system.
- (ii) Recommending remuneration for directors and executives, including fixed remuneration, short and long term incentives and terms of service.

▪ Memberships and Meetings

	No. of Meetings Attended	No. of Meetings Held
<i>Members of HR Committee</i>		
S Tregoning (Chairman)	5	5
P McHugh	5	5
<i>By invitation:</i>		
R Masters	5	5
T Morgan	5	5
P Barnes	3	3

2. CAPILANO'S REMUNERATION POLICY (AUDITED)

▪ Reward Philosophy

Capilano's remuneration philosophy is that:

- (i) remuneration should emphasise performance;
- (ii) the balance between fixed and variable remuneration should reflect market conditions and the extent to which the role contributes directly to performance;
- (iii) individual objectives reflect the need to deliver sustainable outcomes for shareholders; and
- (iv) short and long term incentives are linked to individual's and Capilano's performance.

Capilano aims to achieve a mix of total remuneration (fixed and variable) that is consistent with high performance organisations, maximises the motivational impact for employees, and best aligns the interests of Capilano employees and shareholders.

▪ Reward Principles

The purpose of the remuneration policy is to ensure that salary packages offered by Capilano are sufficient to attract and retain the managing director, executives and employees with abilities and skills appropriate to the needs of the company measured as Total Employment Cost (TEC), and non executive directors as recommended to shareholders in general meeting.

TEC includes all costs associated with employment, including but not limited to PAYG salary, provision of motor vehicles, FBT, superannuation, and any other approved expenditure but excluding on costs. Fringe benefits or non-deductible expenditure shall be grossed up to include the tax effect as part of the cost of providing such benefits in a salary package.

The determination of TEC includes three basic principles:

1. external parity;
2. internal parity; and
3. reward for achievement.

1. External Parity

The principle of external parity means that Capilano's salary package values should be competitive and comparable with packages available from other companies of similar size, for jobs with similar content and level of responsibility. The Australian Institute of Management (AIM) conducts a comprehensive annual survey of up to 300 Australian companies which provides extensive remuneration details for a wide variety of management and supervisory positions. The information is statistically analysed and consolidated in a reference manual titled "AIM National Salary Survey" and this manual is used by Capilano as a basis for comparison.

Report of the Directors

In general, Capilano salary packages should be comparable with the median to upper quartile in the range recorded in the AIM Salary Survey for positions with similar job content and responsibility. (Note: median is the mid point in a range of values and average is the arithmetic mean of all values in the range.)

2. Internal Parity

The principle of internal parity means that within the management structure of Capilano, similar TECs apply for jobs with similar contents and level of responsibility. It is however still important that during salary planning and review, individual judgments be made in cases where there are different levels of complexity between jobs which are similar, varying numbers of subordinates, specialist skills and qualifications, and where length of service or other factors may be relevant.

3. Reward for Achievement

Management and supervisory personnel should have the opportunity to earn incentive payments geared to achievement of annual results exceeding targets and improvements in long term shareholder prosperity. These principles are applied in the form of the Annual Incentive Plan which is subject to review and refinement on an ongoing basis.

▪ Annual Review

TECs are determined to apply for the period of each financial year commencing on 1 July. Authority and responsibility for reviews are as follows:

- a) Managing Director – reviewed by the Board with advice from the Board HR Committee;
- b) Senior Executives report to the Managing Director – reviewed by the Managing Director and subject to endorsement by the Board HR Committee; and
- c) All other salaried staff – reviewed by Functional Managers (Heads of Departments) and subject to approval by the Managing Director.
- d) Non-Executive Directors – reviewed by the Board with advice from the Board HR Committee and external remuneration consultants and recommended by the Board to shareholders in general meeting.

3. CAPILANO TOTAL REWARD STRUCTURE (AUDITED)

The HR Committee is responsible for reviewing and recommending remuneration arrangements for the directors, the Managing Director and the executive team. The HR Committee assesses the appropriateness of the nature and amount of remuneration of such officers on an annual basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base remuneration in a variety of forms including cash and

fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient whilst controlling costs for Capilano.

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

In addition, the following plans are in place:

▪ Incentive Plans

Incentive plans established by the directors enable executives and key employees to earn bonus payments as rewards for the achievement of business performance and growth targets. The incentive plans assist in motivating, retaining and recruiting skilled and talented people.

▪ Short Term (Annual)

The Managing Director, Executive Officers and key employees participate in a performance-based annual incentive plan approved by the Board whereby they can earn annual bonuses based on the achievement of operational targets during a financial year. Operational targets include achievement of specified results by individual employees within their areas of responsibility, coupled with overall business results.

4. CAPILANO EMPLOYEE SHARE PLANS FOR FUTURE CONSIDERATION (AUDITED)

Capilano has no broad based share plans for the benefit of employees. As Capilano is a publicly listed company, the Board may recommend the introduction of an employee plan at some time in the future.

5. DIRECTORS AND EXECUTIVES REMUNERATION DISCLOSURE (AUDITED)

▪ Directors' Benefits

Since the end of the previous financial year, no director of the company has received or become entitled to receive a benefit (other than a benefit included in the directors and executives remuneration disclosure below, the pro-rata payment of or entitlement to such a benefit for the period since 30 June 2009, a fixed salary as a full-time employee, or normal payments for the supply of honey by directors who are also beekeepers) by reason of a contract made by the company, an entity which the company controlled, or a body corporate that is related to the company with the director or with a firm of which he is a member, or with an entity in which he has a substantial financial interest, except as stated below.

Report of the Directors

▪ Details of Directors

P Barnes	Director (Non Executive)
R Masters	Managing Director
P McHugh	Deputy Chairman (Non Executive)
T Morgan	Chairman (Non Executive)
S Tregoning	Director (Independent Non Executive)

▪ Details of Most Highly Remunerated Executives and Key Management Personnel

S Bluck	National Sales Manager	1 July 2009 – 26 May 2010
R Eustace	Marketing Manager	
P McDonald	Sales Director	
B McKee	General Manager (Operations)	
R Rivalland	Company Secretary, Financial Controller	

▪ Gross Remuneration of Directors

	Short Term Benefits		Post Employment Benefits	Total \$
	Cash salary and fees \$	Non monetary benefits \$	Super- annuation \$	
P Barnes	33,739	-	3,037	36,776
R Masters	146,749	160,356	45,833	352,938
P McHugh	-	-	43,475	43,475
T Morgan	-	-	70,128	70,128
S Tregoning	51,467	-	4,632	56,099
TOTALS 2010	231,955	160,356	167,105	559,416

The remuneration amounts listed above are gross earnings before tax.

▪ Details of Most Highly Remunerated Executives and Key Management Personnel

	Short Term Benefits		Post Employment Benefits	Termination Payments	Total \$
	Cash salary and fees \$	Non monetary benefits \$	Super- annuation \$	\$	
S Bluck (*)	101,796	10,592	11,637	45,101	169,126
R Eustace	113,701	15,600	11,637	-	140,938
P McDonald	134,128	10,800	12,072	-	157,000
B McKee	135,780	9,000	12,220	-	157,000
R Rivalland	155,963	-	14,037	-	170,000
TOTALS 2010	641,368	45,992	61,603	45,101	794,064

The remuneration amounts listed above are gross earnings before tax.

(*) The Position of National Sales Manager was made redundant in May 2010 as part of the corporate restructure.

	Incentive Plan
R. Masters	162,067
S Bluck (*)	23,100
R Eustace	24,063
P McDonald	62,800
B McKee	62,800
R Rivalland	68,000
	402,830

Payments made under the incentive plan were a result of achieving specific targets set by the Board in the 2009 financial year. Performance against the 2009 targets were assessed by the Board in the 2010 year. All payments are gross earnings before tax.

Report of the Directors

6. NON-EXECUTIVE DIRECTOR (NED) REMUNERATION (AUDITED)

The Board's focus is on long-term strategic direction and overall performance of Capilano. As a consequence, NED remuneration is not directly related to short-term results, rather, it is related to long-term performance and market place parity.

▪ Policy

Fees and payments to NEDs are determined with regard to the need to maintain appropriately experienced and qualified Board members and in accordance with competitive pressures in the market place. The remuneration policy is designed:

- 1) to attract and retain NEDs;
- 2) to motivate NEDs to achieve Capilano's objectives; and
- 3) to align the interests of NEDs with the long term interests of shareholders.

The Board seeks the advice of RPC Group Pty Ltd as independent remuneration consultants to ensure NED fees are reasonable and in line with the market.

▪ Directors' Fees

No increase is being sought for director's fees. Fees by position, as approved by Shareholders at the 2004 AGM, are as follows:

Organisation	Position	Directors' Fees \$
Capilano	Chairman	71,330
Honey Limited	Deputy Chairman	6,815 *
	Independent NEDs	57,060ea
	Beekeeper NEDs	37,405ea

* In addition to the amount payable as a NED.

Superannuation Guarantee contribution – \$18,901.

Directors and Officers Liability Insurance - 2010: \$28,000; 2011: \$25,580.

7. LINKING TOTAL REWARD TO PERFORMANCE (AUDITED)

The Capilano reward strategy is designed to provide superior rewards to employees with the best relative performance. For those employees this means:

- i) ensuring remuneration is sufficiently attractive to retain key employees;
- ii) providing a short term incentive;

8. EMPLOYMENT CONTRACTS (AUDITED)

The employment conditions of the Managing Director and the specified Executives are formalised in employment contracts. Employment contracts are not of a fixed term. Employment contracts specify a range of notice periods.

NON-AUDIT SERVICES

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code Of Ethics for Professional Accountants set by the Accounting Professional and Ethics Board.

The following fees for non-audit services were paid or were payable to the external auditors during the year ended 30 June 2010:

Taxation Services	\$ 7,075
Review of Prospectus	5,750
	<u>12,825</u>

AUDITORS

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

AUDITORS' INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 11 of the annual report.

Signed at Brisbane this TWENTIETH day of AUGUST 2010, in accordance with a resolution of the directors.

T R Morgan, Director

R D Masters, Director

Auditors' Independence Declaration



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

Consultants
David J Cranstoun
Yusuf Hussein

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Cranstoun & Hussein
Chartered Accountants & Business Advisers

William Buck

A member of William Buck - an association of independent firms across Australia and New Zealand with affiliated offices worldwide.

The Directors
Capilano Honey Limited
399 Archerfield Road
RICHLANDS QLD 4077

Auditors' Independence Declaration

As lead auditor for the audit of Capilano Honey Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Capilano Honey Limited and the entities it controlled during the period.

Cranstoun + Hussein

CRANSTOUN & HUSSEIN
Chartered Accountants

A handwritten signature in black ink, appearing to read 'J A Latif'.

J A Latif
A Member of the Firm

Brisbane, 20 August 2010

Liability limited by a scheme approved under Professional Standards Legislation

Corporate Governance

→ THE BOARD OF DIRECTORS

As a result of a corporate re-structure adopted by shareholders in May 2004, Capilano Honey Limited (CHL) was listed on the Bendigo Stock Exchange and a Foundation Share was issued to Capilano Beekeepers Ltd (CBL).

At the Annual General Meeting on 30 November 2009 Shareholders resolved to amend the CHL Constitution, in particular, certain capital restrictions including:

- Removing the 10% cap on shareholdings in CHL, allowing Shareholders to build larger stakes in CHL;
- Removing the special voting rights attached to the Foundation Share; and
- Removing the automatic appointment of the board of CBL to the board of CHL and replacing with the right of CBL to appoint two beekeeper directors to the Board of CHL.

Board Composition

The Board of CHL will be comprised of Beekeeper Directors, Independent Directors, and may include a Managing Director.

At 30 June 2010 the CHL Board of Directors consisted of three Beekeeper Directors, one Independent Director and the Managing Director.

Number and appointment of Directors

The number of Directors shall not be less than 3 nor more than 8 which the Board may from time to time determine provided that the Board may not reduce the number below the number of Directors in office at the time of the reduction.

The constitution of CHL provides that 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.

Power to appoint Directors

The Beekeeper Directors shall be those persons appointed by the Foundation Shareholder.

Independent Directors shall be elected by the shareholders.

Retirement of Independent Directors

The Constitution of CHL provides that 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 to but not less than one third must retire from office. A Director must retire from office at the conclusion of the third annual general meeting after which the Director was elected or re-elected. A retiring Director if eligible may stand for re-election.

A Managing Director is not subject to retirement by rotation.

Board Chairman and Deputy Chairman

The Board Chairman and Deputy Chairman are elected by the Directors.

→ THE CAPILANO GROUP BOARD CHARTER

The Directors have formally adopted this Board Charter as a comprehensive document defining the role, purpose, functions, obligations and responsibilities of the Board and individual Directors.

The Corporations Act establishes that the Directors are ultimately accountable for all matters relating to the conduct of the company's affairs. The company's constitution further defines the obligations and powers of the Board. The Board recognises the distinction between its role of governance and the actual management of the company's businesses conducted by the executive management team under the leadership and direction of the Managing Director.

→ CORE PURPOSE

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

→ BOARD FUNCTIONS

Strategic Plan

- to define strategic direction for the business and ensure that suitable strategic analysis is undertaken and business plans prepared and regularly reviewed and performance monitored.

Chief Executive

- to appoint a skilled and talented Chief Executive and ensure that he or she is adequately rewarded for results achieved.

Shareholder Prosperity

- to adopt appropriate policies to reward shareholders for their supply of honey and capital investment in the company including honey supply agreements and honey pricing, bonuses, premiums, dividends, retained earnings and market value of shares.

Meetings

- to meet regularly and with sufficient frequency to fulfil the Core Purpose.

Corporate Culture

- to encourage an appropriate culture for CHL and monitor corporate conduct for good fit.

Listing Rules

- to monitor lodgement and disclosure requirements and to ensure compliance with all listing rules of the Bendigo Stock Exchange.

Board Structure

- to consider changes to Board structure when appropriate to improve the Board's ability to achieve the Core Purpose.

Management Resources

- to ensure that the company maintains a management team of skilled and talented executives whose rewards reflect their contributions to company achievements.

Corporate Governance

Information

- to review the content, style and frequency of reports provided by management and request changes when required.

Risk Management

- to ensure that adequate risk identification and risk management functions are in place and regularly monitored.

Financial Performance

- to establish financial performance objectives and regularly review operational results.

Annual Budgets

- to approve annual operating budgets and capital investment budgets.

Funding

- to ensure that the company has access to adequate funds to provide working capital and investment capital.

Operational Policies

- to establish policies to guide management in key operational areas including quality, safety, security, foreign currency management and remuneration.

Board Committees

- to review annually the functions and membership of Board Committees.

Financial Statements & Audits

- to ensure that the statutory financial statements are prepared in accordance with all relevant standards and regulations and that the annual audit is conducted ethically, professionally and independently of management and the Board.

Statutory Compliance

- to regularly review the operation of the Corporate Compliance Program and compliance sign-offs from senior management.

Report to Shareholders

- to maintain suitable reporting to shareholders through the Annual General Meeting, Annual Report, District Meetings, newsletters and circulars and establish dialogue through regular contact by Beekeeper Services Manager, Directors and other management people.

Community Obligations

- to recognise that the company has community, industry and social obligations and ensure that appropriate policies are in place to guide the company's conduct so that it is, and is seen to be a responsible corporate citizen.

→ BOARD COMMITTEES

The effectiveness of the Board is enhanced by the establishment of appropriate Board Committees. They distribute the Board's workload and enable more detailed consideration to be given to important matters, and where sensitive issues have to be considered, the appropriate Committee can give independent consideration.

The Board has appointed the following Committees:

- **HR** - The Remuneration Committee was re-named the HR Committee to properly reflect the scope of its charter. This Committee is responsible for reviewing and recommending executive management remuneration and incentive plans, human resource and occupational health & safety issues and reporting to the Board on these matters.
- **Honey Supply & Industry** - This Committee advises the Board on matters related to honey supply and the industry generally.
- **Nomination** - This Committee advises the Board of suitable candidates with the qualifications, skills and expertise for appointment to any vacancy occurring from time to time.

▪ **Audit & Compliance Charter –**

Committee Membership

- the Committee shall be appointed by the Board and shall comprise a majority of non-executive directors and may include the Managing Director.
- there shall be a minimum of three members.
- the Board shall appoint a Chairman who is not the Chairman of the Board.
- Membership of the Committee shall be reviewed by the Board annually.

Meetings

- the Committee shall meet at least five times a year. Additional meetings may be held as the work of the Committee demands.
- a quorum shall consist of two members.
- the Chairman will call a meeting of the Committee if so requested by any member of the Committee, the External Auditor or by the Chairman of the Board.
- the Chairman of the Board and the Financial Controller shall attend each meeting by invitation of the Committee Chairman.
- as necessary or desirable the Chairman may invite other members of the Board of Directors, other management and representatives of the External Auditors or other external advisors to be present at any meeting of the Committee.
- the Committee shall meet at least twice a year with the External Auditors being at the completion of the full Financial Statements and the half-year Financial Statements and for part of that meeting to be without any management present.
- the Company Secretary shall act as secretary to the Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda, supported by explanatory documentation, and circulating it to Committee members prior to each meeting.
- the Secretary will also be responsible for keeping the minutes of Committee meetings and circulating them to Committee members and to the other members of the Board of Directors at the Board meeting immediately following the Committee meeting.

Corporate Governance

Objectives and Specific Responsibilities

The objectives and specific responsibilities of this Committee are to ensure that:

- the systems of control which management have established are effective to safeguard the Company's assets;
- the Company's operations are conducted in accordance with its Constitution and all relevant laws and regulations;
- the accounting records are properly maintained;
- the financial information provided to the Board, shareholders and others is reliable;
- an avenue of communication exists between the External Auditors and the Board;
- the Board is provided with an assessment of the External Auditor's performance;
- the professional independence of the External Auditors is assured and the appointed audit firm has audit partner rotation in place that complies with the provisions of the Corporations Act;
- the external audit plan is approved and the proposed External Auditor's fees approved in conjunction with management;
- the Committee meets with the External Auditors at least at the completion of the annual audit and the half yearly review of the Company's accounts to confirm the financial statements, address any queries and receive the Auditor's evaluation of management's presentation of the financial accounts, policies and procedures; and
- the Committee review and ensure compliance with BSX requirements for all lodgements.

Authority

The Board authorises the Audit Committee within the scope of its responsibilities to:

- obtain Company documents and any information it requires from any employee (all employees are directed to co-operate with any request made by the Audit Committee) and external parties.
- obtain outside legal or other independent professional advice.
- the Committee shall also have the ability to consult independent experts where they consider it necessary to carry out their duties.

Reporting

- the Audit Committee should report to the Board after each Committee meeting summarising its activities and recommendations since the previous meeting.

Review of Charter

- this Charter will be reviewed annually by the Audit Committee to ensure its effectiveness and currency. Any proposed changes are to be recommended to the Board for approval.

→ **OBLIGATIONS AND RESPONSIBILITIES OF DIRECTORS**

The Board expects all Directors to demonstrate a high standard of personal integrity, skill and diligence and to participate in educational opportunities when appropriate to enhance the performance of their duties.

The Board has adopted the following Code of Conduct, which applies to all Directors:

1. A director must act honestly, in good faith and in the best interests of the company as a whole.
2. A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
3. A director must use the powers of office for a proper purpose, in the best interests of the company as a whole.
4. A director must recognise that the primary responsibility is to the company's shareholders as a whole but should, where appropriate, have regard for the interests of all stakeholders of the company.
5. A director must not make improper use of information acquired as a director.
6. A director must not take improper advantage of the position of director.
7. A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the company.
8. A director has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the board of directors.
9. Confidential information received by a director in the course of the exercise of directorial duties remains the property of the company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by that company, or the person from whom the information is provided, or is required by law.
10. A director should not engage in conduct likely to bring discredit upon the company.
11. A director has an obligation, at all times, to comply with the spirit, as well as the letter, of the law and with the principles of this code.

→ **ASSESSMENT OF BOARD, DIRECTOR and MANAGEMENT PERFORMANCE**

The Board conducts an annual self-assessment of its performance. This is a formal procedure in which all Directors individually review the Board's performance in each defined area of Board function. Results are collated and an average score determined in discussion at a Board meeting. The resulting assessment of performance is used as a basis for planning to improve outcomes in any areas where achievement is below the optimum.

A personal, individual self-assessment of performance is carried out annually by each Director. This is a formal, confidential process which Directors use as a basis for planning individual needs for further study or skill development where appropriate.

The Managing Director's performance is reviewed bi-annually by the Board. The performance of senior Management Executives is reviewed bi-annually by the Managing Director and the Board, comparing results achieved against agreed Key Performance Indicators.

Consolidated Income Statement

For the year ended 30 June 2010

	Notes	2010 \$	2009 \$
Revenue	2	72,155,516	78,492,628
Finance costs		(1,942,695)	(2,071,291)
Expenses		(70,042,104)	(75,628,387)
Operating profit		170,717	792,950
Goodwill impairment		(5,108,423)	-
(Loss) profit before income tax		(4,937,706)	792,950
Income tax expense		(1,041,289)	(85,699)
Net (loss) profit for the year attributable to members of CHL		(5,978,995)	707,251
Earnings per share (cents)		(95.9)	13.7
Diluted earnings per share (cents)		(95.9)	13.7

The above income statement should be read in conjunction with the accompanying notes.

Discussion & Analysis

- The 2010 net loss before tax of \$(4.94) million includes:
 - full impairment of the goodwill in Capilano Canada Inc of \$5.1 million following the exit from export markets made marginally profitable by unfavourable exchange rates,
 - non-recurring expenses of \$1.2 million relating to the capital restructure including bank fees and charges, legal costs and redundancy payments,
 - depreciation and amortisation costs of \$1.65 million, and
 - domestic honey purchase price increases of 7% consuming an additional \$1.7 million compared with 2009.
- The operating profit of \$171k for 2010 includes an operating profit of \$1.42 million for the 6 months to 30 June 2010.
- The operating profit of \$1.42 million for the 6 months to 30 June 2010 represents an improvement of \$2.67 million when compared to the operating loss of \$(1.25) million for the previous 6 months.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

	Notes	2010 \$	2009 \$
Net (loss) profit for the year attributable to members of CHL		(5,978,995)	707,251
Other comprehensive income			
Change in market value of available for sale financial assets.		711,116	(711,116)
Adjustments from the translation of foreign controlled entities		(15,036)	(217,998)
Other comprehensive income for the year, net of tax		696,080	(929,114)
Total comprehensive income for the year attributable to members of CHL		(5,282,915)	(221,863)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2010

	Notes	2010 \$	2009 \$
CURRENT ASSETS			
Cash and cash equivalents		472,375	239,535
Trade and other receivables		10,628,939	10,962,893
Inventories		12,160,225	17,808,187
Other current assets		163,552	299,665
TOTAL CURRENT ASSETS		23,425,091	29,310,280
NON-CURRENT ASSETS			
Other financial assets		-	897,195
Property, plant and equipment		19,697,479	19,911,271
Intangible assets		180,324	5,354,976
Deferred tax assets		2,708,380	3,726,444
TOTAL NON-CURRENT ASSETS		22,586,183	29,889,886
TOTAL ASSETS		46,011,274	59,200,166
CURRENT LIABILITIES			
Trade and other payables		8,093,727	7,631,886
Short term borrowings		3,518,947	11,090,656
TOTAL CURRENT LIABILITIES		11,612,674	18,722,542
NON-CURRENT LIABILITIES			
Long term borrowings		15,389,460	18,207,358
Long term provisions		309,224	316,033
TOTAL NON-CURRENT LIABILITIES		15,698,684	18,523,391
TOTAL LIABILITIES		27,311,358	37,245,933
NET ASSETS		18,699,916	21,954,233
EQUITY			
Issued capital		7,394,958	5,366,360
Reserves		4,042,851	3,346,771
Retained earnings		7,262,107	13,241,102
TOTAL EQUITY		18,699,916	21,954,233

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

Discussion & Analysis

- Long and short-term borrowings have reduced by \$10.4 million as a consequence of the \$10 million debt reduction program, specifically:
 - inventories decreased by \$5.6 million following the withdrawal from export markets made marginally profitable by unfavourable exchange rates,
 - additional capital of \$2.0 million was raised through a Rights Issue with Shortfall Facility,
 - the investment in Comvita Limited was sold, realising \$1.5 million ,
 - receivables decreased in value by \$330k following collection of debtors from exited export markets, and
 - payables increased in value by \$461k following the implementation of revised payment terms with suppliers.
- Goodwill in Capilano Canada Inc. of \$5.1 million has been impaired in full.
- Deferred tax assets of \$2.7 million are based on the Australian tax rate of 30% and are \$1.0 million less than 2009 following the impairment of deferred tax assets relating to Capilano Canada Inc.
- Net asset backing per share is \$2.32 at 30 June 2010.

Consolidated Statement of Changes of Equity

For the year ended 30 June 2010

	Share Capital		Reserves		Retained Earnings	Total
	Ordinary	Foundation	Asset	Foreign		
	\$	\$	Revaluation	Currency	\$	\$
			\$	Translation		
				\$		
Balance at 30 June 2008	5,366,358	1	4,042,851	233,034	12,533,851	22,176,095
Shares issued during the period	1	-	-	-	-	1
Net profit attributable to members of CHL	-	-	-	-	707,251	707,251
Total other comprehensive income for the year	-	-	(711,116)	(217,998)	-	(929,114)
Balance at 30 June 2009	5,366,359	1	3,331,735	15,036	13,241,102	21,954,233
Shares issued during the period	2,028,598	-	-	-	-	2,028,598
Net loss attributable to members of CHL	-	-	-	-	(5,978,995)	(5,978,995)
Total other comprehensive income for the year	-	-	711,116	(15,036)	-	696,080
Balance at 30 June 2010	7,394,957	1	4,042,851	-	7,262,107	18,699,916

The above statement of changes in equity should be read in conjunction with the accompanying notes

Consolidated Statement of Cash Flows

For the year ended 30 June 2010

	Inflows (Outflows)	
	2010 \$	2009 \$
Cash flows from operating activities		
Receipts from customers	72,459,171	78,961,267
Payments to suppliers and employees	(63,952,931)	(76,377,169)
Interest received	14,011	24,521
Goods and Services tax received	1,196,881	1,431,514
Interest paid	(1,221,819)	(1,744,462)
Net cash generated from operating activities	8,495,313	2,295,671
Cash flows from investing activities		
Payment for property, plant and equipment	(1,416,048)	(1,741,060)
Proceeds from sale of shares in listed entity	1,480,839	129,881
Proceeds from sale of property, plant and equipment	33,745	1,835
Net cash generated from (used in) investing activities	98,536	(1,609,344)
Cash flows from financing activities		
Proceeds from share allotments	2,028,598	1
Repayment of borrowings	(10,389,607)	(1,759,493)
Net cash repaid from financing activities	(8,361,009)	(1,759,492)
Net increase (decrease) in cash held	232,840	(1,073,165)
Cash at the beginning of the financial year	239,535	1,312,700
Cash at the end of the financial year	472,375	239,535

Non cash financing and investing activities

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

Discussion & Analysis

- Cash of \$8.5 million was generated by the operating activities of the consolidated entity and includes working capital released following the exit of export markets made marginally profitable by unfavourable exchange rates.
- Cash generated, along with capital raised through the Rights Issue with Shortfall Facility, was used to repay borrowings.

Notes to the Consolidated Financial Statements

1. BASIS OF PREPARATION OF THE CONCISE FINANCIAL REPORT

The concise financial report is an extract from the full financial report for the year ended 30 June 2010. The concise financial report has been prepared in accordance with Accounting Standard AASB 1039: Concise Financial Reports, and the *Corporations Act 2001*.

The financial statements, specific disclosures and other information included in the concise financial report are derived from and are consistent with the full financial report of CHL. The concise financial report cannot be expected to provide as detailed an understanding of the financial performance, financial position and financing and investing activities of CHL as the full financial report.

The financial report of CHL complies with all International Financial Reporting Standards (IFRS) in their entirety. The presentation currency used in this concise financial report is Australian dollars.

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

		Consolidated	
		2010	2009
		\$	\$
2.	REVENUE		
	Sales revenue	72,037,247	78,387,396
	Interest received	14,011	24,521
	Sundry	104,258	80,711
		72,155,516	78,492,628
3.	DIVIDENDS		
	Ordinary shares		
	No dividend has been provided for or declared for the year ended 30 June 2010 (2009 – Nil)	-	-
	Franked dividends		
	Franking credits available for subsequent financial years	2,385,409	2,385,409

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking debits that will arise from the payment of dividends recognised as a liability at the reporting date.

4. SEGMENT REPORTING

		30 June 2010			
		Australia	North America	Intersegment Elimination	Consolidated
		\$	\$	\$	\$
(a)	Segment Performance				
	Sales revenue	65,982,799	14,261,748	(8,207,300)	72,037,247
	Other revenue	207,510	45,946	(135,187)	118,269
	Total segment revenue	66,190,309	14,307,694	(8,342,487)	72,155,516
	Segment result	(6,953,829)	330,145	1,685,978	(4,937,706)
	Unallocated revenue less unallocated expenses				-
	Profit before income tax				(4,937,706)

Included in the Australia loss of \$6,953,829 is the full impairment of:

- the intercompany loan of \$6,352,719 to nil; and
- the investment in CCI of \$480,402 to nil.

Included in the Intersegment profit of \$1,685,978 is:

- the elimination of the intercompany loan impairment of \$6,352,719; and
- the full impairment of the goodwill in CCI of \$5,108,423 to nil.

Notes to the Consolidated Financial Statements

4. SEGMENT REPORTING *(continued)*

Segment Performance	30 June 2009			
	Australia \$	North America \$	Intersegment Elimination \$	Consolidated \$
Sales revenue	72,402,353	17,327,400	(11,342,357)	78,387,396
Other revenue	87,554	17,678	-	105,232
Total segment revenue	72,489,907	17,345,078	(11,342,357)	78,492,628
Segment result	619,569	26,009	147,372	792,950
Unallocated revenue less unallocated expenses				-
Profit before income tax				792,950

(b) Segment Assets	Australia \$	North America \$	Intersegment Elimination \$	Consolidated \$
30 June 2009	57,662,188	3,979,207	(2,441,229)	59,200,166
30 June 2010	45,990,417	20,857	-	46,011,274
Change in total assets	(11,671,771)	(3,958,350)	2,441,229	(13,188,892)
Acquisition of non-current segment assets 2009	1,741,060	-	-	1,741,060
Acquisition of non-current segment assets 2010	1,416,048	-	-	1,416,048

The reduction in Group assets is predominantly due to a reduction in inventories of \$5,647,962 and a non-cash goodwill impairment of \$5,108,423. The lower inventories are due to the exit from certain export market segments and have enabled a significant amount of debt to be repaid.

(c) Segment liabilities	Australia \$	North America \$	Intersegment Elimination \$	Consolidated \$
30 June 2009	36,536,536	3,150,626	(2,441,229)	37,245,933
30 June 2010	27,311,358	-	-	27,311,358
Change in total assets	(9,225,178)	(3,150,626)	2,441,229	(9,934,575)

The reduction in Group liabilities of \$9,934,575 is predominantly due to reduced working capital requirements following the exit from certain export market segments and the sale of shares in the listed investment.

(d) Revenue by geographical region	2010 \$	2009 \$
Australia	38,875,417	41,250,676
Asia	12,120,305	8,219,549
Middle East	3,333,407	4,334,264
North America	14,307,694	17,345,078
UK & Europe	3,128,509	6,948,335
Other foreign countries	390,184	394,726
Total revenue	72,155,516	78,492,628

Revenue attributable to external customers is based on the location of the customer.

Notes to the Consolidated Financial Statements

4. SEGMENT REPORTING *(continued)*

(e) Assets by geographical region	2010 \$	2009 \$
Australia	45,616,716	54,501,528
Other foreign countries	394,558	4,698,638
Total assets	46,011,274	59,200,166

The location of segment assets is by physical geographical location of the asset.

(f) **Major customers**

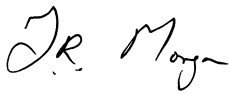
The Group has a number of customers to whom it provides products. The Group supplies five major customers accounting for 70% of external revenue (2009: 66%). The next most significant customer accounts for 3% of external revenue (2009: 3%).

Directors' Declaration

The directors of the company declare that the concise financial report of Capilano Honey Limited and Controlled Entities for the financial year ended 30 June 2010, as set out on pages 15 to 22.

- a. complies with Accounting Standard AASB 1039: Concise Financial Reports; and
- b. is an extract from the full financial report for the year ended 30 June 2010 and has been derived from and is consistent with the full financial report of Capilano Honey Limited and Controlled Entities.

Signed at Brisbane this TWENTIETH day of AUGUST 2010 in accordance with a resolution of the Board of Directors.



T R Morgan, Director



R D Masters, Director

Independent Audit Report to the Members



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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Cranstoun & Hussein
Chartered Accountants & Business Advisers

William Buck

A member of William Buck - an association of independent firms across Australia and New Zealand with affiliated offices worldwide.

To the members of Capilano Honey Limited

Report on the Concise Financial Report

The accompanying concise financial report of Capilano Honey Limited ('the company') comprises the statement of financial position as at 30 June 2010, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and related notes, derived from the audited financial report of the company for the year ended 30 June 2010 and the discussion and analysis. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' Responsibility for the Concise Financial Report

The Directors are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation of the concise financial report; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of the company for the year ended 30 June 2010. Our audit report on the financial report for the year was signed on 20 August 2010 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts, discussion and analysis and other disclosures which were not directly

derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039 *Concise Financial Reports* and whether the discussion and analysis complies with the requirements laid down in AASB 1039 *Concise Financial Reports*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's Opinion

In our opinion, the concise financial report, including the discussion and analysis of the company for the year ended 30 June 2010 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

CRANSTOUN & HUSSEIN
Chartered Accountants

J A Latif
A Member of the Firm

Brisbane, 20 August 2010

Liability limited by a scheme approved under Professional Standards Legislation

Shareholders' Information

As at 31 July 2010

CHL is listed on the Bendigo Stock Exchange using the ticker code 'CAP'.

a) **Classes of Shares**

There is one Foundation Share on issue, which is held by the ultimate parent entity CBL.

All other shares are ordinary shares in the company.

b) **Voting Rights**

At the Annual General Meeting held on 30 November 2010, Shareholders voted to amend the Constitution, with the following major changes:

- The Foundation Share now ranks as an ordinary share with no special voting rights.
- The Foundation Shareholder may appoint two Beekeeper Directors to the Board of Directors.

c) **Distribution of Shareholdings**

The number of shareholders, by size of holding are:

	<u>Foundation Share</u>		<u>Ordinary Shares</u>	
	<u>Number of Holders</u>	<u>Number of Shares</u>	<u>Number of Holders</u>	<u>Number of Shares</u>
1 – 1,000	1	1	89	38,542
1,001 – 5,000			271	772,912
5,001 – 10,000			157	1,158,788
10,001 – 100,000			182	3,858,155
100,001 and over			8	2,691,801
			<u>707</u>	<u>8,520,190</u>

d) **Shareholders holding less than a marketable parcel**

There are 52 shareholders holding 9,196 shares which the company considers to be less than a marketable parcel of shares (value \$500), when using a value of \$0.93 per share, being the weighted average traded price of the last 5 share trades on the Bendigo Stock Exchange.

e) **Ten largest shareholders**

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

		<u>Number of Ordinary Shares</u>	<u>Percentage of Ordinary Shares</u>
1.	GPG NOMINEES PTY LIMITED	1,078,167	12.65%
2.	BAKER FAMILY SUPER FUND	343,432	4.03%
3.	MASTERS R D SUPER FUND	330,800	3.88%
4.	QUINN P J SUPER FUND	301,000	3.53%
5.	JENIK M	201,000	2.36%
6.	YTQUES S	201,000	2.36%
7.	PAULEY G F & M J	136,400	1.60%
8.	CAPEFIN PTY LTD	100,002	1.17%
9.	WINPAR HOLDINGS LIMITED	100,000	1.17%
10.	SLOSS J & N	84,887	1.00%
		<u>2,876,688</u>	<u>33.76%</u>

f) **Company Secretary**

Mr Richard Rivalland

g) **Registered Office**

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

h) **Register of Securities**

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

**Registered Office
Head Office
Queensland Branch**

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

Victoria

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Maryborough VIC 3465
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Email

honey@capilano.com.au

Websites

www.capilano.com.au

**Capilano Group
of Companies**

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Honey Corporation of Australia Pty Ltd
Capilano Canada Inc.

399 Archerfield Road
Richlands Qld 4077
(PO Box 531, Inala Q 4077)
Telephone: (07) 3712 8282
Fax: (07) 3712 8286

Bankers

HSBC Bank Australia Limited

Auditors

Cranstoun & Hussein
Chartered Accountants



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