



AUSTRALIA'S FAVOURITE HONEY!



09
prospectus

19 October 2009

ABN 55 009 686 435

Corporate Directory

Company

Capilano Honey Limited
ABN 55 009 686 435

Registered Office

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RICHLANDS QLD 4077

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Trevor R Morgan
Simon L Tregoning

Secretary

Richard P Rivalland

Share Registry

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RICHLANDS QLD 4077
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Level 11
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Trustee

Trust Company Limited
213 St. Paul's Terrace
BRISBANE QLD 4000

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 the issue of Unsecured Notes and the issue of Shares.

This Prospectus expires on 18 November 2010. It is the eighteenth Prospectus issued by the Company to date. This Prospectus is dated 19 October 2009 and was lodged with ASIC on 19 October 2009.

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.

No Unsecured Notes or Shares will be issued pursuant to this Prospectus after 18 November 2010.

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 or Unsecured Notes. 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

The person completing, as the case may be, Application Form A, Application Form B or Application Form C.

Application Form A

The form accompanying and forming part of this Prospectus to be used by Applicants to apply to invest in new Unsecured Notes.

Application Form B

The form accompanying and forming part of this Prospectus to be used by Note holders to add to At Call Investments.

Application Form C

The form accompanying and forming part of this Prospectus to be used to make regular additions to existing At Call Investments.

ASIC

Australian Securities and Investments Commission.

At Call Investment

An Unsecured Note with no specific Investment Term (redeemable at call) and bearing an interest rate per annum as determined by the Company.

Beekeeper Director

A person who was a Supplier Shareholder and a party to a HSA on the first occasion of their election as a director.

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 (See section 9.3).

Capilano's Unsecured Notes

The total of Unsecured Notes issued.

Previously called the Capilano Deposit Fund (CDF).

CBL

Capilano Beekeepers Ltd (ACN 108 568 672), the company which holds the Foundation Share.

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, as set out in Section 2.1.

The Company or CHL

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

Constitution

The constitution of either CHL or CBL, as indicated.

EFT

Electronic Funds Transfer.

Fixed Term Investment

An Unsecured Note with an Investment Term of 3, 6, 12, 24 or 36 months, as determined by the Applicant on the application for an Unsecured Note, and bearing an interest rate per annum as determined by the Company.

FMCG

Fast moving consumer goods.

Foundation Share

A foundation share in CHL which is on issue to CBL, allowing that company special voting rights in shareholder meetings of CHL.

Foundation Shareholder

CBL.

Honey Supply Agreement or HSA

An Agreement (as described in section 8.3) between Supplier Shareholders 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.

Investments

Investment in CHL represented by Unsecured Notes issued pursuant to this Prospectus, or previous prospectus.



DEFINED TERMS

Investment Term

The term of any Investment namely:

- a) in the case of At Call Investment, no specific terms; and
- b) in the case of Fixed Term Investment, 3, 6, 12, 24 or 36 months.

Law

The *Corporations Act 2001* (Cth).

Note holder

Holder of Unsecured Notes issued by CHL.

Prospectus

This prospectus dated 19 October 2009, which is the eighteenth issued by the Company.

Quota Price

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

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 (See section 8.3).

Share Application Form

The share application form for Shares attached to this Prospectus. This form is ONLY for Supplier Shareholders to meet their HSA requirements.

Share Issue

An issue of Shares to existing Supplier Shareholders as described in section 2.2 and 8.3.

Shareholder

A holder of Shares in CHL.

Shares

Ordinary shares in CHL.

Supplier Shareholder

A shareholder who is a party to a current HSA.

Trust Deed or Deeds

Trust Deed dated 17 May 1993 between the Trustee and the Company.

Trustee

Trust Company Limited ACN 004 027 749.

Unsecured Notes

The Unsecured Notes issued to Note holders pursuant to this Prospectus.



CHAIRMAN'S LETTER

19 October 2009

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.

The purposes of this Prospectus are to allow CHL:

- to issue Shares to facilitate compliance with HSA obligations; and
- to continue to accept funds and issue Unsecured Notes.

CHL is listed on the BSX and persons wishing to acquire Shares should seek to purchase them on market by contacting an approved BSX broker.

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. It also has overseas operations in Canada, where Capilano Canada Inc is well positioned in the North American market, and in Argentina.

In recent years, significant expense cuts have been achieved through reducing surplus manufacturing capacity by completing the restructuring of our Maryborough and Canadian operations. Currently marketing initiatives to further growth in a global market, together with continued operational improvements in logistics, quality control and packing, are planned to enhance the Company's performance.

CHL has been successful in attracting highly skilled and motivated employees, and its Shareholders are highly competent honey producers. With the support of a varied Shareholder base and with strong corporate governance, the Company's future is sound.

The Company obtains honey for packaging and sale from Supplier Shareholders who are required to hold sixteen Shares for each hive of bees employed for honey production. This ratio is determined by the Board, which may also issue Shares to facilitate compliance with their HSA.

The Board decided against declaring a dividend for the year ended 30 June 2009, opting instead to apply cash to debt reduction.

Changes to CHL's security position are contemplated by our bank with an expectation of a reduction in debt of \$10 million. It is expected that the reduction in debt will be achieved by a combination of capital raising, asset sales and improved use of working capital. A capital raising proposal will be put to shareholders at the November 2009 AGM to strengthen CHL's equity position.

Those wishing to invest in Unsecured Notes should see section 1.4 and 7 of this Prospectus for how to invest and should use the forms attached to the back of this Prospectus. Persons wishing to acquire Shares or invest funds are encouraged to read this Prospectus in full.

The Board welcomes new Shareholders, Shareholders increasing their holdings and new Note holders.

Yours faithfully

T R Morgan
Chairman



BUSINESS OVERVIEW

1.1 Highlights

CHL was established in 1953 and it 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.

It also has a subsidiary, CCI, a honey supply and marketing company in Canada and an interest in a strategic alliance which are active in world markets.

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

1.2 Growth, outlook and opportunities

The honey market in Australia is mature and the Company continues to pursue opportunities for growth in international markets.

1.3 Issue of Shares

The CHL Constitution allows directors to issue Shares to persons who are parties to a HSA to enable them to comply with their obligations under their HSA.

1.4 Issue of Capilano's Unsecured Notes

This Prospectus enables Shareholders, former Shareholders, their families, staff members and close relatives to become Note holders in Capilano. The Unsecured Notes are issued by CHL in accordance with the Trust Deed (see section 8.4 for details of the Trust Deed). The total of Investments from Shareholders and others has varied from time to time. As at 30 June 2009 the Investment totalled \$736,530. Unsecured Notes issued pursuant to this Prospectus are not transferable.

1.5 Foundation Share

CHL has issued a Foundation Share to CBL to provide that company with the controlling vote in CHL.

CBL is a company consisting solely of Supplier Shareholders. The Foundation Share provides CBL with:

- 75% of the total number of votes able to be cast in relation to a special resolution of CHL;
- the power to pass or veto any ordinary resolution put to a Shareholders' meeting of CHL.

While the Foundation Share is on issue the elected non-executive Beekeeper Directors of CBL are automatically appointed to the Board of CHL.

1.6 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.

1.7 Risk factors and key features

Investment in shares or unsecured notes 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 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 6.

Key features of the Unsecured Notes appear in section 7. Section 7 also covers specific risks associated with investing in Unsecured Notes which have not been rated by a recognised rating agency. ASIC has issued Regulatory Guide 69 which requires the Company to explain its position on benchmark reporting criteria. You should specifically read the information in section 7.12 in this regard.

1.8 Summary

This summary is not intended to provide full details of the investment opportunity. Shareholders, Note holders and prospective Note holders should read this Prospectus in full, together with all information available as set out in section 7, to make a fully informed investment decision.

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



CAPILANO'S BUSINESS

2.1 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 an expanding marketplace. It is 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).

The Canadian operation has substantially increased the Company's global reach, positioning it to meet demand for high quality honey products.

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.

2.2 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.

Ownership of Foundation Share

As part of a restructure approved by Supplier Shareholders in May 2004, CBL was issued a Foundation Share in CHL which provides:

- CBL with 75% of the total number of votes able to be cast in relation to special resolutions put to a Shareholder meeting of CHL;
- CBL with the power to pass or veto any ordinary resolution put to a Shareholders meeting of CHL; and
- for the elected non-executive Beekeeper Directors of CBL to be appointed to the Board of CHL.

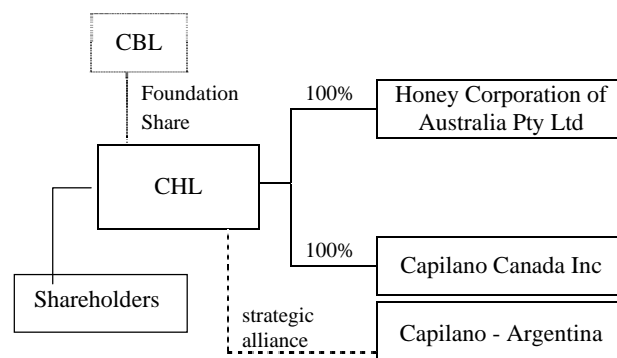
These and other provisions in CHL's Constitution affect its control.

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.

2.3 Corporate Structure

CHL's corporate structure is set out below:





CAPILANO'S BUSINESS

Capilano Canada Inc.

In 2003, CHL acquired a 50% share of CLI, a company incorporated in Canada (see section 9.2).

On 29 February 2008, CLI became a wholly owned subsidiary of CHL. It has since been renamed Capilano Canada Inc. (CCI).

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.

2.4 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 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;
- 100% ownership of CCI, a leading honey marketer in Canada;
- 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 purchase 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;
- Unsecured Notes administration; and
- corporate administration.

Brands and Trademarks

CHL owns the trademarks and honey brands "Capilano", "Barnes", "Anderson Honey", "Glenrock", "Heather", "Cloverdale" and "Bee Vital" and holds a licence to use the "Allowrie" trademark 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.

Accounting standards do not currently allow the inclusion of a value for the Capilano brand in the Company's balance sheet. However, the directors believe this brand is a major asset of the Company and has a substantial value.

2.5 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.

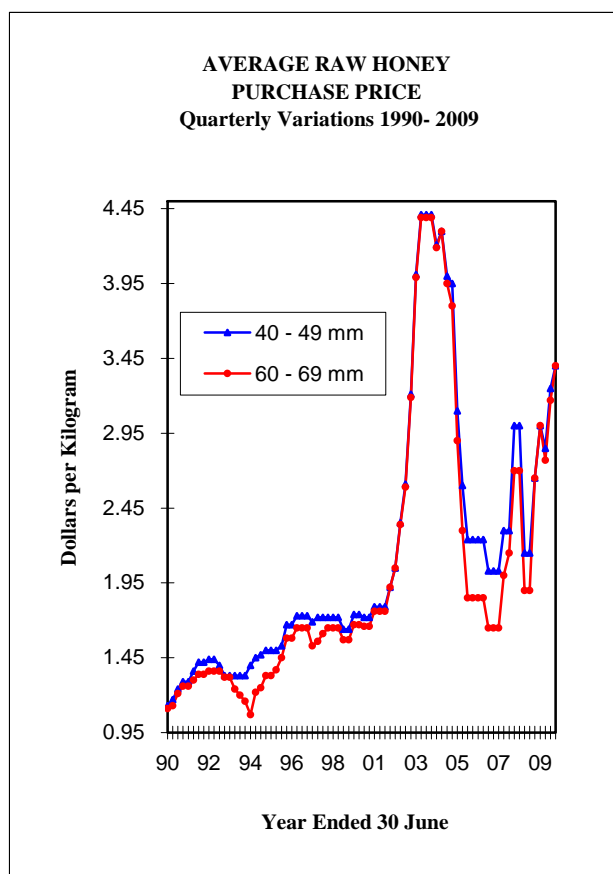


Figure 1

Australian Beekeeping Industry

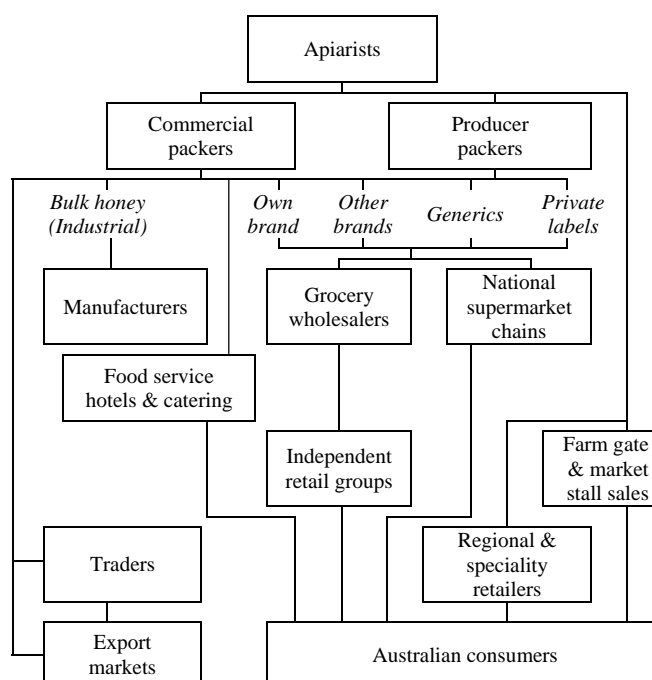
The overall size of the industry is quite extensive, with managed honey bees being found in all Australian states and territories. The industry reports to have around 637,000 registered hives in Australia, with approximately 467,000 of these operated by beekeepers with a minimum of 200 hives. These represent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

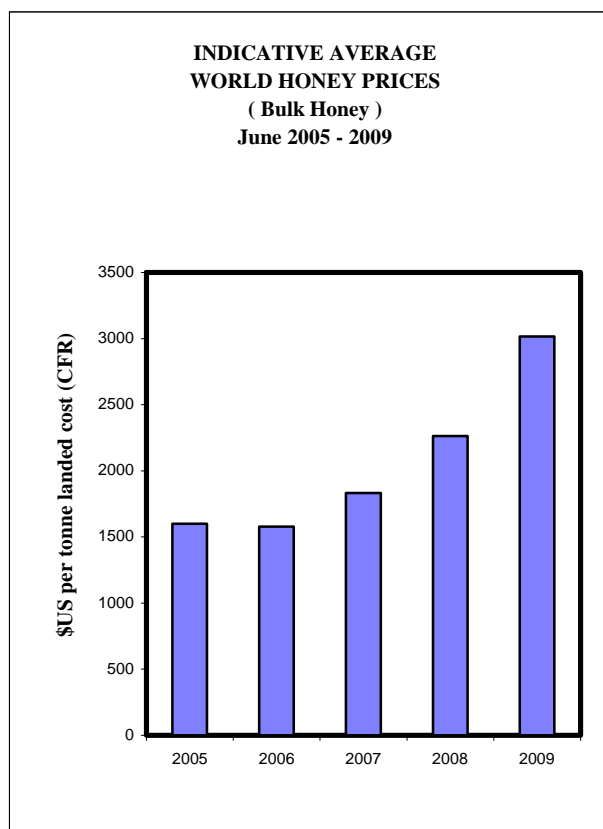


Figure 2

2.6 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;
- developing current and identifying new export markets;
- being a low cost manufacturer and food processor and;
- acquiring other synergistic business.

2.7 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.

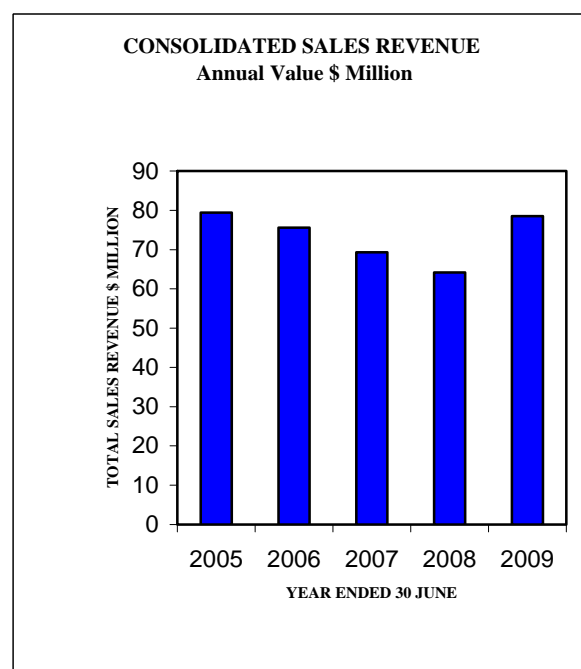


Figure 3

CHL's branded market share has improved on last year.

Sales to the Canadian market have been built up to over 3,200 tonnes.

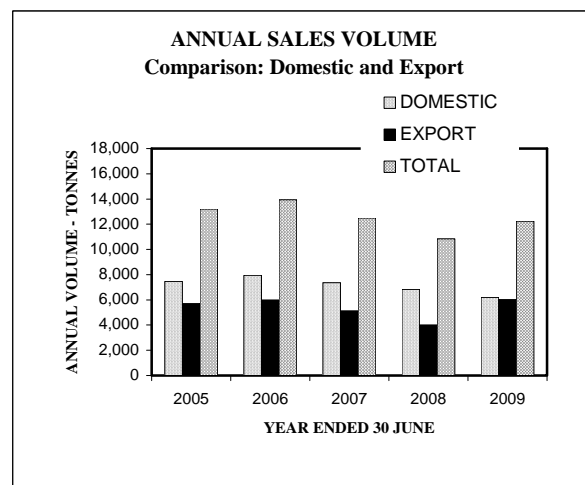


Figure 4

Unfavourable trading conditions affecting profitability have existed for CHL since 2006 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 2006.



CAPILANO'S BUSINESS

In 2008 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 return to profitability this year has arisen 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 2009 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.

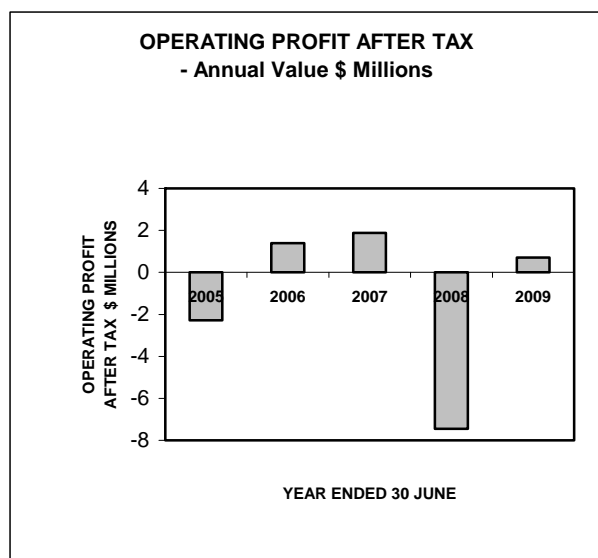


Figure 5

Market fundamentals remain weak. Low Australian honey receivables 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. The trend in exchange rates at October 2009 is currently unfavourable to our export business.

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

Following a change in security limits imposed by the bank CHL is implementing a capital raising in order to replace some debt with equity. The Company has targeted a reduction of debt by \$10 million by 30 June 2010 through a combination of sale of available-for-sale assets, working capital reduction and the capital raising.



FINANCIAL INFORMATION

3.1 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 appear in the 2009 Annual Report and 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 5).

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

3.2 Review of Results for the 2008/09 Year

The consolidated net profit of CHL of \$793k represents a \$9.89 million improvement on the loss in 2008, comprising:

- improvement of \$3.39 million on the previous year's underlying operating loss of \$(2.6) million.
- 2008 one-off provisions and revaluations of \$6.5 million not being repeated in 2009.

The 2009 net profit of \$793k includes:

- foreign exchange loss of \$(618)k, mainly on translation of the Company's Canadian assets into Australian dollars at balance date.
- depreciation and amortisation costs of \$1.4 million.
- honey purchase price increases of 24% consuming an additional \$5.5 million for similar volumes of honey.

The increase in consolidated revenue of \$14.3 million in 2009 was a result of an increase in revenue following full consolidation of Capilano Canada Inc. and implementation of cost recoveries following the increased purchase costs of raw honey

No dividend was declared for the year ending 30 June 2009.

3.3 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.

3.4 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 or investing in Unsecured Notes 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 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 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.



DIRECTORS AND 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.

4.1 Board Composition

The Constitution of CHL provides that as long as the Foundation Share is on issue, the Board of CHL will consist of the Beekeeper Directors elected to the Board of CBL by Shareholders and Independent Directors appointed by the other directors acting jointly. At the date of this Prospectus and in accordance with the Company's Constitution the Board consists of:

- three Beekeeper Directors;
- the Managing Director; and
- one Independent Director.

4.2 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 has 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**
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.

4.3 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 4.2).
- **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.



DIRECTORS AND MANAGEMENT

- **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.



INDEPENDENT ACCOUNTANTS' REPORT



Principals

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

Consultants

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ABN 11 603 627 400

19 October 2009

The Directors

Capilano Honey Limited

PO Box 531

INALA QLD 4077

Dear Sirs

INDEPENDENT ACCOUNTANTS' REPORT

Report on the Financial Report

We have audited the summarised financial report of Capilano Honey Limited, comprising the summary balance sheet and the summary income statement for the years ended 30 June 2007, 2008 and 2009, included in Section 3.1 of the Prospectus, which were derived from the financial reports of Capilano Honey Limited 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 in accordance with Australian Accounting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the summarised financial report based on our procedures, which were conducted in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements.

Auditor's Opinion

In our opinion, the information reported in the summarised financial report is consistent, in all material respects, with the financial reports from which they were derived. For a better understanding of the scope of our audit, this auditor's report should be read in conjunction with our audit report on the financial reports.

Subsequent Events

To the best of our knowledge and belief, there have been no material items, transactions or events subsequent to the balance date of the latest audited financial statements which require adjustments to this report or which would cause reliance on this report to be misleading.

Cranstoun & Hussein

Chartered Accountants & Business Advisers



A member of KS International
An Association of Independent
Accountants throughout the World

Disclosure

Cranstoun & Hussein have no pecuniary interest that could reasonably be regarded as being capable of affecting their ability to give an unbiased opinion 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 of the Company.

Cranstoun & Hussein

CRANSTOUN & HUSSEIN

Chartered Accountants

J A Latif

A Member of the Firm



BUSINESS AND INVESTMENT RISKS

Investment in the shares or unsecured notes 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 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 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 finalised arrangements with its bank in regard to its existing security arrangements. Changes to the security position by the bank require a reduction in debt of \$10 million by 30 June 2010. It is expected that the reduction in debt will be achieved by a combination of capital raising, asset sales and improved use of working capital.

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 negative impact on the Company's financial performance.

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 is increasing 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.



BUSINESS AND 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 may 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.



CAPILANO'S UNSECURED NOTES (formerly *Capilano Deposit Fund*)

7.1 General Information

CHL is offering Unsecured Notes to its Shareholders, former Shareholders, their families, staff members and close relatives. The purpose of Unsecured Notes is to provide additional funds to the Company and a suitable investment medium for its Shareholders.

Terms Available

<i>At Call</i>	24 hours notice of withdrawal
<i>Fixed Terms</i>	3 months
	6 months
	12 months
	24 months
	36 months

Interest Payments - At Call Investments - interest is paid or credited at the end of each calendar quarter or on redemption. Fixed Term Investments - interest is paid or credited quarterly or on redemption.

Security - Investments are not secured by any assets of CHL. Note holders rank equally with all other unsecured creditors. The amount to be borrowed by way of Unsecured Notes under this Prospectus shall rank equally, for payment purposes, with all other Unsecured Notes on issue. As at 30 June 2009, Unsecured Notes in Capilano totalled \$736,530.

Maximum Value of Unsecured Notes - The directors have determined that the maximum total value of Unsecured Notes in Capilano will be \$2 million.

Gearing - If the maximum value of Unsecured Notes under Prospectus No.17, dated 17 October 2008, had been reached at 30 June 2009 (i.e. \$2 million) Total External Liabilities (as defined in section 8.4) would have been equal to 74.9% of Total Tangible Assets (as defined in section 8.4) based on the balance sheet of the Company as at that date.

Completion of a \$10 million debt reduction program agreed with the bank should result in a gearing of between 50% and 60%.

Maximum Gearing - The Trust Deed prohibits CHL from accepting funds or undertaking borrowings which would result in Total External Liabilities exceeding an amount equal to 75% of Total Tangible Assets.

Credit Rating - CHL and its securities are not rated by a recognised credit rating authority.

The Trustee - The Trustee for Note holders is Trust Company Limited. The Trustee does not guarantee the repayment of the Unsecured Notes offered under this Prospectus, the interest thereon, or any particular rate of return or performance by CHL of its obligations under the Trust Deed. The sole involvement of Trust Company Limited has been reviewing the text in section 1.4, this section 7 and in section 8.4 of the Prospectus, to satisfy itself that the text is consistent with the terms of the Unsecured Notes or with the relevant Trust Deed.

Trust Company Limited does not make or purport to make any statement in the Prospectus, has supplied no information for this Prospectus and makes no representation or warranty, express or implied, as to the accuracy or completeness of any information contained in this Prospectus.

7.2 New Investments

All new Investments in Unsecured Notes must be made on Application Form A accompanying and forming part of this Prospectus.

Note holders wishing to increase their At Call Investment must complete Application Form B accompanying this Prospectus.

Note holders wanting to increase their At Call Investment on a regular basis must complete Application Form C accompanying this Prospectus.

Separate Application Forms are required each time additional Unsecured Notes are acquired. Cheques accompanying Application Forms should be crossed and marked "Not Negotiable" and made payable to Capilano Honey Limited.

7.3 Variation of Interest Rates

The Company reserves the right to increase or decrease on a monthly basis, during the currency of this Prospectus, all or any of the rates of interest on the Unsecured Notes offered by this Prospectus. In doing so the Company has adopted ASIC Class Order 00/174 "Debenture Prospectus: Updating of Interest Rate and Term Information" issued on 15 February 2000.

In adopting the Instrument, the Company has declined to specify the interest rates on the Application Forms accompanying this Prospectus on the following conditions:

1. That details of interest rates for the following month will be determined by the end of each month and may be obtained by contacting the Company by telephone (07) 3712 8282, fax (07) 3712 8286 or e-mail honey@capilano.com.au.
2. The Company hereby undertakes that if the Application Form specifies no interest rate, or an interest rate which differs from the interest rate currently offered by the Company for Unsecured Notes of that term and which is not acceptable to the Company.

The Company will at its discretion, either:

- a) return the funds to the Applicant in full, without interest, within 14 days of lodgement; or
- b) do any of the following:
 - (i) forthwith issue an Unsecured Note to the Note holder for the term specified in the Application Form at the rate which it currently offers for Unsecured Notes of that term;
 - (ii) notify the Note holder that the Unsecured Note so issued will be redeemed if the Note holder gives notice to the Company requiring it to be redeemed within 14 days after the Note holder receives the notification; and
 - (iii) on receipt of a notice requiring the Unsecured Notes to be redeemed pay to the Note holder an amount equal to the Investment and interest at the rate applicable to the Unsecured Note calculated from the date on which the Application Form was accepted to the date on which the redemption money is sent.



CAPILANO'S UNSECURED NOTES (formerly Capilano Deposit Fund)

7.4 Acceptance of Investment

The Company will acknowledge in writing acceptance of all Investments within one month of issuing the Unsecured Notes to the Note holder.

The Company reserves the absolute right to refuse any application for Unsecured Notes either in whole or in part, at their absolute discretion.

The Company reserves the right to deduct from principal or interest any taxes or duties applicable to Unsecured Notes issued under this Prospectus, including those arising from receiving the application money, repaying such money or paying interest thereon which the Company has or shall become liable to reimburse to its bankers or pay under any legislation.

7.5 Register

The Register of Note holders will be maintained at the registered office of CHL.

7.6 Interest

Interest is calculated daily from the date of acceptance of a new Investment, or transfer of an existing Investment in Capilano. Interest is to accrue until the due date for payment thereof or in the event of default until paid or the Unsecured Note is redeemed.

Note holders are asked on the Application Forms to advise the Company of the following alternative interest instructions:

- Interest to be reinvested; or
- Interest to be paid by cheque or EFT.

For At Call Investments, interest will be calculated daily, and credited to current balances, or paid by cheque or EFT to the Note holder as requested, after the end of each calendar quarter, (i.e. at the end of March, June, September and December).

For all Fixed Term Investments interest will be calculated daily, and credited to current balances, or paid by cheque or EFT to the Note holder as requested, at the expiry of each three monthly period beginning at the end of the month in which the Investment is made.

7.7 Oversubscriptions

The directors have determined that the maximum total value of Unsecured Notes in Capilano will be \$2 million in order to ensure compliance with the unsecured borrowing limitation created by the Trust Deed (see section 8.4) of this Prospectus.

Any Investments, which if accepted would result in the total value of Unsecured Notes in Capilano exceeding the limit of \$2 million, will be returned to Note holders within 14 days without interest.

7.8 Maturing Investments

In the case of Fixed Term Investments the Company will mail to Note holders a notice of imminent maturity approximately two weeks before the date on which the Investment will mature, seeking further instructions.

If no instruction is received as to what is to be done with the Investment in the Unsecured Note by the date of maturity it will be automatically re-invested from that date. The principal will be invested in an At Call Investment until further instructions are received, and interest will be treated according to previous instructions (i.e. added to principal or paid by cheque or EFT). The interest rate applicable to the At Call Investment will be the rate applying from time to time.

7.9 Rights of Early Redemption of Fixed Term Unsecured Notes

The Company will consider written requests from Note holders faced with unforeseen or exceptional circumstances of hardship for repayment of their Investment prior to maturity. Any decision by the Company will depend upon the circumstances involved and will be at the sole discretion of the Company.

In the event of death of a sole Note holder, the Company (subject to legislative requirements) will repay to his estate the whole or any part of the deceased's Investment.

A reduced interest rate reflecting the shorter term may apply to the amount repaid in these cases.

7.10 Interest Cover

Interest paid on total CHL borrowings for the year ended 30 June 2009 was \$1,744,462. The Company's 2009 EBITDA resulted in an interest cover of 2.34 times.

7.11 Borrowing Limitations

Details of the provisions in the Trust Deed relating to borrowing limitations are set out in section 8.4.

Nature of Investment

Investments will be represented by Unsecured Notes issued under the terms of the Trust Deed. The Trust Deed and the Law define the main obligations of the Trustee. Other obligations may arise under general law.

The Trust Deed requires the Company to furnish to the Trustee half yearly financial statements, annual auditors' reports and quarterly directors' certificates and reports and is required by the Trust Deed to make punctual payment to the Note holders of all principal and interest falling due in respect of their Investment. The Trustee is bound to comply with the duties imposed on it by the Law and to exercise reasonable diligence to ascertain from material furnished to it under the Trust Deed whether or not the Company or any guarantor has committed a breach of any of the covenants, obligations, conditions or provisions relating to the Unsecured Notes or contained in or imposed by the Trust Deed. The Trustee represents the Note holders in dealings with the Company and determines whether to enforce and, if appropriate, does enforce on behalf of all Note holders the Company's obligations in respect of the Unsecured Notes.

The Note holders have the benefit of a Trustee to represent them collectively.



CAPILANO'S UNSECURED NOTES (formerly *Capilano Deposit Fund*)

Note holders may not individually proceed against the Company if the Trustee has determined to take action on behalf of them all.

In the case of winding up of CHL, Unsecured Notes will rank (apart from any priorities created by law) equally with amounts owing to all other unsecured creditors of the Company but before distributions to Shareholders. Unsecured Notes on issue, all rank equally for payment.

The Trust Deed prohibits the Company from issuing Unsecured Notes or creating any other liabilities which would result in Total External Liabilities exceeding an amount equal to 75% of Total Tangible Assets. (See section 8.4).

Unsecured Notes are not transferable, but on the death of a Note holder the notes may be transmitted to the legal personal representative of the Note holder.

7.12 ASIC Regulatory Guide 69 Disclosure

ASIC recently released *Regulatory Guide 69: Debentures- improving disclosure for retail investors* (the Guide). The Guide sets out guidelines aimed at helping Note holders better understand and assess the Unsecured Notes being offered.

In particular, the Guide sets benchmarks that can help retail Note holders assess the risk and risk-reward prospects of the debentures. These benchmarks and CHL's performance against them are set out below.

» **Benchmark 1: Equity Capital**

Debenture issuers (other than property developers) should maintain a minimum of 8% equity.

At 30 June 2009, CHL had an equity ratio of 37% and believes it has met this benchmark.

» **Benchmark 2: Liquidity**

Debenture issuers should have cash flow estimates for the next 3 months and ensure that at all times they have on hand cash or cash equivalents sufficient to meet their projected cash needs over the next three months.

CHL has detailed cash flow estimates for the next 3 months. Based on the assumptions and considerations set out below, these estimates demonstrate that the Company has on hand cash or cash equivalents sufficient to meet its projected cash needs over that period.

The Company reviews its cash flow estimates on a regular basis. CHL believes it has met this benchmark.

Cash Flow Assumptions and Considerations:

Incoming cash flows from customers are estimated using actual sales data and historical payment terms. Outgoing cash flows for purchases of honey are estimated using the terms applicable in Honey Supply Agreements. Payments of other raw materials and of salaries and wages are estimated using a combination of

historical records and future production requirements.

Note holder rollover rates have been at least 78% over the last twelve months. CHL believes that it is reasonable to expect that future Unsecured Note maturities will rollover at a similar rate.

CHL maintains a bank funding facility in excess of its requirements. As at 30 June 2009, unused facilities were in excess of \$4,600,000.

However, the change in the bank's security position will require the Company to reduce drawn debt by \$10 million by 30 June 2010. This is expected to be achieved through a combination of capital raising, asset sales and improved use of working capital.

» **Benchmark 3: Rollovers**

Issuers should disclose their approach to rollovers, including whether the 'default' is that debenture investments with them are automatically rolled over.

In the case of Fixed Term Investments the Company will mail to Note holders a notice of imminent maturity approximately two weeks before the date on which the Investment will mature, seeking further instructions.

If no instruction is received as to the disposal of the Investment by the date of maturity it will be automatically re-invested from that date. The principal will be invested in At Call Investment until further instructions are received, and the interest will be treated according to previous instructions (i.e. added to principal or paid by cheque or EFT). The interest rate applicable to the At Call Investment will be the rate applying from time to time.

» **Benchmark 4: Credit ratings**

Issuers should have their Debentures rated for credit risk by a recognised credit rating agency.

Capilano's Unsecured Notes have not been rated for credit risk by a recognised agency. Accordingly, CHL does not comply with this benchmark.

The Directors believe that Capilano's Unsecured Notes are not of sufficient size to justify being rated by the approved credit rating agencies [i.e. Standard & Poor's (Australia) Pty Limited, Moody's Investors Service Pty Limited and Fitch Australia Pty Limited].

The Board will consider the appropriateness of this view on an ongoing basis. In deciding not to have the Unsecured Notes rated, the Board has had regard to the following factors:

- the Unsecured Notes balance as at 30 June 2009 was \$736,530;
- the equity ratio is approximately 37% compared with the benchmark equity minimum of 8%;
- CHL maintains a bank funding facility in excess of its requirements;



CAPILANO'S UNSECURED NOTES *(formerly Capilano Deposit Fund)*

- CHL has an ongoing process of liquidity management to manage its cash flow;
- CHL has credit and risk management policies to manage its exposure to any credit risk.

» **Benchmark 5: Loan portfolio**

This benchmark only applies to issuers who on-lend funds.

This benchmark is not applicable to CHL, as it does not on-lend funds.

» **Benchmark 6: Related party transactions**

This benchmark only applies to issuers who on-lend funds.

This benchmark is not applicable to CHL, as it does not on-lend funds.

» **Benchmark 7: Valuations**

This benchmark only applies to issuers who lend money for property related activities.

This benchmark is not applicable to CHL, as it does not lend money for property-related activities.

» **Benchmark 8: Lending principles – loan to valuation ratios**

This benchmark only applies to issuers who lend money for property related activities.

This benchmark is not applicable to CHL, as it does not lend money for property-related activities.

In addition to the disclosures required as of 1 March 2008, an issuer's quarterly reports to their Trustee should, at least twice a year, specifically explain any material changes to the issuer's performance against the benchmarks, including against the issuer's alternative approach to meeting the benchmarks.



MATERIAL AGREEMENTS

8.1 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 and Note holders in CHL.

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

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.

8.2 CHL Constitution

A summary of the rights attaching 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.

Restriction on shareholdings

No person shall have a relevant interest in more than 10% of the Shares on issue in CHL. For the purpose of this prohibition, the Foundation Share is not considered in calculating whether the 10% limit has been exceeded.

The directors must not register any transfer of Shares if the transfer would result in the transferee having a relevant interest of more than 10% of issued capital of the Company. If the directors refuse to register a transfer of any Shares they must within 2 months after the date on which the transfer was lodged send to the transferee a notice of the refusal.

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 attaching 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 Share may only be held by the Foundation Shareholder which is CBL.

The Foundation Shareholder is entitled to receive notice of, attend, speak and vote at any general meeting of CHL.

CHL may not pass any ordinary resolution without the affirmative vote of the Foundation Shareholder.

On a special resolution the Foundation Share has 75% of the total number of votes which are entitled to be cast.

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 21 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. The Foundation Shareholder, and 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, rules 101A to 101D of the Constitution shall govern the appointment and removal of directors, and rules 104 to 113 of the Constitution shall not operate.

This means that while the Foundation Share is on issue, the Beekeeper Directors of the Foundation Shareholder in office from time to time will, by virtue of holding that office, be appointed as Beekeeper Directors of the Company.

All the directors in office acting jointly can appoint Independent Directors. Each Independent Director can hold office for a fixed period of up to two years and at the expiration of that period may be re-appointed or replaced at the discretion of the other directors.



MATERIAL AGREEMENTS

A person appointed as an Independent Director must have the skills and experience appropriate to the Company's needs but is not to be a supplier of honey to CHL nor an employee or customer whilst occupying the position of Independent Director.

If there ceases to be a Foundation Share, the directors continue to hold office, unless otherwise removed in accordance with the Constitution, until the next annual general meeting at which they must retire.

There are to be no less than 5 and no more than 8 directors on the Board and all directors are required to be natural persons.

The Board shall comprise Beekeeper Directors, Independent Directors and may include a Managing Director. The number of Beekeeper Directors must always exceed the combined number of Independent Directors and the Managing Director by at least one. The number of Beekeeper Directors shall not be less than 3 nor more than 5 and the maximum number of Independent Directors is 3.

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.

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 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:

- (c) if the Listing Rules prohibit an act being done, the act is not to be done;
- (d) nothing contained in the Constitution prevents an act being done that the Listing Rules require to be done; and
- (e) 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.



MATERIAL AGREEMENTS

8.3 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.

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.



MATERIAL AGREEMENTS

8.4 Trust Deed

There is a Trust Deed between the Company and Trust Company Limited. The Trust Deed provides for and governs the arrangements regarding Unsecured Notes (and Secured Debenture Stock). No Secured Debenture Stock will be issued under this Prospectus.

Definitions

- 'Group' means the Company and its subsidiaries;
- 'Group Member' means the Company or any subsidiary;
- 'Investments' means Unsecured Notes (and if any are issued, also includes Debenture Stock);
- 'Mortgaged Property' means the undertaking, property and assets of the Group subject to a charge;
- 'Total External Liabilities' means the aggregate of all secured and unsecured liabilities for CHL and its subsidiaries (as disclosed by the latest Audited Consolidated Balance Sheet prepared prior to the Determination Date) as adjusted by the Auditor in accordance with the Trust Deed; and
- 'Total Tangible Assets' means the aggregate of book values of the Tangible Assets wherever situated for CHL and its subsidiaries (as disclosed in the latest Audited Consolidated Balance Sheet prepared to the Determination Date) as adjusted by the Auditor in accordance with the Trust Deed.

Floating Charge

The Trust Deed grants the Trustee a first floating charge as security for the money payable in respect of issued debenture stock and for certain other money payable under the Trust Deed. However, the charge does not secure repayment of any money payable in connection with Unsecured Notes. (Debentures or debenture stock, if issued, would rank ahead of Unsecured Notes for payment priority purposes).

This charge does not prevent the Company from selling, alienating, leasing, paying dividends out of profits or otherwise disposing of or dealing with the Mortgaged Property, unless enforced. However, the Company must obtain prior consent from the Trustee before doing so.

The Company acknowledges that it is indebted to the Trustee in respect of the money invested. The Note holders are the beneficial owners of the Investments respectively held by them.

The Company agrees with the Trustee that:

- the Company will pay the Trustee the principal and any premium and will comply with its obligations in relation to the Investments in such manner as the Trustee may request; and
- until all the Investments have been redeemed or paid off, the Company will pay the Trustee interest in accordance with the terms of issue of the Investments.

The Company may determine provisions in relation to cessation or suspension of accrual of interest provided that interest shall cease to be payable from the Redemption Date subject to certain provisos.

Covenants

The Company agrees that while any Investment is outstanding it will:

- comply with all requirements of the Law;
- perform all the relevant covenants, obligations and conditions contained in this Deed;
- give copies of all reports, accounts and other documents sent to Shareholders, Note holders or ASIC to the Trustee;
- notify the Trustee of any event of default referred to in the Trust Deed;
- convene a meeting on request by Note holders holding not less than 10% of the outstanding Investments;
- notify the Trustee where certain assets are removed or business commenced in any place where the Trust Deed is not stamped and/or registered;
- permit the Auditor to have reasonable access to records of the Group and provide necessary explanations to the Auditor;
- notify the Trustee of appointment, retirement, resignation or removal of an Auditor;
- notify the Trustee should the net tangible asset value per share in the Company or the Group be or become less than 80 cents.

Issue of Investments

An Investment may be issued from time to time in any amount upon the terms set out in the Trust Deed and as approved by the Trustee.

Investments must not exceed the amount consented to by the Trustee. Investments issued under the Deed are subject to conditions in the Deed. The Trustee may cancel consent in certain circumstances. A Certificate evidences proper issue of a Note.

The Company shall issue to each Note holder acknowledgment of indebtedness within 2 months after the receipt of an application for any Investment.

Unsecured Borrowing Limitation

The Company will not at any time borrow any money or incur any liability if Total External Liabilities exceed or would exceed 75% of Total Tangible Assets.

The Deed contains exceptions to the limitations which apply when the issue is made for the purpose of repayment or redemption of Investments or for the repayment of an existing liability.

Events of Default

Outstanding Moneys on all Investments shall become immediately due and payable upon the occurrence of any of the following events without the consent of the Trustee:

- the Company fails to make a required payment;
- a Group Member fails to make a required payment;
- a Group Member is wound up;
- acts of receivership, administration etc taken against a Group Member, or any Encumbrancee enforces its Encumbrances against a Group Member ;



MATERIAL AGREEMENTS

- a Group Member fails in payment of any unsecured loan in excess of \$250,000;
- default in meeting any distress or execution in excess of \$250,000 levied or enforced or against the Mortgaged Property;
- unremedied default of Trust Deed covenant by a Group Member;
- a Group Member ceases to carry on its business;
- a Group Member enters into an arrangement with creditors;
- a Group Member reduces its capital;
- a Group Member sells or otherwise disposes of the whole or a substantial part of its undertaking;
- without the prior consent of the Trustee a Group Member convenes or holds a general meeting of its members for the purpose of passing a resolution so that whole or any part of its uncalled capital may only be called up if the Company goes into external administration;
- a special resolution is passed for the purpose of placing a Group Member under official management in the manner provided by Part 5.3 of the Law;
- a Group Member fails to comply with any undertaking given to the Trustee or any condition or consent given by the Trustee;
- the directors of the Company request the Trustee to appoint a Receiver over the Mortgaged Property;
- a Group Member makes an amendment to its Constitution which may detrimentally affect the interests of the Trustee or Note holders under the Trust Deed;
- There is a change in control of the Company in terms of the Trust Deed;
- a Group Member substantially changes the nature of its business;
- an inspector is appointed to investigate the affairs of a Group Member;
- the net tangible asset value per share in the Company or the Group becomes less than 80¢ and Note holders by ordinary resolution support the Trustee enforcing the Charge;
- if the Trustee is of the opinion that the circumstances of the Company or the Group are such that in order to protect the interests of the Note holders, it is prudent to deem an event of enforcement to have occurred.

The Trust Deed provides for other special events of default.

Powers of Trustee in Event of Default

In the event of default the full powers of a mortgagee are conferred on the Trustee from the Enforcement Date. The Trustee may:

- take possession of Mortgaged Property and carry on the business of any Group Member;
- sell any of the Mortgaged Property;
- borrow against any of the Mortgaged Property; or
- otherwise deal with the Mortgaged Property as the Trustee sees fit.

The Trustee is not bound to take action against the Company on default unless it is requested to do so by persons holding not less than 20% (by value) of Investments on issue.

Limitations on Trustee's Responsibility

The Trustee's responsibility is limited under the Deed including not being responsible for:

- acting upon any resolution of Note holders;
- moneys subscribed by any Note holder; or
- notifying the Note holders of any event of default or contravention or non-observance of the Deed.

The Trustee may rely on and accept as conclusive and sufficient, a Directors' Certificate and other information contained in books and accounts of the Company and certain other material.

Trustee's Fees and Expenses

The Trustee's fee for 2009/2010 which has been agreed in accordance with the Trust Deed will be \$7,500 (exclusive of GST).

The Company shall pay the reasonable and proper disbursements of the Trustee.

Retirement or Removal of Trustee and Appointment of New Trustee

The Trustee may retire at any time upon giving at least 90 days notice, provided the retirement does not take effect until a new trustee is appointed in accordance with the Trust Deed.

Subsidiaries may be required to give Charges

Subsidiaries of the Company may have to give a floating charge over property or assets if requested by the Trustee.

Variations to Trust Deed

Variations to the Trust Deed may be made where the Trustee consents to the Company in making any alteration, modification, or addition to the Trust Deed and if such alteration, modification or addition is in the opinion of the Trustee allowed under the Deed.

Notice of a proposed amendment to the Trust Deed shall be given to Note holders. If the proposed deed of amendment is executed, Note holders have the option of requiring early redemption of their Investment. However, the Trust Deed provides a mechanism to compensate Note holders should any amendment affect existing rights.

Rights of Note holders

Note holders have the right to sue the Company in respect of any default in the redemption or payment of principal, premium (if any) or interest monies on any Investment in certain circumstances but may not do so where the Trustee is enforcing the rights of Note holders.



MATERIAL AGREEMENTS

Register of Investments

The Company is not obliged to redeem an Investment until the Note holder satisfies various conditions, including tender of any issued Certificate, a written request for redemption and evidence of identity if required by the Company. Interest shall cease to be payable from the date upon which an Investment ought to be redeemed unless default is made by the Company in redeeming such Investment.

The Company will maintain a principal register of the Unsecured Notes in Queensland. The Note holder must notify the Company of any change of name or address. The register will be open at all reasonable times during business hours for inspection by the Trustee and any Note holder and persons authorised by them in writing. The Company will recognise only the Note holder whose name appears in the register.

Meetings of Note holders

The Trustee or the Company may at any time convene a meeting of Note holders. The Trustee or the Company will convene a meeting of Note holders upon a request in writing of holders holding not less than 10% of outstanding Investments.

At any meeting of Note holders, Note holders present and holding 15% in nominal value of the outstanding Investments shall form a quorum.

On a show of hands, every Note holder has one vote. On a poll, a Note holder is entitled to one vote for every complete \$100 in nominal value of a fully paid up Investment standing in their name. Note holders are entitled to appoint proxies, attorneys or representatives as the case may be.

An Extraordinary Resolution is a resolution:

- voted for at a meeting of Note holders by a majority consisting of not less than 75% of the votes cast at the meeting;
- in writing signed by the holders of not less than 60% in nominal value of the issued Investments; or
- signed within 3 months of the resolution being put to a meeting of Note holders who together with the votes cast at the meeting in favour of the resolution comprise 60% in nominal value of the issued Investments.

The Law also provides for arrangements between a Company and any class of its creditors (under which their rights may be varied) being approved by the Court and a majority of creditors present and voting at a meeting.

Debenture Stock

The Company may give notice that it intends to issue Secured Debenture Stock in addition to the Unsecured Notes. However, the directors have no intention of issuing Secured Debenture Stock during the life of this Prospectus and the provisions have been included in the Trust Deed merely to give the Board maximum flexibility in future funding.



SIGNIFICANT INFORMATION

9.1 Incorporation

The Company now known as CHL (see section 2.1) was incorporated on 1 July 1958 and has a financial year end of 30 June.

9.2 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.

CHL has entered into inter-company loans to support the development of CCI's business in North America.

9.3 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.

9.4 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.

9.5 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.

9.6 Consents and 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.

McCullough Robertson 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.

Trust Company Limited has given and has not withdrawn its consent to be named in this Prospectus.

9.7 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 5 and the disclosures under this heading and the heading 'Interests of Experts'. The Company has agreed to pay \$2,900 (exclusive of GST) to Cranstoun & Hussein in respect of these services.

McCullough Robertson has acted as Corporate Lawyers to the Company and performed certain work in relation to due diligence enquiries and this Prospectus but has only been involved in the preparation, and authorised the summary of, the Constitution and Material Agreements in section 8, and the disclosure under this heading and the heading 'Consents and Disclaimers'. The Company has agreed to pay \$14,000 (exclusive of GST) to McCullough Robertson in respect of these services.



SIGNIFICANT INFORMATION

With the concurrence of Trust Company Limited, CHL and its own Conflicts Review Committee, McCullough Robertson also acts as Lawyers for Trust Company Limited. Its role in this capacity has been a strictly limited review for the purpose of accuracy of the Prospectus text in sections 1.5, 7 and 8.4. McCullough Robertson also reviewed the Prospectus to ensure it is consistent with the terms of the Unsecured Notes and Trust Deed. The Company has agreed to pay fees of \$2,200 (exclusive of GST) to McCullough Robertson in respect of these services.

Trust Company Limited is named only in its capacity as Trustee for Unsecured Note holders under the Trust Deed. The sole involvement of Trust Company Limited has been reviewing the text in sections 1.5, 7 and 8.4 of the Prospectus to satisfy itself that the text is accurate and consistent with the terms of the Unsecured Notes or with the relevant Trust Deed.

9.8 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 30 September 2009, 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 for his children.
- Mr P F McHugh holds 34,676 Shares, of which 33,676 are held in his Superannuation Fund;
- 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 30 September 2009.

9.9 Litigation

Neither CBL nor CHL are involved in any material legal or arbitration proceedings nor, so far as they are aware, are any material proceedings pending or threatened against either of them.

9.10 Expenses of the Prospectus

Expenses for this Prospectus including ASIC fees, printing costs and other miscellaneous expenses, but excluding fees detailed in section 8.4 and 9.7 are estimated to be approximately \$8,000.

9.11 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 Share Application Forms electronically. Applications must be made by completing a paper copy of the Share Application Form.

The Share Application Form may only be distributed attached to a complete and unaltered copy of the Prospectus. The Share Application Form included with this Prospectus contains a declaration that the Note holder has personally received the complete and unaltered Prospectus prior to completing the Share Application Form.

CHL will not accept a completed Share Application 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 Share Application 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 can not give any absolute assurance that this will not occur. Any Note holder 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.

9.12 Authorisation

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

Dated 19 October 2009.

T R Morgan
Chairman

CONDITIONS OF INVESTMENT

This Application Form is part of this Prospectus which is dated 19 October 2009 and must not be issued unless accompanied by the Prospectus.

VARIATION OF INTEREST RATES

The Company reserves the right to increase or decrease on a monthly basis during the currency of this Prospectus all or any of the rates of interest on the Unsecured Notes offered by this Prospectus. In doing so the Company has adopted ASIC Class Order 00/174 "Debenture Prospectus: Updating of Interest Rate and Term Information" issued on 15 February 2000.

In adopting the Instrument, the Company has declined to specify the interest rates in the Application Forms accompanying this Prospectus on the following conditions:

1. That details of interest rates for the following month will be determined by the end of each month and may be obtained by contacting the Company by telephone (07) 3712 8282 facsimile (07) 3712 8286 or e-mail honey@capilano.com.au. In addition, the most current details of rates will accompany CHL's Shareholder Newsletter and each copy of the Prospectus.
2. The Company hereby undertakes that if the Application Form specifies no interest rate; or an interest rate which differs from the interest rate currently offered by the Company for Unsecured Notes of that term and which is not acceptable to the Company, the Company will at its discretion, either:
 - a) return the Investment funds to the Applicant in full, without interest, within 14 days of lodgement; or
 - b) do any of the following:
 - (i) forthwith issue an Unsecured Note to the Note holder for the term specified in the Application Form at the rate which it currently offers for Unsecured Notes of that term;
 - (ii) notify the Note holder that the Unsecured Note so issued will be redeemed if the Note holder gives notice to the Company requiring it to be redeemed within 14 days after the Note holder receives the notification; and
 - (iii) on receipt of a notice requiring the Unsecured Notes to be redeemed pay to the Note holder an amount equal to the Investment and interest at the rate applicable to the Unsecured Note calculated from the date on which the Application Form was accepted to the date on which the redemption money is sent.

MATURITY DATES OF FIXED TERM INVESTMENT - All Fixed Term Investments will be issued on the basis that they are repayable on the first working day after the end of the month in which they mature e.g. an Unsecured Note issued on 3rd October for a term of three months will be repayable on 1st February. Interest will however be paid for the full term of the Investment. In the example above, interest would be paid at the three month term rate from 3rd October to 31st January, both dates inclusive.

INTEREST PAYMENT PERIODS – FIXED TERM INVESTMENTS - Interest will be credited at the end of each three monthly period commencing at the end of the month in which the Unsecured Note is issued. In the case of a three month term Investment, interest will be paid on maturity. In the case of 6, 12, 24 or 36 monthly Investment, interest will either be reinvested at the end of each three monthly period (as defined above), or paid to the Note holder, as directed. In the event that no direction is received as to treatment of interest, it will automatically be reinvested for the balance of the term of the Investment.

ACCEPTANCE OF INVESTMENTS - The Company will acknowledge in writing acceptance of all Investments within one month of issuing the Unsecured Notes to Note holders. The directors reserve the right to refuse any application for Unsecured Notes at their absolute discretion. The Unsecured Notes are NON-TRANSFERABLE.

REPAYMENT OF INVESTMENTS - The proceeds shall be paid only to the person(s) named in the original Investment application or to his or her personal representative(s), or any person/organisation named by the Note holder(s) in writing.

EARLY REDEMPTION - Redemption of Investments before the expiry of their nominated term will be considered only in exceptional circumstances and may incur an early redemption charge.

UNREDEEMED INVESTMENTS - A reminder will be forwarded approximately 10 days prior to the maturity date for all Investments.

If NO INSTRUCTION is received as to the disposal of the Investment by the date of maturity, it will be AUTOMATICALLY MATURED from that date. The principal will remain at 24 hour call until further instructions are received. Interest will be treated according to previous instructions - i.e. either reinvested to principal in the At Call Investment, or forwarded by cheque and EFT. The interest rate applicable to At Call Investment will be the rate applying from time to time and is subject to variation monthly.

THIS APPLICATION FORM MAY NOT BE ISSUED, CIRCULATED OR DISTRIBUTED UNLESS ACCOMPANIED BY THIS PROSPECTUS DATED 19 OCTOBER 2009 OF WHICH IT FORMS PART.



Capilano Unsecured Notes

Application Form B

☐ Add to an existing At Call Investment

I/we hereby offer to add to my/our At Call Investment with Capilano Honey Limited subject to the conditions on the reverse side of this form.

Account Name

Address

State Postcode

INVESTMENT NO:

AMOUNT:

\$

TYPE OF INVESTMENT:

- ☐ Cash/Cheque attached
- ☐ Transfer from Investment #

- ☐ Transfer from Beekeeper A/C
- ☐ Deduction from Wages
- ☐ Transfer of Dividend
- ☐ Funds deposited into CHL's Account on ____/____/____

SIGNATURE:

Date: ____/____/____

Notes:

- When the account is in more than one name, in the absence of specific advice to the contrary, CHL is authorised to accept directions of any one of the signatories authorised to operate the account.
- LODGEMENT** - There is no minimum Investment amount. Cheques should be crossed, marked "Not Negotiable", and made payable to Capilano Honey Limited and mailed to PO Box 531, INALA QLD 4077. All Investments must be accompanied by this form which forms part of this Prospectus dated 19 October 2009

This form expires on 18 November 2010

CONDITIONS OF INVESTMENTS

This Application Form is part of this Prospectus dated 19 October 2009 and must not be issued unless accompanied by the Prospectus.

VARIATION OF INTEREST RATES

The Company reserves the right to increase or decrease on a monthly basis during the currency of this Prospectus all or any of the rates of interest on the Unsecured Notes offered by this Prospectus. In doing so the Company has adopted ASIC Class Order 00/174 "Debenture Prospectus: Updating of Interest Rate and Term Information" issued on 15 February 2000.

In adopting the Instrument, the Company has declined to specify the interest rates in the Application Forms accompanying this Prospectus on the following conditions:

1. That details of interest rates for the following month will be determined by the end of each month and may be obtained by contacting the Company by telephone (07) 3712 8282 facsimile (07) 3712 8286 or e-mail honey@capilano.com.au. In addition, the most current details of rates will accompany CHL's Shareholder Newsletter and each copy of the Prospectus.
2. The Company hereby undertakes that if the Application Form specifies no interest rate; or an interest rate which differs from the interest rate currently offered by the Company for Unsecured Notes of that term and which is not acceptable to the Company, the Company will at its discretion, either:
 - a) return the Investment funds to the Note holder in full, without interest, within 14 days of lodgement; or
 - b) or do any of the following:
 - (i) forthwith issue an Unsecured Note to the Note holder for the term specified in the Application Form at the rate which it currently offers for Unsecured Notes of that term;
 - (ii) notify the Note holder that the Unsecured Note so issued will be redeemed if the Note holder gives notice to the Company requiring it to be redeemed within 14 days after the Note holder receives the notification; and
 - (iii) on receipt of a notice requiring the Unsecured Notes to be redeemed pay to the Note holder an amount equal to the Investment and interest at the rate applicable to the Unsecured Note calculated from the date on which the Application Form was accepted to the date on which the redemption money is sent.

ACCEPTANCE OF INVESTMENT

The Company will acknowledge in writing acceptance of all Investments within one month of issuing the Unsecured Note to Note holders.

The directors reserve the right to refuse any application for Unsecured Notes at their absolute discretion.

The Unsecured Notes are NON-TRANSFERABLE.

REPAYMENT OF INVESTMENTS

The proceeds shall be paid only to the person(s) named in the original Application Form or to his or her personal representative(s), or any person/organisation named by the depositor(s) in writing.

THIS APPLICATION FORM MAY NOT BE ISSUED, CIRCULATED OR DISTRIBUTED UNLESS ACCOMPANIED BY THIS PROSPECTUS DATED 19 OCTOBER 2009 OF WHICH IT FORMS PART.



Capilano Unsecured Notes

Application Form C

☐ Regular automatic additions to an existing At Call Investment

I/we hereby offer to add to my/our At Call Investment with Capilano Honey Limited subject to the conditions on the reverse side of this form

Account Name _____

Address _____

State _____ Postcode _____

INVESTMENT NO: _____

INVEST: ☐ Transfer from my/our Beekeeper Account an amount of \$_____ or _____% of proceeds from all future honey deliveries.

☐ Deduct from Wages an amount of \$_____. ☐ weekly ☐ fortnightly ☐ monthly

SIGNATURE: _____ Date: ____/____/____

Notes:

- When the account is in more than one name, in the absence of specific advice to the contrary, CHL is authorised to accept directions of any one of the signatories authorised to operate the account.
- LODGEMENT** - There is no minimum Investment amount. Cheques should be crossed, marked "Not Negotiable", and made payable to Capilano Honey Limited and mailed to PO Box 531, INALA QLD 4077. All Investments must be accompanied by this form which forms part of this Prospectus dated 19 October 2009.
- AUTHORITY** – This Authority remains in force until the earlier of
 - receipt by the Company of a written authority from the Note holder to cancel the authority; or
 - 18 November 2010.

This form expires on 18 November 2010

CONDITIONS OF INVESTMENT

This Application Form is part of this Prospectus dated 19 October 2009 and must not be issued unless accompanied by the Prospectus.

VARIATION OF INTEREST RATES

The Company reserves the right to increase or decrease on a monthly basis during the currency of this Prospectus all or any of the rates of interest on the Unsecured Notes offered by this Prospectus. In doing so the Company has adopted ASIC Class Order 00/174 "Debenture Prospectus: Updating of Interest Rate and Term Information" issued on 15 February 2000.

In adopting the Instrument, the Company has declined to specify the interest rates in the Application Forms accompanying this Prospectus on the following conditions:

1. That details of interest rates for the following month will be determined by the end of each month and may be obtained by contacting the Company by telephone (07) 3712 8282 facsimile (07) 3712 8286 or e-mail honey@capilano.com.au. In addition, the most current details of rates will accompany Capilano's Shareholder Newsletter and each copy of the Prospectus.
2. The Company hereby undertakes that if the Application Form specifies no interest rate; or an interest rate which differs from the interest rate currently offered by the Company for Unsecured Notes of that term and which is not acceptable to the Company, the Company will at its discretion, either:
 - a) return the Investment funds to the Note holder in full, without interest, within 14 days of lodgement; or
 - b) do any of the following:
 - (i) forthwith issue an Unsecured Note to the Note holder for the term specified in the Application Form at the rate which it currently offers for Unsecured Notes of that term;
 - (ii) notify the Note holder that the Unsecured Note so issued will be redeemed if the Note holder gives notice to the Company requiring it to be redeemed within 14 days after the Note holder receives the notification; and
 - (iii) on receipt of a notice requiring the Unsecured Notes to be redeemed pay to the Note holder an amount equal to the Investment and interest at the rate applicable to the Unsecured Note calculated from the date on which the Application Form was accepted to the date on which the redemption money is sent.

ACCEPTANCE OF INVESTMENTS

The Company will acknowledge in writing acceptance of all Investments within one month of issuing the Unsecured Notes to Note holders

The directors reserve the right to refuse any application for Unsecured Notes at their absolute discretion.

The Unsecured Notes are NON-TRANSFERABLE.

REPAYMENT OF INVESTMENTS

The proceeds shall be paid only to the person(s) named in the original Application Form or to his or her personal representative(s), or any person/organisation named by the depositor(s) in writing.

THIS APPLICATION FORM MAY NOT BE ISSUED, CIRCULATED OR DISTRIBUTED UNLESS ACCOMPANIED BY THIS PROSPECTUS DATED 19 OCTOBER 2009 OF WHICH IT FORMS PART.



Share Application Form

IMPORTANT NOTE: Members of the Public and Supplier Shareholders wishing to acquire Shares in CHL should acquire them through the BSX. This form is **ONLY** for the issue of one share to new Supplier Shareholders on signing a HSA or the issue of additional Shares to existing Supplier Shareholders unable to purchase Shares on the BSX to meet their HSA requirements.

Shareholder No.	_____	Tax File Numbers or Exemption details:
Full Name/s	1. _____	
	2. _____	
	3. _____	
	4. _____	
Address	_____	
	_____	_____
	_____	_____
ABN	_____	
Telephone No/s:	Work: () _____	Home: () _____
		Mobile: _____
Email address:	_____	

I/We wish to apply for ☐ **fully paid ordinary share/s in Capilano Honey Limited and attach a cheque**
(made payable to "Capilano Honey Limited", crossed and marked "Not Negotiable").

SIGNATURES: (All Applicants must sign)

I/we declare that we have personally received the complete and unaltered Prospectus prior to completing this Share Application Form.

_____ Dated:/...../..... *If the Applicant is a Company, this section must be completed.*

THE COMMON SEAL OF:

_____ Dated:/...../.....

Is affixed in accordance with its Constitution in the presence of:

_____ Dated:/...../.....

_____ Dated:/...../..... Director Director / Secretary

THIS SHARE APPLICATION FORM MAY NOT BE ISSUED, CIRCULATED OR DISTRIBUTED UNLESS ACCOMPANIED BY THIS PROSPECTUS DATED 17 OCTOBER 2009 OF WHICH IT FORMS PART. APPLICANTS SHOULD READ THIS PROSPECTUS BEFORE SIGNING THE APPLICATION.

This form expires on 18 November 2010



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www.capilano.com.au