



Australia's favourite honey!

Annual Report 2011



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Chairman's Report



This year has seen the consolidation of the business with a solid result, after the changes that were made over the last two years.

While it has been a good year for Capilano, many of our suppliers have endured weather conditions that have been unusual at best and severe in many other cases.

The floods in Queensland and

Victoria impacted on honey producers in those areas, and many other areas have been affected by considerably higher rainfall than is normal. Fortunately the Capilano factories and offices in Richlands and Maryborough are both well above any potential flood levels and were not directly affected.

These unusual conditions resulted in the supply of honey being below what was expected at the beginning of the year, but Capilano was able to obtain adequate supplies of Australian honey to meet its requirements, although stock levels are relatively low at the end of the financial year. The good rainfall over almost all of the areas that supply honey to the company is expected to result in ample supply of good quality honey for the coming year.



Results

A net profit after tax of \$4.47m for the year is a good result that builds on the solid performance achieved in the second half of last year.

This was achieved while paying a reasonable and consistent price to suppliers for honey that resulted in an average of \$3.25/kg for the year over all grades.

The decision last year to exit marginal export business and to focus only on more profitable sales has seen a reduction in total sales, but an increase in profitability. The continued high value of the Australian dollar compared to most other currencies during this year has proven the merit of that decision.

The Board resolved to pay a fully franked final dividend of 15 cents per share for the year on all ordinary shares.

While debt reduction continues to be an objective of the Board, some return to shareholders is warranted. The amount being paid in dividend is only a proportion of the profit for the year, less than half; the remainder will be applied to debt reduction. Following the significant reduction in debt that was achieved last financial year, this year has seen a further reduction of \$7.1m in interest bearing debt since July 2010.

Cash flow continues to be strong and debt remains well within borrowing facility.

Business Overview

We will continue to focus on profitable markets for honey and building our brand strength in those markets.

Congratulations must go to our small sales team for the concerted effort, working with our major customers, to increase the strength of the honey category within

supermarkets. This has seen a steady increase in Capilano's market share against our competitors this year and has led to the category being more productive for both Capilano and our customers.

With a supply base that matches our expected requirement we have reduced the risk associated with over supply and are well placed to take advantage of any opportunities as they arise.

A decision to consolidate all facilities to the Maryborough factory, provided an acceptable amount could be received for the sale of the Richlands factory, resulted in several offers but none that met the value or risk criteria set down by the Board. To avoid any further disruption and uncertainty for staff and suppliers it was resolved in June to discontinue the sale program and to retain the Richlands facility.

Our People

The good result this year could not have been achieved without the dedication and commitment of all the staff and management at the company, they have done an outstanding job and I thank them for their efforts.

The company has been trimmed of any excess expense to improve competitiveness, however this has meant in many cases the work and responsibility of running the operation is done by only a few people, this has resulted in a more efficient operation but we remain vigilant that adequate succession planning and backups are maintained. The Board has spent some time recently to ensure this happens.

I would also like to thank the other members of the Board for their commitment, willingness to work hard and their attention to detail over the last year. We have a small Board now, also in the interests of reducing costs and improving efficiency, but this places a considerably greater level of responsibility and work on those few Board members. The current Board works well, offering a range of expertise and operates as a very effective team.

Finally I would like to thank our shareholders and suppliers for their continued support.

Trevor Morgan
Chairman



Board of Directors



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

Age 56

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

Mr Morgan has been a director since 1998, was Deputy Chairman from 2004 – 2005 and was elected Chairman in 2005. He is a second generation beekeeper with over 30 years experience in honey production. He has been widely involved in industry matters for many years at both State and National level; serving on the South Australian Apiarist Association executive for more than 10 years, including 2 years as President. He is a Fellow of the Australian Institute of Company Directors and holds a Company Directors' Advanced Diploma.



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

Age 56

Appointed Director 1996

Mr Masters was appointed Managing Director in 1996. He has a Bachelor of Commerce Degree, a Masters Degree in Business Administration and is an Associate of the Institute of Chartered Accountants. He has had an extensive career in senior management with significant experience in finance, marketing and business development.



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

Age 54

Elected Director 1993

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



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

Age 63

Appointed Director 2006

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

(FMCG – fast moving consumer goods)

Review of Operations 2010-11



For the financial year 2011 we are pleased to report a net profit after tax of \$4,470,429 following a full year trading under a changed business model.

This result includes a tax benefit of \$766,487 arising out of the asset write-downs of last year.

A strong cash flow from operating activities produced by profit and release of working capital has enabled further reduction in bank debt.

A dividend of 15 cents per share is included in these results and was paid on the 12 July 2011.

Capilano's interest bearing debt reduced from \$28.5 million on 1 July 2009 to \$18.1 million as at 30 June 2010. It was \$11.0 million as at 30 June 2011, being a reduction of \$17.5 million in two years.

Last year I wrote that the past role expected of Capilano was to look after the honey surplus that existed in Australia and protect the price that honey was sold at. That role may have been in the interests of our shareholders when almost all were suppliers. The role was not sustainable as more small packers emerged together with increasing numbers of beekeepers choosing to "play the field". The market price for honey paid by low-cost packers was not affected by export earnings.

We are now seeing the benefit of the program started four years ago to change our cost structure and the impact of the withdrawal from marginally profitable export markets formerly required to take surplus honey.

Our honey supply is now matched to our needs through adjustments to our quota pool.

Our capital structure has changed with additional new capital of \$2,661,860 raised from the Rights Issue in 2010.

This new business model is driving our results.

Financial & Sales

Our Group results are shown below:

(\$,000's)	2009	2010	2011
Revenue	78,493	72,156	63,191
Earnings before Interest & Tax	2,537	(3,716)	4,767
Net Profit after tax	707	(5,978)	4,470
Cash generated from Operating Activities	2,295	8,495	8,559

The 2011 profit includes the impact of:

- A revenue decline by \$8.9 million with the drop in marginal export markets offset by growth in the domestic market through improved market share.
- A significant drop in expenses due to reduced transportation, overhead and administration costs.
- A tax benefit of \$766,487 arising out of the asset write-downs of last year.
- Foreign exchange gains of \$101,000.
- Decrease in interest & borrowing cost of \$747,728.
- Last year included the write-down in intangible assets of \$5.1 million.

	2009	2010	2011
Current Ratio	1.57	2.02	1.76
Debt (Total Liabilities / Total Assets)	62.9%	59.4%	49.9%
Interest Cover (EBIT DA/ Interest)	2.34	2.49	6.0
Net Assets (\$'000's)	21,954	18,700	22,226

- A provision of \$1,278,030 for dividend is included in current liabilities;
- EBITDA is \$6.427 million;
- The increase in assets includes:
 - Deposits for \$437,326 for equipment to be installed in financial year 2012;
 - IT upgrade and replacement IBC's requiring an outlay of \$199,849;
 - PET equipment of \$129,796.
- Interest cover in 2010 excluded the goodwill writedown.

Operations & Honey Supply

Domestic receivals were 7,152 tonnes compared with 7,388 tonnes last year. An amount of 1,829 tonnes of imported honey was used to supplement the shortfall of domestic honey in industrial and export markets, a drop of 1,123 tonnes from the prior year.

Shareholders and quota holders will be given preference to non-shareholders in buying honey.

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

During the year an issue arose over the incursion of the Asian bee in the Cairns area and governments role in attempts to eradicate it. Capilano has supported the efforts of Australian Honey Bee Industry Council and a public campaign 'Food Security Needs Bee Security' in motivating the government to take a more active stance in the eradication of the pest. The bee posed a potential threat to our industry.

Review of Operations 2010-11

State beekeeping organisations have been active in persuading government at State and Federal level to take action. Capilano has provided funding to AHBIC and personnel through the Chair of Food Safety & Prevention of Residues Committee. Our beekeeper shareholders are participating through their organisations.

The outcome is that government in conjunction with beekeepers are acting to achieve containment of the Asian bee.



Outlook

We advised during the year of a plan to consolidate our operations under one roof at our plant in Maryborough, Victoria in order to minimize costs and maximize return on investment. However, it was subject to the sale of our Richlands' site. Although offers for Richlands' site were received during the sale program they did not meet the value and/or risk criteria set down by the Board.

Consequently the decision to remain in Richlands was made.

In working towards a goal of lowest cost manufacturer we are replacing one of our packing lines in financial year 2012, which is now operating beyond the end of its useful life.

This investment in equipment will make us more competitive in the market place.

The share price seems fairly static and currently trading below net tangible asset value. The Board will continue to consider all opportunities which will release and/or add value to shareholders.

I thank all our suppliers and staff for their support this year.



Roger Masters
Managing Director



Concise Financial Report 11

This concise report has been derived from the full financial report for the year ended 30 June 2011. The full financial report and audit report is available free of charge on request.

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

Report of the Directors

Your directors present their report on the consolidated entity consisting of Capilano Honey Limited ('CHL') and the entities it controlled at the end of or during the year ended 30 June 2011.

→ DIRECTORS

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

- Peter Barnes, *Director* (1 July – 26 November 2010)
- Roger D Masters, *Managing Director*
- Phillip F McHugh, *Deputy Chairman*
- Trevor R Morgan, *Chairman*
- Simon L Tregoning, *Independent Director*

→ ACTIVITIES

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

→ CONSOLIDATED RESULTS

The operating profit of the consolidated entity for the year after income tax was \$4,470,429.

→ DISTRIBUTIONS

No dividend was paid during the year.

The directors have declared a fully franked ordinary dividend of fifteen cents per share amounting to \$1,278,030 for the year ended 30 June 2011.

This dividend was payable on ordinary shares held at 28 June 2011 and has been paid on 12 July 2011.

→ REVIEW OF OPERATIONS

Sales revenue of \$63,014,149 for the consolidated entity was \$9,023,098 below the previous year's result. An analysis of this sales decrease is as follows:-

	% increase / of 2011 over 2010	2011 \$	2010 \$
Capilano Honey Limited	(4.5%)	63,014,149	65,982,799
Capilano Canada Inc.	(100%)	-	14,261,748
Intercompany sales	(100%)	-	(8,207,300)
Consolidated entity	(12.5%)	63,014,149	72,037,247

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

→ MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There is at the date of this report no matter or circumstance which has arisen since 30 June 2011 that has significantly affected or may significantly affect:-

- the operations of the consolidated entity;
- the results of those operations; or
- the state of affairs of the consolidated entity in financial years subsequent to 30 June 2011.

→ SIGNIFICANT CHANGES

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

→ LIKELY DEVELOPMENTS

Likely future developments of the consolidated entity include continuing competitive marketing of the consolidated entity's brands on both domestic and export markets, and the replacement of one of our packing lines improving our efficiencies and variable costs further.

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

Report of the Directors

→ INFORMATION ON DIRECTORS

<i>Director</i>	<i>Qualifications/ Experience</i>	<i>Special Responsibilities</i>	<i>Shares held in Parent entity</i>
Peter BARNES	Commercial apiarist. Director from 2007 to 26 November 2010.	Period: 1 July – 26 November 2010 Non-Executive Beekeeper Director of Capilano Honey Limited. Non-Executive Beekeeper Director of Capilano Beekeepers Ltd. Member of the Honey Supply & Industry, Audit & Compliance and Nomination Committees. Period: 26 November 2010 – 30 June 2011 Non-Executive Beekeeper Director of Capilano Beekeepers Ltd.	P Barnes holds 107,520 shares directly and 11,400 shares indirectly.
Roger David MASTERS	B.Com, MBA, CA Managing Director since July 1996	Managing Director of Capilano Honey Limited. Member of the Audit & Compliance and Honey Supply & Industry Committees. Managing Director of Capilano Beekeepers Ltd. <i>In addition to the above</i> , Member of the HR & Nomination Committees from 26 November 2010.	R D Masters holds 1 share directly and 333,800 shares indirectly.
Phillip Francis McHUGH	Commercial apiarist. Director since 1993 <u>Deputy Chairman</u> since 2007	Non-Executive <u>Deputy Chairman</u> of Capilano Honey Limited. Non-Executive Deputy Chairman of Capilano Beekeepers Ltd. Chairman of the Honey Supply & Industry Committee and Member of the HR and Nomination Committees. <i>In addition to the above</i> , Member of the Audit & Compliance Committee from 26 November 2010.	P F McHugh holds 10,600 shares directly and 33,676 shares indirectly.
Trevor Richard MORGAN	FAICD Commercial apiarist Director since 1998 <u>Chairman</u> since 2006	Non-Executive <u>Chairman</u> of Capilano Honey Limited, Chairman of Nomination Committee and a Member of the Honey Supply & Industry Committee. Non-Executive Chairman of Capilano Beekeepers Ltd. <i>In addition to the above</i> , Member of the HR and Audit & Compliance Committees from 26 November 2010.	T R Morgan holds 37,128 shares directly and 2,000 shares indirectly.
Simon Lucien TREGONING	B.Com Independent Director since July 2006.	Independent Non-Executive Director of Capilano Honey Limited. Independent Non-Executive Director of Capilano Beekeepers Ltd. Chairman of both the Audit & Compliance and HR Committees. <i>In addition to the above</i> , Member of the Honey Supply & Industry and Nomination Committees from 26 November 2010. Also a Director of GrainCorp Limited.	Nil
Company Secretary			
Richard RIVALLAND	B.Com, CPA Company Secretary from 1 March 2008 – 28 January 2011.	Period: 1 July 2010 – 28 January 2011 Richard Rivalland has a Bachelor of Commerce Degree majoring in Accounting and Management Accounting and is a Certified Practising Accountant. Mr Rivalland joined the Company in March 2003 as Management Accountant and was appointed Financial Controller in November 2004. Mr Rivalland was appointed Company Secretary on 1 March 2008 in addition to his role as Financial Controller.	R Rivalland holds 13,000 shares directly and 58,685 shares indirectly.
David GRAHAM	B.Bus, CPA Appointed Company Secretary on 28 January 2011.	Period: from 28 January 2011 David Graham has a Bachelor of Business, majoring in Banking and Finance and is a Certified Practising Accountant. Mr Graham joined the Company in January 2011 as Financial Controller. Mr Graham was appointed Company Secretary on the 28th of January 2011 in addition to his role as Financial Controller.	Nil

Report of the Directors

→ MEETINGS OF DIRECTORS

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

	<i>Directors Meetings of the Company</i>	<i>Committee Meetings of Directors</i>				<i>General Meetings of the Company</i>
	No. of Meetings Attended / Held (*)	Audit & Compliance	Honey Supply & Industry	Human Resource	Nomination	No. of Meetings Attended / Held (*)
P Barnes	3 of 4	2 of 3	2 of 3	-	-	1 of 1
R Masters	9 of 9	6 of 6	6 of 6	6 of 6	-	1 of 1
P McHugh	9 of 9	6 of 6	6 of 6	6 of 6	-	1 of 1
T Morgan	9 of 9	6 of 6	6 of 6	6 of 6	-	1 of 1
S Tregoning	9 of 9	5 of 6	4 of 5	5 of 6	-	1 of 1

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

→ ENVIRONMENTAL REGULATIONS

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

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

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

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

→ PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

→ REMUNERATION REPORT

1. CAPILANO HR COMMITTEE

▪ **Role**

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

The responsibilities of the Committee include:

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

▪ **Memberships and Meetings**

	No. of Meetings Attended / Held
<i>Members of HR Committee</i>	
S Tregoning (Chairman)	5 of 6
P McHugh	6 of 6
R Masters	6 of 6
T Morgan	6 of 6

Report of the Directors

2. CAPILANO'S REMUNERATION POLICY (AUDITED)

▪ *Reward Philosophy*

Capilano's remuneration philosophy is that:

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

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

▪ *Reward Principles*

The purpose of the remuneration policy is to ensure that salary packages offered by Capilano will be sufficient to attract and retain managers and supervisors with abilities and skills appropriate to the needs of the company and are measured by the company as Total Employment Cost (TEC).

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

The determination of TEC includes three basic principles:

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

1. External Parity

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

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

2. Internal Parity

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

3. Reward for Achievement

Management and supervisory personnel should have the opportunity to earn incentive payments geared to achievement of annual results exceeding targets and improvements in long term shareholder prosperity. These principles are applied in the form of the Annual Incentive Plan. The Annual Incentive Plan is indorsed by the HR Committee and approved by the Board.

▪ *Annual Review*

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

- a) Managing Director – reviewed by the Board with advice from the Board HR Committee;
- b) Senior Executives reporting to the Managing Director – reviewed by the Managing Director and subject to endorsement by the Board HR Committee; and
- c) All other salaried staff – reviewed by Functional Managers (Heads of Departments) and subject to approval by the Managing Director.

Report of the Directors

3. CAPILANO TOTAL REWARD STRUCTURE (AUDITED)

The HR Committee is responsible for reviewing and recommending remuneration arrangements for the directors, the Managing Director and the executive team. The HR Committee assesses the appropriateness of the nature and amount of remuneration of such officers on an annual basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient whilst controlling costs for Capilano.

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

In addition, the following plans are in place:

▪ Incentive Plans

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

▪ Short Term (Annual)

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

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

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

5. DIRECTORS AND EXECUTIVES REMUNERATION DISCLOSURE (AUDITED)

▪ Directors' Benefits

Since the end of the previous financial year, no director of the company has received or become entitled to receive a benefit (other than a benefit included in the directors and executives remuneration disclosure below, the pro-rata payment of or entitlement to such a benefit for the period since 30 June 2010, a fixed salary as a full-time employee, or normal payments for the supply of honey by directors who are also beekeepers) by reason of a contract made by the company, an entity which the company controlled, or a body corporate that is related to the company with the director or with a firm of which he is a member, or with an entity in which he has a substantial financial interest, except as stated below.

▪ Details of Directors

P Barnes	Director (Non Executive)	1 July – 26 November 2011
R Masters	Managing Director	
P McHugh	Deputy Chairman (Non Executive)	
T Morgan	Chairman (Non Executive)	
S Tregoning	Director (Independent Non Executive)	

▪ Details of Most Highly Remunerated Executives and Key Management Personnel

R Eustace	Marketing Manager	1 July 2010 – 31 March 2011
D Graham	Company Secretary, Financial Controller	From 28 January
P McDonald	Sales Director	
B McKee	General Manager (Operations)	
R Rivalland	Company Secretary, Financial Controller	1 July 2010 – 28 January 2011

▪ Gross Remuneration of Directors

	Short Term Benefits			Post Employment Benefits	Total
	Cash salary and fees	Non monetary benefits	Incentives	Super annuation	
	\$	\$	\$	\$	\$
P Barnes	14,681	-	-	1,321	16,002
R Masters	167,930	197,698	77,175	18,103	460,906
P McHugh	44,220	-	-	3,979	48,199
T Morgan	17,832	-	-	59,917	77,749
S Tregoning	57,060	-	-	5,135	62,195
TOTALS 2011	301,723	197,698	77,175	88,455	665,051

The remuneration amounts listed above are gross earnings before tax.

Report of the Directors

5. DIRECTORS AND EXECUTIVES REMUNERATION DISCLOSURE (AUDITED) (continued)

▪ Details of Most Highly Remunerated Executives and Key Management Personnel

	Short Term Benefits			Post Employment Benefits		Total
	Cash salary and fees	Non monetary benefits	Incentives	Super annuation	Termination Payments	
	\$	\$	\$	\$	\$	\$
R Eustace ^{Note:1}	84,222	11,700	-	13,044	102,927	211,893
D Graham ^{Note:2}	55,696	-	-	5,022	-	60,718
P McDonald	136,137	10,520	33,398	12,095	-	192,150
B McKee	135,711	9,000	31,097	12,220	-	188,028
R Rivalland ^{Note:2}	118,662	-	34,000	8,188	-	160,850
TOTALS 2011	530,428	31,220	98,495	50,569	102,927	813,639

The remuneration amounts listed above are gross earnings before tax.

^{Note:1} The Position of Marketing Manager was made redundant in March 2011 as part of the corporate restructure.

^{Note:2} Change in Company Secretary / Financial Controller on 28 January 2011.

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

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

▪ Policy

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

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

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

▪ Directors' Fees

At the 2004 AGM, Shareholders approved the total remuneration of Directors. Distribution of Director's fees by position, for the 2010/11 year were as follows:

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

* In addition to the amount payable as a NED.

Superannuation Guarantee contribution - \$16,856.

Directors and Officers Liability Insurance – 2011: \$25,580; 2012: \$25,580

7. LINKING TOTAL REWARD TO PERFORMANCE (AUDITED)

Capilano seeks to emphasise reward incentives for results and continued commitment to Capilano through provision of the Annual Incentive Plan, specifically through the incorporation of incentive payments based on the achievement of financial and non-financial performance targets and objectives.. These conditions provide management with a performance target which focuses upon sales growth and efficient utilisation of group resources.

The table below indicates the earnings and shareholder value against the remuneration of Key Management personnel:

	2007	2008	2009	2010	2011
Earnings per share	36.4¢	(144.6¢)	13.7¢	(95.9¢)	52.6¢
Net Asset Value	\$28,098,604	\$22,176,095	\$21,954,233	\$18,699,916	\$22,225,578
Key Management Personnel Remuneration (including Managing Director)	\$1,488,714	\$1,070,875	\$1,147,858	\$1,147,002	\$1,274,545

8. EMPLOYMENT CONTRACTS (AUDITED)

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

Report of the Directors

→ NON-AUDIT SERVICES

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

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

The following fees for non-audit services were paid or were payable to the external auditors during the year ended 30 June 2011:

	\$
Taxation Services	10,600
Review of Prospectus	3,150
	<u>13,750</u>

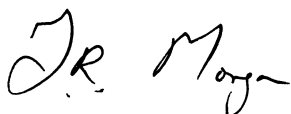
→ AUDITORS

William Buck continue in office in accordance with the *Corporations Act 2001*.

→ AUDITORS' INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 12 of the annual report.

Signed at Brisbane this NINETEENTH day of AUGUST 2011, in accordance with a resolution of the directors.



T R Morgan, Director



R D Masters, Director

Auditor's Independence Declaration



The Directors
Capilano Honey Limited
399 Archerfield Road
RICHLANDS QLD 4077

Auditor's Independence Declaration Under Section 307c of the Corporations Act 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads "William Buck".

William Buck

A handwritten signature in black ink that appears to read "M. Ayoob".

M. Ayoob
Director

Brisbane
19 August 2011

Sydney
Melbourne
Brisbane
Perth
Adelaide
Auckland

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Praxity
ASSOCIATE
GLOBAL ALLIANCE OF
INDEPENDENT FIRMS

Corporate Governance

→ THE BOARD OF DIRECTORS

Board Composition

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

At 30 June 2011 the CHL Board of Directors consisted of two Beekeeper Directors, one Independent Director and the Managing Director.

Number and appointment of Directors

The number of Directors shall not be less than 3 nor more than 8, which the Board may from time to time determine.

The constitution of CHL provides that as long as the Foundation Share is on issue, the Foundation Shareholder may appoint two Beekeeper Directors to the Board of Directors of the Company from time to time by written notice to the Company.

Power to appoint Directors

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

Independent Directors shall be elected by the shareholders.

Retirement of Independent Directors

The Constitution of CHL provides that at every annual general meeting, one third of the Independent Directors or, if their number is not a multiple of 3, then the number nearest to but not less than one third must retire from office provided that no independent director who has served less than 2 years is required to retire. A Director must retire from office at the conclusion of the third annual general meeting after which the Director was elected or re-elected. A retiring Director if eligible may stand for re-election.

A Managing Director is not subject to retirement by rotation.

Board Chairman and Deputy Chairman

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

→ THE CAPILANO GROUP BOARD CHARTER

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

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

→ CORE PURPOSE

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

→ BOARD FUNCTIONS

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

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

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

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

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

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

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

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

→ BOARD FUNCTIONS (continued)

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

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

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

Annual Budgets - to approve annual operating budgets and capital investment budgets.

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

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

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

Corporate Governance

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

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

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

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

→ BOARD COMMITTEES

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

The Board has appointed the following Committees:

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

Committee Membership

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

Meetings

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

Objectives and Specific Responsibilities

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

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

Corporate Governance

→ BOARD COMMITTEES

▪ Audit and Compliance Charter *(continued)*

Authority

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

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

Reporting

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

Review of Charter

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

→ OBLIGATIONS AND RESPONSIBILITIES OF DIRECTORS

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

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

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

→ ASSESSMENT OF BOARD, DIRECTOR AND MANAGEMENT PERFORMANCE

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

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

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

Consolidated Income Statement

For the year ended 30 June 2011

	Notes	2011 \$	2010 \$
Revenue	2	63,191,242	72,155,516
Finance costs		(1,194,967)	(1,942,695)
Expenses		(58,292,333)	(70,042,104)
Operating profit		3,703,942	170,717
Goodwill impairment		-	(5,108,423)
Profit (loss) before income tax		3,703,942	(4,937,706)
Income tax saving (expense)		766,487	(1,041,289)
Net profit (loss) for the year attributable to members of CHL		4,470,429	(5,978,995)
Earnings per share (cents)		52.6	(95.9)
Diluted earnings per share (cents)		52.6	(95.9)

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

Discussion & Analysis

- Operating Profit of \$3.704 includes \$1.66m of depreciation and amortisation and \$1.063m of interest charges giving an EBITDA of \$6.427m for 2011 (2010 EBITDA \$3.047m)
- Income tax saving of \$766k includes a \$1.66m tax benefit that was booked in the last financial year.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	2011 \$	2010 \$
Net profit (loss) for the year attributable to members of CHL	4,470,429	(5,978,995)
Other comprehensive income		
Change in market value of available for sale financial assets	-	711,116
Adjustments from the translation of foreign controlled entities	-	(15,036)
Other comprehensive income for the year, net of tax	-	696,080
Total comprehensive income for the year attributable to members of CHL	4,470,429	(5,282,915)

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

Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	2011 \$	2010 \$
CURRENT ASSETS			
Cash and cash equivalents		637,197	472,375
Trade and other receivables		11,807,346	10,628,939
Inventories		9,194,261	12,160,225
Other current assets		164,083	163,552
TOTAL CURRENT ASSETS		21,802,887	23,425,091
NON-CURRENT ASSETS			
Other financial assets		-	-
Property, plant and equipment		18,984,627	19,697,479
Intangible assets		141,789	180,324
Deferred tax assets		3,474,867	2,708,380
TOTAL NON-CURRENT ASSETS		22,601,283	22,586,183
TOTAL ASSETS		44,404,170	46,011,274
CURRENT LIABILITIES			
Trade and other payables		9,537,960	8,093,727
Short term borrowings		1,565,928	3,518,947
Provision for dividend	3	1,278,030	-
TOTAL CURRENT LIABILITIES		12,381,918	11,612,674
NON-CURRENT LIABILITIES			
Long term borrowings		9,526,648	15,389,460
Long term provisions		270,026	309,224
TOTAL NON-CURRENT LIABILITIES		9,796,674	15,698,684
TOTAL LIABILITIES		22,178,592	27,311,358
NET ASSETS		22,225,578	18,699,916
EQUITY			
Issued capital		7,728,221	7,394,958
Reserves		4,042,851	4,042,851
Retained earnings		10,454,506	7,262,107
TOTAL EQUITY		22,225,578	18,699,916

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

Discussion & Analysis

- Long and short-term borrowings have been reduced by \$7.8 million,
 - Inventories decreased by \$2.97 million following the withdrawal from export markets made marginally profitable by unfavourable exchange rates,
 - Additional capital of \$333k was raised through a the Shortfall Facility,
 - Deferred tax assets of \$3.47 million are based on the Australian tax rate of 30% and are \$1.0 million more than 2010 following the realisation of the write off of receivables due from Capilano Canada Inc.
- Provision for dividend was 15 cents on 8,520,199 shares.
- Net asset backing per share is \$2.61 at 30 June 2011.

Consolidated Statement of Change in Equity

For the year ended 30 June 2011

	Share Capital		Reserves		Retained Earnings	Total Equity
	Ordinary	Foundation	Revaluation Surplus	Foreign Currency Translation		
	\$	\$	\$	\$	\$	\$
Balance at 30 June 2009	5,366,359	1	3,331,735	15,036	13,241,102	21,954,233
Shares issued during the year	2,028,598	-	-	-	-	2,028,598
Net loss attributable to members of CHL	-	-	-	-	(5,978,995)	(5,978,995)
Other comprehensive income for the year	-	-	711,116	(15,036)	-	696,080
Balance at 30 June 2010	7,394,957	1	4,042,851	-	7,262,107	18,699,916
Shares issued during the year	333,263	-	-	-	-	333,263
Net profit attributable to members of CHL	-	-	-	-	4,470,429	4,470,429
Dividend recognised for the year	-	-	-	-	(1,278,030)	(1,278,030)
Balance at 30 June 2011	7,728,220	1	4,042,851	-	10,454,506	22,225,578

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	Inflows (Outflows)	
	2011 \$	2010 \$
Cash flows from operating activities		
Receipts from customers	62,060,466	72,459,171
Payments to suppliers and employees	(53,453,924)	(63,952,931)
Interest received	3,196	14,011
Goods and services tax received	1,011,007	1,196,881
Interest paid	(1,061,753)	(1,221,819)
Net cash generated from operating activities	8,558,992	8,495,313
Cash flows from investing activities		
Payment for property, plant and equipment	(918,133)	(1,416,048)
Proceeds from sale of shares in listed entity	-	1,480,839
Proceeds from sale of property, plant and equipment	6,532	33,745
Net cash (used in) generated from investing activities	(911,601)	98,536
Cash flows from financing activities		
Proceeds from share allotments	333,263	2,028,598
Repayment of borrowings	(7,567,179)	(10,638,260)
Net cash used in activities	(7,233,916)	(8,609,662)
Net increase (decrease) in cash and cash equivalents held	413,475	(15,813)
Cash and cash equivalents at the beginning of the financial year	223,722	239,535
Cash and cash equivalents at the end of the financial year	637,197	223,722

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

Discussion & Analysis

- Cash of \$8.56 million was generated by the operating activities including working capital released following the exit of export markets made marginally profitable by unfavourable exchange rates.
- Cash generated, along with capital raised through the Shortfall Facility, was used to repay borrowings and fund plant and equipment purchases.

Notes to the Consolidated Financial Statements

1. BASIS OF PREPARATION OF THE CONCISE FINANCIAL REPORT

The concise financial report is an extract from the full financial report for the year ended 30 June 2011. The concise financial report has been prepared in accordance with Accounting Standard AASB 1039: Concise Financial Reports, and the *Corporations Act 2001*.

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

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

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

2. REVENUE

Sales revenue
Interest received
Sundry

Consolidated	
2011 \$	2010 \$
63,014,149	72,037,247
3,196	14,011
173,897	104,258
63,191,242	72,155,516

3. DIVIDENDS

A dividend of 15 cents per ordinary share has been declared for the year ended 30 June 2011 (2010 – Nil)

Franked dividends

Franking credits available for subsequent financial years

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

Parent Entity	
2011 \$	2010 \$
1,278,030	-
1,837,682	2,385,409

4. SEGMENT REPORTING

(a) Segment Performance

Sales revenue
Other revenue
Total segment revenue
Unallocated revenue less unallocated expenses
Profit before income tax

30 June 2011		
Domestic \$	Export \$	Consolidated \$
47,068,667	15,945,482	63,014,149
47,068,667	15,945,482	63,014,149
75,717	101,376	177,093
47,144,384	16,046,858	63,191,242
		(59,487,300)
		3,703,942

Sales revenue
Other revenue
Total segment revenue
Unallocated revenue less unallocated expenses
Loss before income tax

30 June 2010		
Domestic \$	Export \$	Consolidated \$
45,157,409	26,879,838	72,037,247
97,021	21,248	118,269
45,254,430	26,901,086	72,155,516
		(77,093,222)
		(4,937,706)

Notes to the Consolidated Financial Statements

4. SEGMENT REPORTING (continued)

(b) Segment Assets	Domestic \$	Export \$	Unallocated \$	Consolidated \$
30 June 2010	7,443,783	3,490,182	35,077,309	46,011,274
30 June 2011	9,359,405	2,660,835	32,383,930	44,404,170
Change in total assets	1,915,622	(829,347)	(2,693,379)	(1,607,104)

The reduction in Group assets is predominantly due to a reduction in inventories of \$2,965,964 against the addition of future income tax benefits of \$766,487. The lower trade receivable for export has resulted from the exit from certain export market segments while the reduction in inventories is largely due to the seasonal nature of the primary production of honey.

(c) Segment Liabilities	Domestic \$	Export \$	Unallocated \$	Consolidated \$
30 June 2010	5,480,063	1,560,908	20,270,387	27,311,358
30 June 2011	3,754,276	284,805	18,139,511	22,178,592
Change in total liabilities	(1,725,787)	(1,276,103)	(2,130,876)	(5,132,766)

The reduction in Group liabilities of \$5,132,766 is predominantly due to the repayment in borrowings of \$7,567,179 and offset by an increase in trade and other payables.

(d) Change in identification of segments

The review of and subsequent withdrawal from some marginal export markets, combined with an increased domestic focus has necessitated a change in the identification of operating segments. Previously segments were identified by the geographical segment the business operated in, namely Australia and North America. Segments are now identified by customer location.

(e) Revenue by geographical region

	Consolidated	
	2011 \$	2010 \$
Australia	47,245,760	38,875,417
Asia	8,562,977	12,120,305
Middle East	2,731,612	3,333,407
North America	2,961,819	14,307,694
UK & Europe	1,257,326	3,128,509
Other foreign countries	431,748	390,184
Total revenue	63,191,242	72,155,516

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

(f) Assets by geographical region

Australia	44,251,289	45,616,716
Foreign countries	152,881	394,558
Total assets	44,404,170	46,011,274

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

(g) Major customers

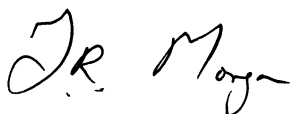
The Group has a number of customers to whom it provides products. The Group supplies five major customers accounting for 75% of revenue (2010: 70%). The next most significant customer accounts for 2.5% of revenue (2010: 3%).

Directors' Declaration

The directors of the company declare that the concise financial report of Capilano Honey Limited and Controlled Entities for the financial year ended 30 June 2011, as set out on pages 16 to 22;

- a. comply with Accounting Standards and the Corporations Regulations 2001; and
- b. give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the company and consolidated entity;

Signed at Brisbane this NINETEENTH day of AUGUST 2011 in accordance with a resolution of the directors.



T R Morgan, Director



R D Masters, Director

Independent Audit Report to the Members



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPILANO HONEY LIMITED

Report on the Concise Financial Report

The accompanying concise financial report of Capilano Honey Limited and Controlled Entities (the consolidated entity) comprises the statement of financial position as at 30 June 2011, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and related notes, derived from the audited financial report of Capilano Honey Limited and Controlled Entities for the year ended 30 June 2011, as well as the discussion and analysis. The concise financial report does not contain all the disclosures required by Australian Accounting Standards.

Directors' responsibility for the concise financial report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Capilano Honey Limited and Controlled Entities for the year ended 30 June 2011. Our auditor's report on the financial report for the year was signed on 19 August 2011 and was not subject to any modification. Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement. Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the corporations act 2001.

Auditor's Opinion

In our opinion, the concise financial report including the discussion and analysis of Capilano Honey Limited and Controlled Entities for the year ended 30 June 2011 complies with Accounting Standard AASB 1039: Concise Financial Reports.

A handwritten signature in black ink that reads "William Buck".

William Buck

A handwritten signature in black ink that appears to read "M. Ayoub".

M. Ayoub
Director

Brisbane
19 August 2011

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williambuck.com

William Buck is an association of independent firms, each trading under the name of William Buck across Australia and New Zealand with affiliated offices worldwide. Liability limited by a scheme approved under Professional Standards Legislation other than for acts or omissions of financial services licensees.



Shareholders' Information

As at 31 July 2011

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

a) **Classes of Shares**

There is one Foundation Share on issue, which is held by CBL.

All other shares are ordinary shares in the company.

b) **Voting Rights**

Ordinary Shares entitle their holder to one vote per share, either in person or by proxy, at a meeting of the company.

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

c) **Distribution of Shareholdings**

The number of shareholders, by size of holding are:

	<u>Foundation Share</u>		<u>Ordinary Shares</u>	
	<u>Number of Holders</u>	<u>Number of Shares</u>	<u>Number of Holders</u>	<u>Number of Shares</u>
1 – 1,000	1	1	88	37,507
1,001 – 5,000			266	755,462
5,001 – 10,000			153	1,136,695
10,001 – 100,000			180	3,851,900
100,001 and over			8	2,738,634
			695	8,520,198

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

There are 42 shareholders holding 4,303 shares which the company considers to be less than a marketable parcel of shares (value \$500), when using a value of \$1.12 per share, being the weighted average traded price of the last 5 share trades on the Bendigo Stock Exchange.

e) **Ten largest shareholders**

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

		<u>Number of Ordinary Shares</u>	<u>Percentage of Ordinary Shares</u>
1	GPG NOMINEES PTY LIMITED	1,078,167	12.65%
2	BAKER FAMILY SUPER FUND	387,143	4.54%
3	MASTERS R D <SUPER FUND>	333,800	3.92%
4	QUINN P J <SUPER FUND>	328,666	3.86%
5	JENIK M	201,000	2.36%
6	YTQUES S	201,000	2.36%
7	PAULEY G F & M J	108,856	1.28%
8	CAPEFIN PTY LTD	100,002	1.17%
9	WINPAR HOLDINGS LIMITED	100,000	1.17%
10	SLOSS J & N	84,887	1.00%
		2,923,521	34.31%

f) **Company Secretary**

Mr David Graham

g) **Registered Office**

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

h) **Register of Securities**

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

**Registered Office
Head Office
Queensland Branch**

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Telephone: (07) 3712 8282
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Websites

www.capilano.com.au

**Capilano Group
of Companies**

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Honey Corporation of Australia Pty Ltd

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

Bankers

HSBC Bank Australia Limited

Auditors

William Buck
Chartered Accountants



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