



26 November 2010

ANNOUNCEMENT

Chairman's Script – 2010 AGM

Ladies & Gentlemen

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

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

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

Financial Statements and Report of the Directors

The next item on the Agenda is to receive the Report of the Directors, the Financial Statements and the Reports of the Auditor for the year ended 30 June 2010, which I will take as having been read. I propose to simply highlight some key points and then open the floor to questions.

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, a downgrade in our crop forecasts, and a persistently strong AUD 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 and apply the funds released to reduction of bank debt.

I am pleased to report we 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 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 assured 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.

Looking forward, Capilano will continue to develop and implement strategies that position the business to be as competitively advantaged as possible including brand development, maintaining reasonable scale, and operating very efficiently both in terms of capital and operating cost. Regarding efficiency, you will have seen our plans to reposition to Maryborough. This will result in both lower cost and lower capital employed. Understandably an emotional step, but nevertheless a practical and sound move.

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.

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

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

In accordance with the Corporations Law, approval of the proposed ordinary resolutions will require a majority of 50% of the number of votes cast.

Resolution 1 – Re-election of Director

I now move to the Resolutions dealing with the election of directors.

Mr Simon Tregoning is the Director retiring by rotation and being eligible, is offering himself for re-election. No other nominations were received.

Accordingly, there is one nomination to fill one available position.

Please vote on this issue by using the voting slip for Resolution 1

Resolution 2 – Remuneration Report in the CHL Report

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

This year's Report of Directors again contains a separate Remuneration Report– on pages 7 to 10. The Corporations Act provides for shareholders to have a vote on the Remuneration report.

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

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

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

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

The motion is now open for discussion.

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

Closure

Ladies and Gentlemen, this brings the 2010 Annual General Meeting to a close. I thank you for your attendance here today, and for your participation in the proceedings.