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**Freedom Nutritional  
Products Limited**

Annual Report  
**2008**



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## ANNUAL GENERAL MEETING

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<b>Date</b>	30 October, 2008.	<b>Time</b>	11.30 am
<b>Venue</b>	Deloitte Touche Tohmatsu Level 9, Grosvenor Place, 225 George Street, Sydney, NSW, 2000		





	2004	2005	2006	2007	2008
Sales Revenue (\$000's)	32,940	37,954	46,963	48,683	54,082
EBITDA (\$000's)*	360	2,090	2,921	3,173	3,203
Net Profit / (Loss) before Tax (\$000's)	(1,237)	643	1,595	1,789	1,508
Profit attributable to members of the parent (\$000's)	(749)	310	1,434	1,174	956
Basic Earnings per Share (cents)	(2.6)	0.8	3.2	2.6	2.0
Number of ordinary shares issued (000's)	32,689	44,485	44,485	44,527	54,607
Dividend per Share (cents)	Nil	Nil	Nil	1	2
Dividend Paid (\$000's)	Nil	Nil	Nil	445	891
Total Assets (\$000's)	30,581	41,137	43,548	47,428	56,295
Shareholders Equity (\$000's)	17,362	21,538	22,844	23,654	29,239
Net Tangible Asset Backing (cents)	43	10	13	14	13

\*Earnings before interest, tax, depreciation and amortisation

Note: 2004 was prepared under Australian Accounting Standards (AGAAP)  
2005, 2006, 2007 and 2008 were prepared under Australian Equivalents to International Financial Reporting Standards (AIFRS)



Dear Shareholder,

Freedom Nutritional Products Limited (FNP) reported a net profit after tax of \$956 thousand for the year. The Chief Executive Officer's report provides a commentary on operations. The financial performance allowed the directors to pay fully franked dividends of two cents during the year and we have now declared that the final 2008 fully franked one cent dividend payable in December 2008. This represents a 6% dividend yield on the year end share price.

During the year the Board welcomed Mr Rory Macleod as Executive Director. Mr Macleod has been an employee of the company for the past 5 years.

The Board welcomed interests of Mr Terry Morris as a substantial shareholder during the year and viewed this as an endorsement of its strategy to be a leader in the special nutrition market. I wish to acknowledge the continued support of our major shareholder the Perich Group over the past year.

In October 2007 the company acquired the "Norganics" brand which has a leading position in health food and grocery channels. Further in April 2008 the company acquired a modern food grade plant in Leeton, NSW to support continuing domestic growth as well as to provide capability to grow its export market in particular in Europe and North America.

The year saw a2 milk™ sales grow by 150% for our joint venture company A2 Dairy Products Australia as consumer awareness of the potential health benefits and superior taste profile grew. Further opportunities for growth are being developed.

The Board thanks Geoff Babidge and his management team for their contributions and we look forward to improving financial performance in 2009 financial year.

**Perry Gunner**  
Chairman  
2 September 2008

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The Group achieved net profit after tax of \$956 thousand for the 12 months ended 30 June 2008.

Sales and EBITDA of our wholly owned businesses were higher than in 2007 however the final result was impacted by higher interest costs, a higher effective income tax rate, a negative performance of our joint ventures and foreign exchange marked to market adjustments. Operating EBITDA was up 10% to \$3,835 thousand compared to the prior year and return on funds employed improved marginally to 9.4%.

Key highlights of the year included:

- Improved operating performance of Freedom Foods core products in cereals and snacks. Specialty Seafood and Thorpedo Foods performed close to plan.
- Acquisition and successful integration of Norganic Foods brand from October 2007.
- Acquisition of a modern manufacturing facility at Leeton in April 2008 and finalization of plans to establish a dedicated gluten free and nut free cereal and baked products facility for Freedom Foods to be completed during 2009.
- Successful development of the A2 Dairy Products Australia joint venture with significant growth in fresh milk volumes and achievement of monthly earnings break even by year end.
- Growth in consolidated gross sales of 11% on the previous year.

## Functional Foods

### Seafood

The Paramount Seafood division comprising Paramount salmon and Brunswick sardine and specialty seafood products performed near to plan for the year.

Paramount salmon sales were marginally above last year and we achieved growth in market share in a number of lines. Brunswick sardines experienced higher purchase costs and a more competitive market, but was able to maintain its brand leadership position in both Australia and New Zealand. Bumble Bee Foods continues to assist sourcing our requirements and passed on a reduction in sardine costs which will assist in the coming year. The 2008 salmon catch is forecast to be substantially down, however we expect to secure our volume requirements for 2009.

### Thorpedo Foods

Thorpedo Foods continued its focus of supporting its beverage licensee in Japan, Yakult Honsha, and achieved its planned financial performance.

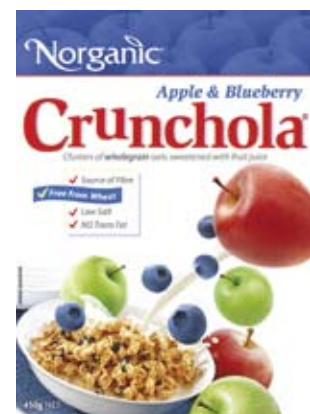
## Special Dietary Foods

### Freedom Foods

Freedom Foods, the leading provider of Special Dietary Food products in Australia performed credibly with sales growth (excluding soy and rice beverages) of 64% reflecting increased sales of core cereals and snacks and the impact of acquisitions of baking assets and the Norganic brand during the year. Our entry into free-from frozen foods did not achieve expectations nor the volume requirements of the trade, notwithstanding strong consumer purchase intent and trends in other markets.

In October, Freedom Foods completed the acquisition of the assets of Norganic Foods which consolidated Freedom's leading position in retail grocery and health food channels. The Norganic acquisition performed to plan during the year.

In April the company acquired a modern food grade factory near Leeton, NSW and subsequently finalized plans to establish a dedicated manufacturing facility for gluten, wheat and nut free cereal and baked products, to be completed during 2009. This will be a unique facility to support further development of proprietary branded and contract special dietary products. The facility will provide opportunity to target export growth in European and North American markets. The facility will cost around A\$10m during 2009, to be funded utilizing both debt and equity.





### Soy and Rice

Notwithstanding our introduction of an improved taste profile and packaging, soy beverages under-performed our expectation with ongoing price competition and continuing decline in the market in part a function of continued speculation of potential risks of soy consumption. Our rice beverage range however continued to perform strongly and maintained a market leadership position.

### Equity Accounted Activities

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#### A2 Dairy Products Australia

In June 2007 the company invested in the new joint venture company A2 Dairy Products Australia (A2DP), with exclusive rights for the production and sale of a2 milk™ products in Australia and Japan in association with A2 Corporation Limited of New Zealand. FNP has the right to convert to a 50% equity interest in A2DP.

a2 milk™ is obtained naturally from cows specially selected for their genetic makeup to produce milk containing predominantly A2 protein. Certain evidence suggests that drinking a2 milk™ rather than regular milk may reduce disease risks for some individuals who are predisposed towards certain conditions.

During the year, the business achieved a significant increase in a2 milk™ fresh milk volumes and by year end A2DP had achieved a break-even monthly earnings position, ahead of our business plan. This growth was a function of a range of factors including publicity surrounding the potential benefits of a2 milk™, increased awareness following a significant marketing campaign to both consumers and health professionals, and ongoing support from the grocery trade.

A2DP will continue to focus on achieving further growth in market milk and develop plans for the launch of additional a2 milk™ products. In addition, the company is advanced in developing a market entry strategy for Japan.

#### Contract Beverages Packers of Australia Pty Ltd (CBPA)

CBPA (50% owned) incurred a loss during the year from issues associated with the installation of new processing and packaging equipment and lower dairy milk and soy contract packing than planned. Whilst our investment in CBPA is minimal, our objective is to achieve profitable performance from a growing business. As a result, we have implemented a new strategic plan to broaden our product offering and build new customer relationships and have engaged a new experienced management team to take forward this plan in the current year.

### Outlook

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The plan for FY 2009 is to focus on the activities of the core activities of Freedom Foods Special Dietary, Specialty Seafood and A2DP. In particular this includes achievement of volume and earnings expectations for these businesses, close management of the Leeton factory capital expenditure project and continuous improvement in all functions across the company. We will opportunistically consider growth opportunities in the specialized segments of the Nutrition Market should they arise.

**Geoff Babidge**

Managing Director and Chief Executive Officer

2 September 2008

Your directors submit the financial report of Freedom Nutritional Products Limited (the Parent) for the year ended 30 June 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

#### Directors

For the names and particulars of the Directors of the Parent during or since the end of the financial year, refer to the Corporate Governance Statement.

#### Company secretary

Mr M Jenkins, B Comm., LLB (Hons), ACA, ACIS has been Company Secretary and Chief Financial Officer for over six years. He has been a Chartered Accountant for over 26 years and a Company Secretary for over 16 years.

#### Principal activities

The principal activities of the consolidated entity during the financial year were:

- manufacture and distribution of long life soy and other beverages;
- manufacture, distribution and marketing of natural foods;
- distribution and marketing canned seafood;
- distribution and marketing low GI energy waters.

There were no significant changes in the nature of the principal activities during the financial year.

#### Review of operations

The consolidated entity's profit attributable to equity holders of the parent, after providing for income tax, amounted to \$956,000 (2007 profit : \$1,174,000).

Refer commentary in Chief Executive's Review of Operations.

#### Dividends paid or recommended

A one cent per share fully franked first interim dividend was paid on 18 December 2007 in respect of the year ended 30 June 2008. The dividend was franked to 100% at 30% corporate income tax rate.

A one cent per share fully franked second interim dividend was paid on 19 May 2008 in respect of the year ended 30 June 2008. The dividend was franked to 100% at 30% corporate income tax rate.

In respect of the financial year ended 30 June 2008, the directors recommend the payment of a final dividend of one cent per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares on 18 December 2008.

#### Significant changes in state of affairs

There were no significant changes to the state of affairs of the consolidated entity that occurred during the financial year under review, not otherwise disclosed in this report.

#### Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial year which 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 subsequent financial years.

#### Future developments

Likely developments in the operation of the consolidated entity and the expected results of these operations have not been included in this report as the Directors believe, on reasonable grounds, that inclusion of such information would be likely to result in unreasonable prejudice to the consolidated entity.

#### Environmental regulations

The consolidated entity's operations are subject to environmental regulation under the law of the Commonwealth (AQIS) and the State (Workcover, EPA, Sydney Water, Safe Food NSW) and local council regulations.

The consolidated entity operates under a Dangerous Goods Licence issued by Workcover.

There were no breaches of environmental laws, regulations or permits during the year.

The consolidated entity is currently operating in accordance with local council consent in regard to hours of operation.

#### Indemnification of officers and auditors

The Parent has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Parent or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay, a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings;

with the exception of the following matter:

During the financial year the Parent paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of an officer of the Parent. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

#### Rounding off of amounts

The Parent is an entity to which ASIC Class Order 98/0100 applies. Accordingly amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

#### Meetings of Directors

During the financial year 15 meetings of directors (including committees) were held. The following persons acted as directors of the company during or since the end of the financial year with attendances to meetings of directors as follows:

	Directors Meeting		Audit, risk & compliance committee meetings		Remuneration & nomination committee meetings	
	Eligible To attend	Attended	Eligible To attend	Attended	Eligible To attend	Attended
P. R. Gunner	12	12	2	2	1	1
G.H. Babidge	12	12	-	-	-	-
A. M. Perich	12	11	-	-	-	-
R. Perich	12	11	2	2	1	1
M. Miles	12	11	2	1	-	-
R.J.F. Macleod	4	4	-	-	-	-
B. W. Bootle (alternate director)	1	1	-	-	-	-
S.F. Higgs	4	2	-	-	-	-

Mr B. W. Bootle attended 11 of the 12 board meetings as an observer.

Mr R.J.F. Macleod was appointed a director in May 2008.

Mr S. F. Higgs resigned as a director in October 2007.





## Remuneration Report - Audited

This report details the nature and amount of remuneration for each Director and the executives receiving the highest remuneration.

Key management personnel (incorporating the group and company executive who receive the highest remuneration for the year) include:

P. R. Gunner - Chairman and non-executive director

G.H. Babidge - Chief executive officer and Managing director

A. M. Perich - Non-executive director.

R. Perich - Non-executive director.

M. Miles - Non-executive director

R.J.F Macleod - Executive director (appointed as director in May 2008)

B. W. Bootle - alternate director

S.F. Higgs - Non-executive director (resigned October 2007)

G. J. Hughes - Chief operating officer (commenced July 2007)

P. J. Nathan - General manager marketing

M. E. Jenkins - Chief financial officer and Company secretary

M Christian - General manager manufacturing (commenced January 2007)

M. Haupfleisch - Business unit manager - Specialty Seafood (commenced March 2008)

## Remuneration policy

Remuneration arrangements for key management personnel of the Parent and Group ("the Directors and executives") are set competitively to attract and retain appropriately qualified and experienced Directors and executives. As part of its agreed mandate, the Remuneration and Nomination Committee obtains independent advice when required on the appropriateness of remuneration packages given trends in comparable companies and the objectives of the consolidated entity's remuneration strategy.

The remuneration structures explained below are designed to attract suitably qualified candidates. The remuneration structures take into account:

- The capability and experience of the Directors and executives;
- The Directors and executives' ability to control the relevant operational performance; and
- The amount of incentives within each Director and executive's remuneration.

## Executive directors and executives

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Executive directors and executives remuneration levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers the overall performance of the Group.

## Performance based remuneration

Performance based remuneration is at the discretion of the Remuneration and Nomination Committee. These can take the form of share options or cash payments. During the year, no further options were issued.

Options are valued using the bi-nomial method.

Options have been issued to key management personnel in the past, however these options do not relate to the performance of the Company but are used to assist in retaining personnel for future periods by linking the vesting of such options to a personnel's employ.

During the current financial year, bonuses have been paid to key management personnel consistent with the above basis.

#### Non-executive directors

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Total fees for all non-executive directors, last voted upon by shareholders was in October 2006, was not to exceed \$300,000 in total. Total fees paid to non-executive directors for 2008 was \$167,000. To align director interests with shareholder interests, the directors are encouraged to hold shares in the Parent.

The Chairman receives twice the base fee of non-executive directors. Non-executive directors do not receive performance related remuneration. Directors' fees cover all main Board activities. Non-executive directors who sit on the Remuneration and Nomination Committee and the Audit, Risk and Compliance Committee receive an additional payment of \$1,000 and the Chairman of each receives \$2,000. There are no termination or retirement benefits for non-executive directors.

#### Service agreements

It is the Group's policy that service contracts are entered into for the CEO which was extended on 1 February 2007. The key terms and conditions are as follows:

- The contract is for a fixed term to 30 November 2011
- The remuneration comprises a fixed component which includes the cost to the consolidated entity of any superannuation contributions made by the consolidated entity on behalf of the CEO; and
- The Parent can terminate employment at any time without prior notice if the CEO commits any serious breach of any provisions of his agreement or is guilty of an act of serious misconduct or wilful neglect in the discharge of his duties. The CEO may terminate this agreement with one month's notice and the Parent with six month's notice. In the event of dismissal by the Parent, other than for breach of contract, the CEO is also entitled to one year's total remuneration.

No other executive has a fixed term contract.

#### Parent performance, shareholder wealth and directors and senior management remuneration

The remuneration policy of the company and group does not directly link the remuneration of the directors and senior executives to parent performance or shareholder wealth.

The following table shows the revenue, profits, dividends and earnings per share for the past five years for the consolidated entity.

	2004	2005	2006	2007	2008
Revenue (\$000s)	32,940	37,954	46,963	48,683	54,082
Net Profit / (loss) after tax (\$000s)	(749)	310	1,434	1,174	956
Dividends paid (cents)	Nil	Nil	Nil	1	2
Basic Earnings per share (cents)	(2.6)	0.8	3.2	2.6	2.0

2004 was prepared under Australian Accounting Standards (AGAAP). Years 2005, 2006, 2007 and 2008 are prepared under Australian Equivalents to International Financial Reporting Standards (AIFRS).

The Remuneration and Nomination Committee considers that the Parent's performance-linked remuneration structure is appropriate to building shareholder value in the medium term.



Directors and executive officers emoluments

The benefits of each director who held office and five highest paid executive officers for the year ended 30 June 2008 are as follows

	Short-term employee benefits					Post employment Benefits	Share based payment	Total	% of total being
	Salary	Directors' Fees	Committee Fees	Bonus	Non-cash Benefit	Superannuation Contributions	Options		Options
<b>Directors - 2008</b>									
P. R. Gunner	-	60,000	3,000	-	-	5,670	-	68,670	-
G.H. Babidge	325,871	-	-	-	-	13,129	42,934	381,934	11%
A.M. Perich	-	30,000	-	-	-	2,700	-	32,700	-
R. Perich	-	30,000	2,000	-	-	2,880	-	34,880	-
M. Miles	-	30,000	2,000	-	-	2,880	-	34,880	-
R. J. F. Macleod	211,871	-	-	-	-	13,129	42,934	267,934	16%
B.W. Bootle	-	-	-	-	-	-	22,731	22,731	100%
S. F. Higgs (1)	-	10,000	-	-	-	900	-	10,900	-

(1) Mr Higgs resigned as a director in October 2007.

**Executive Officers - 2008**

G. J. Hughes (1) (Chief operating officer)	223,509	-	-	50,000	-	10,421	-	283,930	-
P. J. Nathan (General manager of marketing)	144,843	-	-	-	27,000	12,283	9,000	193,126	5%
M. E. Jenkins (Chief financial officer & company secretary)	185,000	-	-	-	-	15,000	9,000	209,000	4%
M Christian (2) (General manager of manufacturing)	189,596	-	-	22,000	-	-	-	211,596	-
M. Hauptfleisch (3) (Business unit manager - Speciality Seafood)	55,200	-	-	-	-	-	-	55,200	-

(1) Commenced 23 July 2007

(2) General Manager of Manufacturing - Commenced 1 January 2007

(3) Business unit manager - Speciality Seafoods - Commenced 11 March 2008

**Directors - 2007**

P. R. Gunner	-	28,167	3,000	-	-	25,695	-	56,862	-
G.H. Babidge	223,487	-	-	-	1,513	100,000	25,045	350,045	7%
A.M. Perich	-	24,167	-	-	-	2,175	-	26,342	-
R Perich	-	25,000	2,000	-	-	2,430	-	29,430	-
S. F. Higgs	-	25,000	1,833	-	-	2,415	-	29,248	-
M. Miles	-	-	2,000	-	-	17,620	-	19,620	-
B.W. Bootle	-	-	-	-	-	-	13,259	13,259	100%
C.C. Grubb	-	3,633	182	-	-	-	-	3,815	-
G. J. Reaney	-	6,667	666	-	-	660	-	7,993	-
M. van Ryn	-	-	-	-	-	7,993	-	7,993	-

	Short-term employee benefits					Post employment Benefits	Share based payment	Total	% of total being
	Salary	Directors Fees	Committee Fees	Bonus	Non-cash Benefit	Superannuation Contributions	Options		Options
<b>Executive Officers - 2007</b>									
R. J. F. Macleod (Strategic and corporate development)	187,314	-	-	-	-	12,686	25,045	225,045	11%
P. J. Nathan (1) (General manager of marketing)	137,325	-	-	-	-	32,829	1,500	171,654	1%
M. E. Jenkins (Chief financial officer & company secretary)	150,933	-	-	-	1,367	27,700	1,500	181,500	1%
H. A. Hurwitz (Soy business and new product development manager)	137,821	-	-	-	-	12,179	-	150,000	-
B. A. O'Brien (2) (Brand development manager)	41,761	-	-	-	15,500	93,805	-	151,066	-

(1) appointed 11 September, 2006.

(2) resigned 17 August 2007

(3) Directors Grubb, Reaney and van Ryn retired during the financial year ended 30 June 2007.

No director or senior management person appointed during the year received a payment as part of his or her consideration for agreeing to hold the position.

There were no performance based remuneration payments made during the financial years.

Bonus payments as compensation for the current financial year

Mr G. J. Hughes was granted a cash retention bonus of \$50,000 on 1 November 2007.

Mr M. Christian was granted a cash retention bonus of \$22,000 on 1 January 2008.

No other bonuses were granted during 2008.

Employee share options

During and since the end of the financial year no share options were granted to key management personnel of the parent and consolidated entity as part of their remuneration.

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Freedom Nutritional Products Limited (i)	1,000,000	Ordinary	\$0.50	27 July 2010
Freedom Nutritional Products Limited (ii)	4,300,000	Ordinary	\$0.50	30 November 2011
Freedom Nutritional Products Limited (iii)	600,000	Ordinary	\$0.50	26 April 2010

Grant date	Fair value at grant
(i) Issued 27 July 2005	Nil
(ii) Issued 30 November 2006	\$0.10
(iii) Issued 26 April 2007	\$0.10



Recipients	Name	Number	Fair Value (\$)	Conditions
Issued 27 July 2005	G.H. Babidge	700,000	Nil	Employment
	R. J. F. Macleod	300,000	Nil	Employment
Issued 30 November 2006	G. H. Babidge	1,700,000	170,000	Employment
	R. J. F. Macleod	1,700,000	170,000	Employment
	B. W. Bootle	900,000	90,000	Employment
Issued 26 April 2007	M. E. Jenkins	300,000	30,000	Employment
	P. Nathan	300,000	30,000	Employment

There are no further performance criteria that need to be met in relation to options granted. Options vest over a period of either 3 or 5 years and relate to an employees service period only.

The holders of these options do not have the right by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

There were no shares or interests issued during or since the end of the financial year as a result of exercise of an option.

During the year 200,000 options lapsed.

#### Directors' shareholding

Refer to Principle 2 "Structure of the Board to add value" in Corporate Governance Statement.

#### Non-audit services

During the year Deloitte, the auditors have performed certain other services in addition to their statutory duties.

With respect to the non-audit services provided during the year by the auditor, the Board has considered written advice provided and a recommendation of the Audit, Risk and Compliance Committee. The Board is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporation Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Parent and have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by The Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act follows the Directors' Report.

Details of the amounts paid to the ex-auditor of the consolidated entity, PKF for audit and non-audit services provided during the prior year are set out below:

	Consolidated	
	2008 \$	2007 \$
Audit Services		
Ex-auditors of the Parent - PKF		
• audit and review of financial reports	-	70,000



Details of the amounts paid/payable to the auditor of the consolidated entity, Deloitte Touche Tohmatsu for audit and non-audit services provided during the year are set out below:

	Consolidated	
	2008 \$	2007 \$
Audit Services		
Auditors of the Parent - Deloitte Touche Tohmatsu		
• audit and review of financial reports	190,000	100,000
• taxation advice	72,416	281,531
• accounting advice	107,403	25,625
	369,819	407,156

#### Proceedings on Behalf of Parent

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

Signed in accordance with a resolution of the Board of Directors

Perry Gunner

Geoff Babidge

Dated at Sydney this second day of September 2008.

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Deloitte Touche Tohmatsu  
A.B.N. 74 490 121 060

The Barrington  
Level 10  
10 Smith Street  
Parramatta NSW 2150  
PO Box 38  
Parramatta NSW 2124 Australia

DX 28485  
Tel: +61 (0) 2 9840 7000  
Fax: +61 (0) 2 9840 7001  
www.deloitte.com.au

The Board of Directors  
Freedom Nutritional Products Limited  
80 Box Road  
TAREN POINT NSW 2229

2 September 2008

Dear Board Members

**Freedom Nutritional Products Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Freedom Nutritional Products Limited.

As lead audit partner for the audit of the financial statements of Freedom Nutritional Products Limited for the financial year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

**P A Roberts**  
Partner  
Chartered Accountants

Member of  
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

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This section of the Annual Report is in conformance with the "Principles of Good Corporate Governance" issued by the Australian Stock Exchange (ASX). Each of the ten principles are listed in turn.

## Principle 1

### Lay solid foundations for management and oversight by the Board

The Board's responsibilities are encompassed in a charter which is published on [www.freedomnutritional.com.au](http://www.freedomnutritional.com.au) (the Parent's website).

The Board is responsible for, and has the authority to determine, all matters relating to the strategic direction, policies, practices, establishing goals for management and the operation of the Parent. Without intending to limit this general role of the Board, the specific functions and responsibilities of the Board include:

- (1) oversight of the Parent, including its control and accountability systems;
- (2) appointing and removing the CEO (or equivalent) for the ongoing management task of developing and implementing suitable strategies consistent with the Parent's policies and strategic direction, including approving remuneration of the CEO and remuneration policy and succession plans for the CEO;
- (3) ratifying the appointment and, where appropriate, the removal of the CFO (or equivalent) and the Company Secretary;
- (4) reviewing and determining the strategic direction and policies of the Parent, the allocation of resources, planning for the future and succession planning;
- (5) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- (6) monitoring executives performance and implementation of strategy and ensuring appropriate resources are available;
- (7) approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- (8) continuously monitoring and overseeing the Parent's financial position; and
- (9) approving and monitoring financial and other reporting.

Key responsibilities of the Board include the overseeing of the strategic direction of the Parent, determining its policies and objectives and monitoring management

performance. The Board adopts a three-year business plan and a 12 month operating plan for the Parent. Financial results and general performance are closely monitored against the operating plan objectives.

To assist in carrying out its responsibilities, the Board has established the following committees of its members. They are

- (1) Audit, Risk and Compliance Committee; and
- (2) Remuneration and Nomination Committee.

The Board on 31 August 2007 resolved to establish an International Advisory Board to assist Directors and Management in evolving the company's strategic plan. Members shall be both board and non-board members. Non-board members are Messrs Higgs and Lischewski.

The responsibilities delegated by the Board to the Parent's management, as set out in the Parent's Statement of Delegated Authority, include managing the day-to-day operations of the Parent and Consolidated entities.

The Chief Executive Officer has a service contract setting out his duties, responsibilities, conditions of service and termination entitlements.

## Principle 2

### Structure of the Board to add value

The Board determines the Board's size and composition, subject to limits imposed by the Parent's Constitution. The Constitution provides for a minimum of three Directors and a maximum of ten. At this time the Board has determined that there are six directors four of whom, are non-executive, including the Chairman.

The names and particulars of the Directors of the Parent during or since the end of the financial year are:

#### **Mr. P. R. Gunner**

Chairman (Non-executive), Age 61

B.Ag.Sc – is former Chairman and CEO of Orlando Wyndham Wine Group. Also current Chairman of ABB Grain Limited and director of McGuigan Simeon Wines. Appointed Director April 2003 and Chairman July 2006. Chairman of the Remuneration & Nomination Committee and member of the Audit, Risk and Compliance Committee.

Interest in shares and options are 360,517 ordinary shares and nil options.

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**Mr. G.H. Babidge**

Managing Director (Executive), Age 55

B.Comm., ACA – extensive public company experience within the food industry. Former CEO of the major milling and baking group, Bunge Defiance and many years Managing Director of the dairy interests of National Foods Limited. Appointed director in January 2002.

Interest in shares and options are 69,217 ordinary shares and 2,400,000 options.

**Mr. A. M. Perich**

Director (Non-executive), Age 67

Joint Managing Director of Arrovest Pty Limited, Leppington Pastoral Company, one of Australia's largest dairy producers, and various other entities associated with Perich Enterprises Pty Limited. He is also a property developer, motor car racing promoter, farmer and business entrepreneur. Mr Perich is Past President of the Dairy Research Foundation, a member of the Narellan Rotary club, member of Western Sydney Development Board, Vice President of the Narellan Chamber of Commerce and is actively involved in charity fundraising for cancer research. Appointed director July 2006.

Interest in shares and options are 35,853,870 ordinary shares and nil options.

**Mr. R. Perich**

Director (Non-executive), Age 65

Joint Managing Director of Arrovest Pty Limited, Leppington Pastoral Company, one of Australia's largest dairy producers, and various other entities associated with Perich Enterprises Pty Limited. He is also a property developer, motor car racing promoter, farmer and business entrepreneur. Former Director of United Dairies Limited. Appointed director April 2005. Member of the Audit, Risk & Compliance Committee and member of the Remuneration & Nomination Committee.

Interest in shares and options are 35,853,870 ordinary shares and nil options.

**Mr. S. F. Higgs**

Director (Non-executive), Age 61

B Ec. – was founder and former director of UBS Australia. Also director of Primary Health Care Company Limited, Peet & Co. and Chairman of Juvenile Diabetes Research Foundation. Appointed director April 2003. Mr Higgs resigned as a director in October 2007.

Interest in shares and options are 384,615 ordinary shares and nil options.

**Mr. M. Miles**

Director (Non-executive), Age 59

B.Sc (Hons) F.I.B.D. - former Vice President of Carlton and United Breweries and Foster's Group, former director of

Carlton & United Breweries & its subsidiaries and former Chairman of South Pacific Distilleries, Fiji. Member of the Strategic Planning Committee of the Institute of Brewing and Distilling Asia Pacific. Appointed director November 2006. Chairman of Audit, Risk & Compliance Committee.

Interest in shares and options are 104,353 ordinary shares and nil options.

**Mr. R. J. F. Macleod**

Director (Executive), Age 40

B.Ec (Hons) – has for the past 5 years been responsible for strategic and corporate development. Former senior director, corporate finance for UBS in Australasia and Europe where he gained extensive experience in strategy and commercial development, mergers and acquisitions and corporate analysis. Appointed director May 2008.

Interest in shares and options are 156,108 ordinary shares and 2,000,000 options.

**Mr. B. W. Bootle**

Alternate Director (Non-executive), Age 43

B.Ag.Ec, M.Ag.Ec, Nuff.Sch, MAICD- Chief Executive Officer of Arrovest Pty Limited, Leppington Pastoral Company one of Australia's largest dairy producers and various other entities associated with Perich Enterprises Pty Limited. Appointed alternate director for Mr Ron Perich and Mr Tony Perich July 2006.

Interest in shares and options are 42,486 ordinary shares and 900,000 options.

The Remuneration & Nomination Committee of the Board comprises Messrs P. R. Gunner and R. Perich being two non-executive directors.

Its functions are to review and report to the Board on:

- Remuneration policy for the entire consolidated entity (including executive officers and non-executive directors);
- identifying nominees for directorships and other key executive appointments;
- assessing director competencies;
- evaluating the Board's performance; and
- remuneration policies and practices.

Principle 2.1 of the *Best Practice Recommendations* recommends that a majority of the Board should be independent directors. The Board currently has a majority of independent directors with an independent chairman.

In order to facilitate independent judgement in decision making each Director may seek independent professional advice at the Parent's expense. If advice is sought by the Chairman, he must obtain Board approval if the fees for such advice exceed \$50,000 (exclusive of GST), such approval not to be unreasonably withheld. Where advice



is sought by the other directors, prior written approval by the Chairman is required but approval will not be unreasonably withheld. If the Chairman refuses to give approval, the matter must be referred to the Board. All directors are made aware of the professional advice sought and obtained.

### Principle 3

#### Promote ethical and responsible decision-making

The directors acknowledge the need for and continued maintenance of a high standard of corporate governance practices and ethical conduct by all directors and employees. In maintaining its ethical standards, the Parent will:

- (a) behave with integrity in all its dealings with customers, shareholders, employees, suppliers, business partners and the community;
- (b) ensure its actions comply with applicable laws and regulations;
- (c) not engage in any activity that could be construed to involve an improper inducement;
- (d) achieve a working environment where:
  - (i) equal opportunity is rigorously practised;
  - (ii) harassment and other offensive forms of behaviour are not tolerated;
  - (iii) confidentiality of commercially sensitive information is protected; and
  - (iv) employees are encouraged to discuss concerns and ethical behaviour with directors and senior executives.
- (e) share trading policy for Directors, CEO and Executives. A copy is available on the parents website <http://www.freedomnutritional.com.au/corporategovernance.asp>

### Principle 4

#### Safeguard integrity in financial reporting

As part of the structure of financial review and authorisation both the Chief Executive Officer and Chief Financial Officer are required to provide written assurances that the financial reports present a true and fair view of the Parent's and the consolidated entity's financial position in all material respects and that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and is operating efficiently and effectively in all material aspects.

This is designed to raise the level of management accountability for financial reporting. Further, executives provide half yearly and yearly, a letter of representation on operational, financial, regulatory and commercial matters, to the Board.

The Board has established an Audit, Risk and Compliance Committee comprising three non-executive directors, with appropriate experience. They are Mr M. Miles (Chairman), Mr R. Perich and Mr P. R. Gunner. Their qualifications are listed under Principle 2.

The Chief Executive Officer, Chief Financial Officer and external audit partner attend Committee meetings at the discretion of the Committee.

The minutes of each Committee meeting are reviewed at the subsequent Board meeting and signed as an accurate record of proceedings. At the subsequent Board meeting the Chairman of the Committee reports on the Committee's conclusions and recommendations. The Committee meets at least twice per year.

The external auditors have a direct line of communication at any time to either the Chairman of the Audit, Risk and Compliance Committee or the Chairman.

The role and responsibilities of the Audit, Risk and Compliance Committee includes:

- (a) reviews and reports to the Board on the half yearly and annual reports and financial statements of the Parent and consolidated entities;
- (b) is responsible for nominating the external auditor and reviewing the adequacy, scope and quality of the annual statutory audit and half yearly statutory review;
- (c) reviews the effectiveness of the Parent's and consolidated entities internal control systems;
- (d) monitors and reviews the reliability of financial reporting;
- (e) monitors and reviews the compliance of the Parent and Consolidated entities with applicable laws and regulations;
- (f) monitors the Australian Accounting Standards and Urgent Issues Group consensus views;
- (g) monitors financial risks and exposure of the Parent and consolidated entities assets;
- (h) monitors business continuity ;
- (i) reviews the Parent's Occupational Health and Safety obligations and the Parent's compliance; and
- (j) the Parent's and consolidated entities insurance policies and coverage.

The external auditors have advised the following, after consultation with the Parent that the audit engagement partner shall be rotated every five years.

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## Principle 5

### Make timely and balanced disclosure

The purpose of the continuous disclosure policy is to ensure that there are mechanisms in place to provide all investors with equal and timely access to material information concerning the Parent. Such information must be presented in a clear and balanced way so as not to omit any material information.

These policies are designed to ensure that the Parent meets its continuous disclosure obligations under the ASX Listing Rules.

### Type of information that needs to be disclosed

Listing Rule 3.1 states that any information that a reasonable person would consider to have a material effect on the value of the Parent securities must be disclosed. Examples of such information include a change in revenue, asset values or significant transactions.

Directors receive copies of all announcements immediately after notification to the ASX. All announcements are posted to the Parent's website. A report is submitted to each Board meeting of disclosures to the ASX since last meeting with the Disclosure File available for review.

### Disclosure Officer

The Board has appointed the Company Secretary to act as the Disclosure Officer, responsible for communications with the ASX and deciding what information must be disclosed. The Disclosure Officer holds the primary responsibility for ensuring that the Parent complies with its disclosure obligations. In addition, Directors, employees or consultants are all responsible for reporting price sensitive information that is not generally available to the Disclosure Officer.

## Principle 6

### Respect the rights of shareholders

The Parent aims to keep shareholders informed of the Parent's performance in an ongoing manner. Apart from information provided pursuant to the Parent's legal and ASX Listing Rules obligations regarding continuous disclosure of information, the Parent also communicates with shareholders through the:

- (1) Annual Report which is available to all shareholders. The Annual Report includes relevant information about the Parent's operations and performance;
- (2) Invitation to the annual general meeting and all accompanying papers;
- (3) The Parent's website;

- (4) Reports to the ASX and the press;
- (5) Half yearly profit announcements; and
- (6) Information and presentations to analysts (which are released to the ASX).

The Annual General Meeting provides an important opportunity for shareholders to express their views and respond to initiatives being proposed by the Board.

The Parent also requests that the external auditor attend the Annual General Meeting and be available to answer shareholder questions about the audit and the preparation and content of the audit reports.

## Principle 7

### Recognise and manage risk

#### 1.1 The Audit, Risk and Compliance Committee:

The Committee's responsibilities are encompassed in a charter which is available on the parents website <http://www.freedomnutritional.com.au/corporategovernance.asp>. The specific functions and responsibilities of the Committee include:

- (a) reviews the effectiveness of the Parent's internal control systems;
- (b) monitors and reviews the compliance of the Parent with applicable laws and regulations;
- (c) monitors financial risks and exposure of Parent assets;
- (d) monitors business continuity;
- (e) reviews the Parent's Occupational Health and Safety obligations and the Parent's compliance; and
- (f) the Parent's insurance policies and coverage.

#### 1.2 Risk oversight and management policies

The Committee is responsible for providing the Board with advice and recommendations regarding the ongoing development of risk oversight and management policies that set out the roles and respective accountabilities of the Board, the Committee and management.

The policies cover the areas of oversight, risk profile, risk management, compliance and control and assessment of effectiveness.

#### 1.3 Risk management and risk profile

The Committee is responsible for:

- (1) providing the Board with advice and recommendations regarding the establishment and implementation of:
  - (a) a risk management system; and
  - (b) a risk profile for the Parent that describes the material risks (including financial and non-financial risks) which the Parent faces;



- (2) reviewing the effectiveness of the Parent's implementation of the risk management system at least once a year; and
- (3) regularly reviewing and updating the Parent's risk profile.

The Committee is responsible for ensuring that the appropriate executives have established and implemented a system for identifying, assessing, monitoring and managing risk throughout the organisation. The system is to include the Parent's internal compliance and control systems.

In order to help give the Audit, Risk and Compliance Committee the ability to exercise independent judgement it is structured so that it consists of:

- (1) only non-executive directors;
- (2) at least 1 independent director; and
- (3) a Chairman, who is not the Chairman of the Board.

### Principle 8

#### Encourage enhanced performance

In respect of remuneration issues, the responsibilities of the Remuneration and Nomination Committee include determining, evaluating and reporting to the Board with respect to:

- (1) executive remuneration and incentive policies, including ensuring that the remuneration policies and practices of the Parent are consistent with its strategic goals and human resource objectives;
- (2) the Parent's recruitment, retention and termination policies and procedures for executives;
- (3) incentive schemes;
- (4) superannuation arrangements; and
- (5) the remuneration framework for directors.

The Remuneration and Nomination Committee operates independently of the senior management of the Parent in its recommendations to the Board in relation to:

- (1) reviewing on an annual basis the performance and salary of the CEO and other executives including Executive and Employee Share Option Plan participation;
- (2) the remuneration packages and other terms and conditions of appointment and continuing employment of senior executives; and
- (3) reviewing non-executive Directors' remuneration within the maximum amount approved by shareholders.

The Board believes that directors are properly rewarded through payment of a fee which is reviewed annually in the light of market conditions and has regard to the

responsibilities placed on the Directors by the legal and financial framework within which they act.

The Remuneration and Nomination Committee is responsible for ensuring that the Board is of a size and composition that allows for:

- (1) decisions to be made expediently;
- (2) a range of different perspectives to be put forward regarding issues before the Board;
- (3) a range of different skills to be brought to Board deliberations; and
- (4) Board decisions to be made in the best interests of the Parent as a whole rather than of individual shareholders or interest groups.

The Remuneration and Nomination Committee is responsible for the:

- (1) evaluation and review of the performance of the Board (excluding the Chairman);
- (2) evaluation and review of the performance of individual directors;
- (3) review of and making of recommendations on the size and structure of the Board; and
- (4) review of the effectiveness and programme of Board meetings.

The evaluation and review of the performance of the Chairman is undertaken by all Board members.

Subject to normal privacy requirements, Directors have direct access to Parent records and information and to senior officers. They receive regular detailed reports on financial and operational aspects of the Parent's business and may request elaboration or explanation of these reports at any time.

Individual Directors are entitled to independent professional advice at the Parent's expense in the furtherance of their duties, refer Principle 2.

Directors and executives are encouraged to broaden their knowledge of the Parent's business and to keep abreast of developments in business more generally by attendance at relevant courses, seminars, conferences, etc. The Parent meets expenses involved in such activities.

### Principle 9

#### Remunerate fairly and responsibly

The Board has established a Remuneration and Nomination Committee to consider and report on, among other matters, remuneration policies and packages applicable to Board members and to senior managers of the Parent. Two non-executive directors Mr P. R. Gunner and Mr R. Perich are members of the Committee which meets at least once per year.

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The Committee's main functions include:

- (1) Conditions of service and remuneration of the Chief Executive and his direct reports;
- (2) Performance of the Chief Executive and other executives;
- (3) Ensure that the remuneration policy achieves both a level and composition of remuneration that is both competitive and reasonable. Remuneration policies are designed to attract and maintain talented and motivated directors and employees as well as raising the level of performance of the Parent.
- (4) Recommendation to the Board, which has the discretion to reward eligible employees with the payment of bonuses, share options and other incentive payments. These incentive payments are designed to link reward to performance and are determined by both financial and non-financial imperatives.

The Chief Executive attends meetings of the Remuneration and Nomination Committee by invitation when required to report on, and discuss, senior management performance, remuneration matters, etc.

Non-executive Directors receive fees determined by the Board, but within the aggregate limit approved by Shareholders at a General Meeting.

The remuneration packages of non-executive directors are generally fee based. Non-executive directors are able to participate in the 2006 Employee Share Option Plan (with the exception of Ron and Tony Perich). No options have been issued to them at the date of this report.

Non-executive directors do not participate in bonus payments or any retirement benefits other than statutory superannuation.

The Nomination and Remuneration Committee is responsible for ensuring that any equity-based executive or non-executive director remuneration is made in accordance with any thresholds approved by shareholders.

## Principle 10

Recognise the legitimate interests of stakeholders

### 1.1 Code of ethics

- (1) The Directors acknowledge the need for and continued maintenance of a high standard of corporate governance practices and ethical conduct by all directors and employees. A Code of Ethics has been adopted. Its details are set out below.

- (2) The Parent aims to maintain a high standard of ethical business dealings.

### Objectives

In maintaining its ethical standards, the Parent will:

- (a) behave with integrity in all its dealings with customers, shareholders, employees, suppliers, business partners and the community;
- (b) ensure its actions comply with applicable laws and regulations;
- (c) not engage in any activity that could be construed to involve an improper inducement;
- (d) achieve a working environment where:
  - (i) equal opportunity is rigorously practised;
  - (ii) harassment and other offensive forms of behaviour are not tolerated;
  - (iii) confidentiality of commercially sensitive information is protected; and
  - (iv) employees are encouraged to discuss concerns and ethical behaviour with directors and senior executives.
- (3) The Parent will take into account the principles in this Code of Ethics in every venture in which it participates. Directors and the executives team must comply with the Code of Ethics and demonstrate commitment to the Code and consistency in its execution.

### (4) Responsibilities

The CEO will be responsible to the Board for establishing, implementing and reviewing the effectiveness of the Code of Ethics.

The CEO will be responsible for seeking to ensure that all of the Parent's employees and contractors understand, and act in accordance with these principles.

### 1.2 Conflicts of interest resolution

The Board has implemented a range of procedures designed to ensure that the Parent complies with the law and achieves high ethical standards in identifying and resolving or managing conflicts of interest. All directors must advise the Chairman of all business dealings with the Parent.

### 1.3 Reporting obligations

As part of the active promotion of ethical behaviour any behaviour that does not comply with this code must be duly reported. Protection will be provided for those who report violations in good faith.



## Consolidated Income Statement for the financial year ended 30 June 2008

	Notes	Consolidated \$000		Parent \$000	
		2008	2007	2008	2007
Revenue	5	55,202	49,945	-	14,947
Cost of sales		(40,146)	(35,633)	-	(9,390)
<b>Gross profit</b>		<b>15,056</b>	<b>14,312</b>	<b>-</b>	<b>5,557</b>
Other revenue	5	543	183	3,100	124
Marketing expenses		(2,181)	(2,332)	-	(604)
Selling and distribution expenses		(6,191)	(6,017)	-	(2,393)
Administrative expenses		(4,000)	(2,999)	(384)	(1,476)
Profit from continuing operations before tax, finance costs and equity accounted investments	6	3,227	3,147	2,716	1,208
Finance costs	6	(1,364)	(1,222)	(100)	(1,191)
Share of loss of joint venture accounted for using the equity method		(317)	(135)	(317)	(135)
Share of loss of jointly controlled entity accounted for using the equity method		(38)	(1)	-	-
<b>Profit / (loss) before income tax</b>		<b>1,508</b>	<b>1,789</b>	<b>2,299</b>	<b>(118)</b>
Income tax expense	7	(552)	(620)	(533)	(14)
<b>Profit / (loss) for the year</b>		<b>956</b>	<b>1,169</b>	<b>1,766</b>	<b>(132)</b>
Attributable to:					
Equity holders of the parent		956	1,174	1,766	(132)
Minority interest		-	(5)	-	-
		956	1,169	1,766	(132)
<b>Earnings per share</b>					
From continuing operations:					
Basic earnings per share (cents per share)	9	2.0	2.6		
Diluted earnings per share (cents per share)	9	2.0	2.6		
Dividends per share paid (cents per share)		2.0	1.0		

Notes to the financial statement are included on pages 24 to 69

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	Notes	Consolidated \$000		Parent \$000	
		2008	2007	2008	2007
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	22(a)	1,111	4	1	3
Trade and other receivables	10	11,793	10,824	37	3,284
Other financial assets	11	707	1,476	955	1,476
Inventories	12	7,588	10,642	-	2,155
Current tax asset	7	-	84	-	84
Prepayments		289	685	-	310
<b>Total Current Assets</b>		<b>21,488</b>	<b>23,715</b>	<b>993</b>	<b>7,312</b>
<b>Non-Current Assets</b>					
Other financial assets	11	3,188	2,347	26,936	30,384
Deferred tax assets	7	2,057	2,092	502	711
Property, plant and equipment	14	7,396	1,795	389	364
Goodwill	13	6,992	6,930	-	-
Other intangible assets	13	15,174	10,549	-	-
<b>Total Non-Current Assets</b>		<b>34,807</b>	<b>23,713</b>	<b>27,827</b>	<b>31,459</b>
<b>TOTAL ASSETS</b>		<b>56,295</b>	<b>47,428</b>	<b>28,820</b>	<b>38,771</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	15	7,600	9,741	64	3,157
Borrowings	16	3,520	10,090	69	10,111
Current tax liabilities	7	191	425	176	392
Provisions	17	774	641	189	164
<b>Total Current Liabilities</b>		<b>12,085</b>	<b>20,897</b>	<b>498</b>	<b>13,824</b>
<b>Non-Current Liabilities</b>					
Trade and other payables	15	2,373	-	-	-
Borrowings	16	12,286	2,612	86	2,612
Deferred tax liability	7	2	35	-	28
Provisions	17	310	230	120	113
<b>Total Non-Current Liabilities</b>		<b>14,971</b>	<b>2,877</b>	<b>206</b>	<b>2,753</b>
<b>TOTAL LIABILITIES</b>		<b>27,056</b>	<b>23,774</b>	<b>704</b>	<b>16,577</b>
<b>NET ASSETS</b>		<b>29,239</b>	<b>23,654</b>	<b>28,116</b>	<b>22,194</b>
<b>EQUITY</b>					
<b>Equity attributable to equity holders of the parent</b>					
Issued capital	18	26,999	22,078	26,999	22,078
Reserves	19	665	66	192	66
Retained earnings	20	1,575	2,956	925	50
<b>Parent interests</b>		<b>29,239</b>	<b>25,100</b>	<b>28,116</b>	<b>22,194</b>
<b>Minority interests</b>		<b>-</b>	<b>(1,446)</b>	<b>-</b>	<b>-</b>
<b>TOTAL EQUITY</b>		<b>29,239</b>	<b>23,654</b>	<b>28,116</b>	<b>22,194</b>

Notes to the financial statement are included on pages 24 to 69



# Consolidated Cash Flow Statement

for the financial year ended 30 June 2008

	Notes	Consolidated \$000		Parent \$000	
		2008	2007	2008	2007
<b>Cash flows from operating activities</b>					
Receipts from customers		54,035	46,808	3,308	14,084
Payments to suppliers and employees		(50,451)	(46,725)	(2,168)	(14,648)
Interest and other costs of finance paid		(1,364)	(1,119)	-	(1,088)
Income tax (paid) / refund		(590)	(485)	63	(381)
Receipt of government grant		90	-	-	-
<b>Net cash provided by/(used in) operating activities</b>	22(b)	1,720	(1,521)	1,203	(2,033)
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		-	3,520	-	3,500
Purchase of property, plant and equipment		(2,298)	(315)	(159)	(268)
Dividend received		-	-	3,100	-
Interest received		195	31	-	1,162
Payment in relation to convertible notes		(1,000)	-	-	-
Investment in jointly controlled entity		(8)	(1,579)	-	-
Unlisted investment in Joint Venture		-	(453)	-	(453)
Payment for Business Assets	22(d)	(5,174)	(1,765)	-	-
Loan (to) / from related party		(271)	268	(271)	268
Advance from / (to) Joint Venture		769	(1,321)	1,063	(1,321)
Loan from / (to) controlled entities		-	-	3,602	(5,120)
<b>Net cash (used in)/provided by investing activities</b>		(7,787)	(1,614)	7,335	(2,232)
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		5,000	-	5,000	-
Payment for share issue costs		(79)	-	(79)	-
Proceeds from borrowings		15,208	-	-	-
Repayment of borrowings		(7,856)	(1,605)	(7,481)	(992)
Dividends paid		(883)	(415)	(883)	(415)
<b>Net cash provided by/(used in) financing activities</b>		11,390	(2,020)	(3,443)	(1,407)
Net increase / (decrease) in cash and cash equivalents		5,323	(5,155)	5,095	(5,672)
Cash and cash equivalents at beginning of financial year		(5,072)	83	(5,094)	578
<b>Cash and cash equivalents at end of financial year</b>	22(a)	251	(5,072)	1	(5,094)

Notes to the financial statement are included on pages 24 to 69



Consolidated Statement of Changes in Equity  
for the financial year ended 30 June 2008



	Notes	Attributable to equity holders of the parent					Minority Interest	Total Equity
		Fully paid ordinary shares \$'000	Equity - settled employee benefits reserve \$'000	Asset revaluation reserve \$'000	Retained Earnings \$'000	Total \$'000	\$'000	\$'000
<b>CONSOLIDATED</b>								
<b>At 1 July 2006</b>		22,058	-	-	2,227	24,285	(1,441)	22,844
Profit/(Loss) for the year		-	-	-	1,174	1,174	(5)	1,169
Dividends paid	21	-	-	-	(445)	(445)	-	(445)
Recognition of share-based payments	19	-	66	-	-	66	-	66
Equity issues	18	20	-	-	-	20	-	20
<b>At 30 June 2007</b>		22,078	66	-	2,956	25,100	(1,446)	23,654
Profit / (Loss) for the year		-	-	-	956	956	-	956
Dividend paid	21	-	-	-	(891)	(891)	-	(891)
Recognition of share-based payments	19	-	126	-	-	126	-	126
Gain/(loss) on revaluation of purchased property	19	-	-	473	-	473	-	473
Transfer to retained earnings	20	-	-	-	(1,446)	(1,446)	1,446	-
Equity issues	18	4,921	-	-	-	4,921	-	4,921
<b>At 30 June 2008</b>		26,999	192	473	1,575	29,239	-	29,239
<b>PARENT</b>								
<b>At 1 July 2006</b>		22,058	-	-	627	22,685	-	22,685
(Loss) for the year		-	-	-	(132)	(132)	-	(132)
Dividends paid	21	-	-	-	(445)	(445)	-	(445)
Recognition of share-based payments	19	-	66	-	-	66	-	66
Equity issues	18	20	-	-	-	20	-	20
<b>At 30 June 2007</b>		22,078	66	-	50	22,194	-	22,194
Profit for the year		-	-	-	1,766	1,766	-	1,766
Dividend paid	21	-	-	-	(891)	(891)	-	(891)
Recognition of share-based payments	19	-	126	-	-	126	-	126
Equity issues	18	4,921	-	-	-	4,921	-	4,921
<b>At 30 June 2008</b>		26,999	192	-	925	28,116	-	28,116

Notes to the financial statement are included on pages 24 to 69



## 1 Corporate Information

The financial report of Freedom Nutritional Products Limited for the year ended 30 June 2008 was authorised for issue in accordance with resolution of directors on 2 September 2008.

Freedom Nutritional Products Limited is a company incorporated in Australia whose shares are publicly traded on the Australian securities exchange. The company is trading under the symbol 'FNP'.

The nature of the operations and principal activities of the Group are described in note 4.

## 2 Adoption of New and Revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The group has also adopted the following Standards as listed below which only impacted on the Group's financial statements with respect to disclosure.

- AASB101 'Presentation of Financial Statements (revised October 2006)'
- AASB 7 'Financial Instruments: Disclosures'

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group and the company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 101 'Presentation of Financial Statements (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010
AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	1 January 2009	30 June 2010

Initial application of the following standards is not expected to have any material impact on the financial report of the Group and the Company:

Standard/Interpretation		
AASB Interpretation 12 'Service Concession Arrangements', AASB Interpretation 4 'Determining whether an Arrangement contains a Lease' (revised), AASB Interpretation 129 'Service Concession Arrangements: Disclosure' (revised), AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	30 June 2009
AASB Interpretation 13 'Customer Loyalty Programmes'	1 July 2008	30 June 2009
AASB Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009
AASB 2008-2 'Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation	1 January 2009	30 June 2010
AASB 3 'Business Combinations' (2008), AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	1 July 2009	30 June 2010
AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'	1 July 2009	30 June 2010



## 2 Adoption of New and Revised Accounting Standards (continued)

The initial application of the expected issue of an Australian equivalent accounting standard to the following standard is not expected to have a material impact on the financial report of the Group and the company:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Improvements to IFRs (2008)	1 January 2009	30 June 2010
Amendments to IFRs 1'First time Adoption of International Financial Reporting Standards and IAS 27'Consolidated and Separate Financial Statements - Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate.	1 January 2009	30 June 2010

## 3 Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

### (a) Statement of compliance

The financial report is a general-purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report includes the separate financial statements of the Parent and the consolidated financial statements of the Group. Accounting Standards include Australian equivalents to International Financial Reporting standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Parent and the Group comply with International Financial Reporting standards ('IFRS').

### (b) Basis of preparation

The financial report has been prepared on the historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Parent under ASIC Class Order 98/0100, dated 10 July 1998. The Parent is an entity to which the class order applies.

### (c) Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to Note 3(d) - 3(z) for further details.

### (d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Freedom Nutritional Products Limited and its subsidiaries as at 30 June each year ('the Group'). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items.

Minority interests represent the interests in Thorpedo Foods Pty Limited and Thorpedo Seafoods Pty Limited, not held by the Group companies. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's



### 3 Significant Accounting Policies

(continued)

interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

#### (e) Joint venture arrangements

The Group's interest in joint ventures represent jointly controlled entities which have been measured by applying the equity method of accounting. Under the equity method of accounting the carrying amounts of interests in joint venture entities are increased or decreased to recognise the Group's share of the post acquisition profits or losses and other changes in net assets of the joint ventures. The interests in joint ventures have been measured by applying the cost method in the Parent's own financial report.

#### (f) Foreign currency translation

Both the functional and presentation currency of Freedom Nutritional Products Limited and its Australian subsidiaries is Australian dollars (AUD). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the rate of exchange ruling at the balance sheet date. Exchange differences are recognised in the income statement in the period in which they arise.

#### (g) Property, plant and equipment

Plant and equipment, motor vehicles and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Land and Buildings held for use in the production of goods, are carried in the balance sheet at fair value, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Fair value is determined on the basis of an independent valuation prepared by external valuation experts, based on discounted cashflows or capitalisation of net income, as appropriate. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date. Any revaluation increase arising on the revaluation of land and buildings is credited to a revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the profit or loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Construction in progress is stated at cost. Cost includes expenditure that is directly attributable to the acquisition or construction of the item. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned leased assets or, where shorter, the term of the relevant lease. Cost includes expenditure that is directly attributable to the acquisition of the item, in the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.



### 3 Significant Accounting Policies (continued)

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following depreciation rates are used in the calculation of depreciation:

Class of Fixed Assets	Depreciation Rate
Buildings	2-6%
Plant and equipment	5-20%
Leased plant and equipment	5-10%
Motor vehicles	15-33%

#### (h) Non-current assets classified as held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for such a sale and the sale is highly probable. The sale of the asset (or disposal group) must be expected to be completed within one year from the date of classification, except in the circumstances where sale is delayed by events or circumstances outside the Group's control and the Group remains committed to a sale.

#### (i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially

ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### (j) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired. If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the cash-generating units pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

#### (k) Intangible assets

##### Brand names

Brand names recognised by the company have an indefinite useful life and are not amortised. Each period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy in note 3(l).

##### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of

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### 3 Significant Accounting Policies

(continued)

an intangible asset and their fair values can be measured reliably. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

#### (l) Impairment of long-lived assets excluding goodwill

At each reporting date the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGUs to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### (m) Inventories

Inventories are measured at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials - purchase cost on a first-in, first-out basis;

Manufactured finished goods - cost of direct materials, direct labour and an appropriate portion of manufacturing variable and fixed overheads based on normal operating capacity but excluding borrowing costs.

Purchased finished goods- purchase cost on a weighted average cost basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### (n) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and cash equivalents, which are short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

#### (o) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### (p) Convertible note

The component parts of convertible notes (compound instruments) are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement.





### 3 Significant Accounting Policies (continued)

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or upon the instruments reaching maturity. The equity component initially brought to account is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects and is not subsequently remeasured.

#### (q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflow estimated to settle the present obligation, its carrying amount is the present value of those cashflows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recoverable amount is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### (r) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

#### Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

#### (s) Share-based payments

Equity-settled payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 29.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

#### (t) Leased Assets

##### Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. However, contingent rentals arising under operating leases are recognised as income in a manner consistent with the basis on which they are determined. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

##### Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.



### 3 Significant Accounting Policies (continued)

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to the qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to note 3(i). Contingent rentals are recognised as expenses in the periods in which they are incurred. Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

#### Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (u) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for terms, rebates and other similar allowances.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Licensing fees

Revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Revenue is calculated on the basis of the turnover of the licensee.

#### Interest revenue

Interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### Rental income

Revenue from operating leases is recognised in accordance with the Group's accounting policy outlined in note 3(t).

#### (v) Government grants

Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the group other than the requirement to operate in certain regions or industry sectors.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire long-term assets are recognised as deferred income in the balance sheet and recognised as income on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the period in which it becomes receivable.





### 3 Significant Accounting Policies (continued)

#### (w) Income tax

##### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

##### Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and its probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to

them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

##### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

##### Tax consolidation

The Parent and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The Parent is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate tax payer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 7 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of

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### 3 Significant Accounting Policies

(continued)

the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

#### (x) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') except:

- where the amount of GST incurred is not recoverable from the taxation authority, in which case the GST is recognised as part of acquisition of the asset or as part of the expense item as applicable; or
- for receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified within operating cash flows.

#### (y) Financial instruments

##### Recognition of investments

Investments are initially measured at fair value, net of transaction costs, except for those financial assets carried at fair value through profit and loss, which are initially measured at fair value when the related contractual rights or obligations exist. Subsequent to initial recognition these investments are measured as set out below.

##### Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments.

Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in their fair value of these assets are included in the income statement in the period in which they arise.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant

period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'

##### Loans and receivables

Loans and receivables have fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method less impairment. Interest income is recognised by applying the effective interest rate.

##### Held-to maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method less impairment.

##### Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

##### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

##### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.



### 3 Significant Accounting Policies

(continued)

#### Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

#### (z) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 26 to the financial statements. Derivatives are initially recognised at fair value at the date a derivative

contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group has not adopted hedge accounting during the financial year or previous corresponding period.

#### Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts are not measured at their fair value with changes in fair value recognised in profit or loss.

### 4 Business and Geographical Segments

The Group is organised into three business segments which is the basis on which the Group reports. The principal products and services of these segments are as follows:

Seafood	A range of canned seafood covering sardines, salmon, tuna and specialty seafood. These products are produced overseas and sold in Australia and overseas.
Freedom Foods	A range of products for consumers requiring a solution to specific dietary or medical conditions including gluten free, wheat free, low sugar or salt or highly fortified. The product range covers breakfast cereals, cookies, snack bars, soy and rice beverage, frozen prepared foods and other complimentary products. These products are produced and sold in Australia and overseas.
Thorpedo Foods	Thorpedo range of low GI beverages. These products are produced and sold in Australia and overseas.

	External sales		Other		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Segment revenue</b>						
Continuing operations						
Seafood	19,057	20,902	-	-	19,057	20,902
Freedom Foods	34,447	26,823	-	-	34,447	26,823
Thorpedo Foods	578	1,117	1,227	1,238	1,805	2,355
Total of all segments					55,309	50,080
Eliminations					-	-
Unallocated					436	48
Consolidated revenue					55,745	50,128



#### 4 Business and Geographical Segments (continued)

	2008 \$'000	2007 \$'000
<b>Segment result</b>		
<i>Continuing operations</i>		
Seafood	1,096	1,966
Freedom Foods	967	838
Thorpedo Foods	172	60
	2,235	2,864
Unallocated	(727)	(1,075)
Profit before income tax	1,508	1,789
Income tax expense	(552)	(620)
Profit for the year from continuing operations	956	1,169

	Assets		Liabilities	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Segment assets and liabilities</b>				
<i>Continuing operations</i>				
Seafood	20,206	22,790	17,762	16,321
Freedom Foods	27,719	44,034	26,233	21,998
Thorpedo Foods	5,130	4,909	7,493	7,447
Total of all segments	53,055	71,733	51,488	45,766
Eliminations	(857)	(26,535)	(39,247)	(23,945)
Unallocated	4,097	2,230	14,815	1,953
Consolidated	56,295	47,428	27,056	23,774

	Seafood		Freedom Foods		Thorpedo Foods	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Other segment information</b>						
Carrying value of investments accounted for using the equity method	-	-	1,514	1,097	-	-
Share of net profit/(loss) of jointly controlled entities accounted for under the equity method	-	-	(355)	(136)	-	-
Acquisition of segment assets	-	-	10,623	1,539	-	-
Depreciation and amortisation of segment assets	-	-	331	162	-	-

The Group operates principally in the Australian geographical area.



## 5 Revenue

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
<b>Continuing operations</b>				
• Sale of goods	54,082	48,683	-	13,785
• Interest received				
Loans and receivables				
• Cash and cash equivalents	11	24	-	-
• Subsidiaries	-	-	-	1,162
• License fee	1,109	1,238	-	-
	55,202	49,945	-	14,947
<b>Other revenue</b>				
• Government grant - refer below	118	30	-	-
• Gain on disposal of property	-	129	-	124
• Dividends received	-	-	3,100	-
• Rental income	31	-	-	-
• Convertible note interest	184	7	-	-
• Management fee received	210	17	-	-
	543	183	3,100	124

The above government grant is the Export Market Development Grant received for 2007 and receivable for 2008. The above Convertible note interest relates to interest receivable on convertible notes issued to A2 Dairy Products Pty Limited.

## 6 Profit for the year before tax

<b>Continuing operations</b>				
<b>(i) Losses</b>				
Profit for the year was arrived at after charging the following losses				
Loss on disposal of plant and equipment	-	(7)	-	(4)
<b>(ii) Other Expenses:</b>				
Finance costs				
• Interest on bank overdrafts and loans	1,229	486	-	455
• Interest on obligations under finance leases	35	261	-	261
• Interest on convertible notes	100	475	100	475
Total borrowing costs	1,364	1,222	100	1,191



## 6 Profit for the year before tax (continued)

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
Exchange losses	151	-	-	-
Depreciation on property, motor vehicles, plant and equipment	331	162	121	68
Rental expense on operating leases	104	129	-	69
Research and development costs expensed	411	463	-	453
Impairment of trade receivables	32	43	-	25
<b>Employee benefit expense</b>				
Post employment benefits - defined contribution plans	574	417	-	154
Share-based payments - equity-settled share-based payments	126	66	126	66
Other employee benefits	5,973	5,470	-	1,909
Total employee benefit costs	6,673	5,953	126	2,129
The following expense items are relevant in explaining the financial performance:				
Bid response costs	-	104	-	104

Operating EBITDA (being EBITDA adjusted for bid response costs and equity settled share-based payments, share of loss under equity accounting, unrealised exchange losses, and after charging FNP corporate management fee) was \$3,835,000 (2007: \$3,479,000)

## 7 Income Taxes

<b>Income tax recognised in profit or loss</b>				
<b>Tax expense comprises:</b>				
Current income tax expense	431	457	583	-
Adjustments recognised in the current year in relation to the current tax of prior years	119	43	(231)	(14)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	2	120	181	28
Income tax expense/(income)	552	620	533	14
Attributable to continuing operations	552	620	533	14

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Profit from continuing operations	1,508	1,789	2,299	(118)
Income tax expense calculated at 30%	452	537	690	(35)
Effect of expenses that are not deductible in determining taxable profit	245	156	250	176
Effect of tax concessions (research and development)	(31)	(116)	(10)	(113)
Previously unrecognised and unused tax losses and tax offsets now utilised	(233)	-	(166)	-
Adjustments recognised in the current year in relation to the current tax of prior years	119	43	(231)	(14)
	552	620	533	14



## 7 Income Taxes (continued)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

### Income tax recognised directly in equity

No current or deferred tax amounts were charged/(credited) directly to equity during the year.

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
<b>Current tax assets and liabilities</b>				
<b>Current tax assets</b>				
Entities in the tax-consolidated group	-	84	-	84
<b>Current tax liabilities</b>				
Income tax payable attributable to:				
Entities in the tax-consolidated group	176	392	176	392
Other	15	33	-	-
	191	425	176	392

	Opening Balance	Charged to income	Acquisitions	Closing balance
	\$'000	\$'000	\$'000	\$'000
<b>Deferred tax balances</b>				
Deferred tax assets/(liabilities) arise from the following:				
<b>Consolidated 2008</b>				
<b>Temporary differences:</b>				
Provisions	371	(32)	-	339
Doubtful debts	20	17	-	37
Property plant & equipment	4	8	-	12
Other	39	138	-	177
	434	131	-	565
<b>Unused tax losses and credits:</b>				
Tax losses	1,468	(244)	-	1,224
Withholding tax paid	155	111	-	266
	1,623	(133)	-	1,490
	2,057	(2)	-	2,055
Presented in the balance sheet as follows:				
Deferred tax (liability) - non current				(2)
Deferred tax asset - non current				2,057
				2,055



## 7 Income Taxes (continued)

	Opening Balance	Charged to income	Acquisitions	Closing balance
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated 2007</b>				
Temporary differences:				
Provisions	209	85	77	371
Doubtful debts	14	6	-	20
Formation costs	207	(207)	-	-
Property plant & equipment	(114)	118	-	4
Finance leases	35	(35)	-	-
Other	17	22	-	39
	368	(11)	77	434
<b>Unused tax losses and credits:</b>				
Tax losses	1,635	(167)	-	1,468
Withholding tax paid	97	58	-	155
	1,732	(109)	-	1,623
	2,100	(120)	77	2,057
Presented in the balance sheet as follows:				
Deferred tax (liability) - non current				(35)
Deferred tax asset - non current				2,092
				2,057
<b>Parent 2008</b>				
Temporary differences:				
Provisions	89	7	-	96
Doubtful debts	9	(9)	-	-
Property plant & equipment	4	9	-	13
Other	104	(16)	-	88
	206	(9)	-	197
<b>Unused tax losses and credits:</b>				
Tax losses	477	(172)	-	305
	683	(181)	-	502
Presented in the balance sheet as follows:				
Deferred tax (liability) - non current				-
Deferred tax asset - non current				502
				502





## 7 Income Taxes (continued)

	Opening Balance	Charged to income	Closing balance
	\$'000	\$'000	\$'000
<b>Parent 2007</b>			
Temporary differences:			
Provisions	93	(4)	89
Doubtful debts	2	7	9
Formation costs	42	(42)	-
Property plant & equipment	(100)	104	4
Finance leases	18	(18)	-
Other	6	98	104
	61	145	206
<b>Unused tax losses and credits:</b>			
Tax losses	650	(173)	477
	711	(28)	683
Presented in the balance sheet as follows:			
Deferred tax (liability) - non current			(28)
Deferred tax asset - non current			711
			683

### Tax consolidation

#### Relevance of tax consolidation to the Group

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2005 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Freedom Nutritional Products Limited. The members of the tax-consolidated group are identified at note 31.

#### Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Freedom Nutritional Products Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group. The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.



## 8 Auditors remuneration

	Consolidated \$		Parent \$	
	2008	2007	2008	2007
<b>Current year</b>				
Remunerations of the auditors of the Group for:				
• audit or review of the financial report	190,000	100,000	60,053	43,584
• taxation advice and preparation of tax returns	72,416	281,531	32,461	43,645
• accounting advice	107,403	25,625	-	-
	369,819	407,156	92,514	87,229
The auditor of the consolidated entity is Deloitte Touche Tohmatsu.				
<b>Past years</b>				
Remuneration of past auditors of the Group to settle excess fee claim				
• auditing and reviewing the financial report	-	70,000	-	70,000

## 9 Earnings per share

	Consolidated	
	2008	2007
	Cents per share	
Basic earnings per share	2.0	2.6
Diluted earnings per share	2.0	2.6

The earnings and weighed average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	\$000	\$000
(a) Earnings used in the calculation of basic EPS	956	1,174
(b) Earnings used in the calculation of diluted EPS	956	1,174

	Number '000	
(c) Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	46,765	44,490
Add weighted average number of options outstanding	84	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	46,849	44,490
During 2008 no options were issued over ordinary shares by the Parent.		
During 2007 the Parent issued 4,900,000 options over ordinary shares.		

## 10 Trade and other receivables

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
<b>Current</b>				
Trade receivables	11,111	9,921	37	2,874
Allowance for doubtful debts	(122)	(67)	-	(30)
	10,989	9,854	37	2,844
<b>Other receivables</b>	804	970	-	440
	11,793	10,824	37	3,284



## 10 Trade and other receivables (continued)

The average credit period on sales of goods is 60 days. No interest is charged on trade receivables. An allowance has been made for estimated irrecoverable trade receivable amounts arising from past sale of goods, determined by reference to past default experience. During the current financial year, the allowance for doubtful debts increased by \$55,000 (2007: increased by \$21,000) in the Group and decreased by \$30,000 in the Parent (2007: increased by \$25,000). The movement was recognised in the income statement for the year. Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of \$80,000 (2007: \$62,000). The Group does not hold any collateral over these balances.

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
Current (i)	10,692	9,622	37	2,694
Past due but not impaired (ii)	297	232	-	150

- (i) The current receivables for the Group are with an average of 66 days. Management considers that there are no indications as of the reporting date that the debtors will not meet their payment obligations.
- (ii) The past due but not impaired receivables for the Group are with an average of 93 days. These relate to a number of customers for whom there is no recent history of default and other indicators of impairment. Management considers that no provision is required on these balances.

The Group does not have significant risk exposure to any one debtor, however 87% (2007 - 87%) of sales and 85% (2007 - 82%) of year end receivables are concentrated in major supermarkets throughout Australia. The Parent has 0% (2007 - 91%) of sales and 0% (2007 - 80%) of year end receivables concentrated in major supermarkets throughout Australia.

### Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group and the Parent. Management has assessed that these are all recoverable and no impairment has been taken.

## 11 Other financial assets

<b>Current</b>				
Loans to joint ventures - refer Note 28 Related party transactions	707	1,476	955	1,476
<b>Non-current</b>				
Loans to subsidiaries - refer Note 28 Related party transactions	-	-	26,335	29,616
Convertible notes (i)	1,674	1,250	-	-
Investment in jointly controlled entity	913	329	-	-
Investment in joint venture entities - refer note 33 Jointly controlled operations and assets	601	768	601	768
	3,188	2,347	26,936	30,384

- (i) The Group holds non-listed unsecured convertible notes returning an effective interest rate of 15.8% p.a. The notes are convertible at par value on 1 June 2012. This amount includes the debt component of the note with the equity component residing in investment in jointly controlled entity.

### (ii) Loans to related parties and subsidiaries

The Group has provided short-term loans to joint venture entities interest free and at call. Management has assessed that these are all recoverable and no impairment exists.

Loans to subsidiaries include amounts arising under the group's tax funding arrangement. The inter-company loan receivable is repayable on demand and interest is charged on the outstanding balance at market rates. There are no indications as of the reporting date that the subsidiaries will not meet their payment obligations.

Further information in relation to amounts due from related entities is set out in note 28.



## 12 Inventories

	Consolidated \$'000		Parent \$'000	
	2008	2007	2008	2007
<b>Current</b>				
Raw materials	860	1,505	-	962
Finished goods	6,851	9,237	-	1,202
Provision for stock obsolescence	(123)	(100)	-	(9)
	7,588	10,642	-	2,155

## 13 Intangibles

	Goodwill	Brand Names	Total	Parent Total
	\$'000	\$'000	\$'000	\$'000
<b>2008</b>				
Balance at 1 July 2007	6,930	10,549	17,479	-
Costs incurred during the year	62	4,625	4,687	-
Balance at 30 June 2008	6,992	15,174	22,166	-
<b>2007</b>				
Balance at 1 July 2006	6,628	10,519	17,147	-
Costs incurred during the year	302	30	332	-
Balance at 30 June 2007	6,930	10,549	17,479	-

Goodwill and brands are initially recorded at cost. All brands have been assessed as having indefinite useful lives. No impairment loss was charged in the 2008 financial year (2007: \$nil).

### Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Seafood
- Freedom Foods
- Thorpedo Foods

The consolidated entity carries an amount of \$15,174,000 of brand names with indefinite useful lives allocated between the Seafood and Freedom Foods cash generating units. The brand names relate to major brands purchased as part of business combinations that have long establishment and are considered to be market leaders within their market segment. The brand names operate in a stable industry with a strong positioning in the consumer functional foods market.

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### 13 Intangibles (continued)

The carrying amount of goodwill has been allocated to the identified cash-generating units as follows:

	Consolidated \$'000	
	2008	2007
Seafood	1,982	1,982
Freedom Foods	3,232	3,170
Thorpedo Foods	1,778	1,778
	6,992	6,930

The recoverable amounts of the cash generating units are determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a four-year period, and a discount rate of 11% pa (2007: 12% pa). Cash flow projections during the budget period for the cash-generating units are also based on the same expected gross margins during the budget period.

Key assumptions	Cash-generating units
Budgeted market share	Average market share in the period immediately before the budget period plus a growth of up to 1% of market share per year. Management believes that the planned market share growth per year for the next four years is reasonable.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period is consistent with that used by management.

#### Impairment of cash-generating units including goodwill

There was no impairment loss recognised or reversed during the period for an individual asset or cash generating unit.

### 14 Property, plant and equipment

	Consolidated \$'000		Parent \$'000	
	2008	2007	2008	2007
<b>Non current</b>				
Freehold land and buildings (at fair value)	5,000	117	-	-
Accumulated depreciation	(20)	(106)	-	-
Total Land and Buildings	4,980	11	-	-
Plant and Equipment (at cost)	2,994	2,667	881	783
Accumulated depreciation	(1,171)	(1,070)	(629)	(562)
	1,823	1,597	252	221
Capital work in progress at cost	456	15	-	-
Total Owned Plant and Equipment	2,279	1,612	252	221
Plant and Equipment (under finance lease)	48	48	-	-
Accumulated depreciation	(48)	(27)	-	-
Total Leased Plant and Equipment	-	21	-	-
Motor Vehicles (under finance leases)	214	190	214	166
Accumulated depreciation	(77)	(39)	(77)	(23)
Total Motor Vehicles	137	151	137	143
<b>Total property, plant and equipment</b>	<b>7,396</b>	<b>1,795</b>	<b>389</b>	<b>364</b>



## 14 Property, plant and equipment (continued)

Movements in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year:

	Land and Buildings	Plant and Equipment	Motor Vehicles	Total
	\$000	\$000	\$000	\$000
<b>Parent 2008</b>				
Balance at 1 July 2007	-	221	143	364
Additions	-	111	48	159
Disposals	-	(13)	-	(13)
Depreciation expense	-	(67)	(54)	(121)
Balance at 30 June 2008	-	252	137	389
<b>Group 2008</b>				
Balance at 1 July 2007	11	1,633	151	1,795
Additions	5,000	950	48	5,998
Disposals	(11)	(49)	(6)	(66)
Depreciation expense	(20)	(255)	(56)	(331)
Balance at 30 June 2008	4,980	2,279	137	7,396
<b>Parent 2007</b>				
Balance at 1 July 2006	-	142	60	202
Additions	-	167	101	268
Disposals	-	(38)	-	(38)
Depreciation expense	-	(50)	(18)	(68)
Balance at 30 June 2007	-	221	143	364
<b>Group 2007</b>				
Balance at 1 July 2006	15	372	113	500
Additions	-	214	101	315
Disposals	-	(58)	(24)	(82)
Acquisitions through business combinations	-	1,224	-	1,224
Depreciation expense	(4)	(119)	(39)	(162)
Balance at 30 June 2007	11	1,633	151	1,795

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
Freehold land and buildings	20	4	-	-
Plant and equipment	255	119	67	50
Motor vehicles	56	39	54	18
	331	162	121	68



## 15 Trade and other payables

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
<b>Current</b>				
Trade payables (i)	4,995	7,168	-	2,153
Other payables and accruals (ii)	2,605	2,302	64	733
Due to related parties	-	271	-	271
	7,600	9,741	64	3,157
<b>Non-current</b>				
Other payables and accruals (ii)	2,373	-	-	-

- (i) The average credit period on purchases of certain goods from North America is 2 months. Additional trade payables are paid within 60 days of invoice date. No interest is charged on trade payables.
- (ii) Included in other payables and accruals is \$3,155,552 due to the vendor for the purchase of the Leeton property. The current portion of this payable is \$518,473.

## 16 Borrowings

<b>Secured - at amortised cost</b>				
<b>Current</b>				
Bank overdrafts (i)	860	5,076	-	5,097
Loan payable (i)	2,591	-	-	-
Finance leases (ii)	69	33	69	33
<b>Non-current</b>				
Loan payable (i)	12,200	2,500	-	2,500
Finance leases (ii)	86	112	86	112
<b>Unsecured - at amortised cost</b>				
<b>Current</b>				
Convertible Notes - unsecured (iii)	-	4,981	-	4,981
	15,806	12,702	155	12,723
Disclosed in the financial statements as:				
Current borrowings	3,520	10,090	69	10,111
Non-current borrowings	12,286	2,612	86	2,612
	15,806	12,702	155	12,723

- (i) Secured by assets as detailed in note 34.
- (ii) Secured by leased assets as detailed in note 24.
- (iii) The Parent issued 8,333,333 unsecured convertible notes at \$0.60 each, with a coupon rate of 9.5% per annum which matured on 1 September 2007.





## 17 Provisions

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
<b>Current</b>				
Employee benefits (i)	774	641	189	164
<b>Non-current</b>				
Employee benefits	310	230	120	113
Employee benefits movement:				
Balance at 1 July 2007	871	637	277	297
Additional provision recognised	625	598	110	108
Amounts used	(412)	(364)	(78)	(128)
Balance at 30 June 2008	1,084	871	309	277

- (i) The current Group provision for employee benefits includes \$112,000 of annual leave and vested long service leave entitlements accrued but not expected to be taken within 12 months (2007: \$229,000). The current parent employee benefits are expected to be taken during the next 12 months.

## 18 Issued capital

<b>Fully paid ordinary shares</b>				
54,606,737 (2007: 44,527,343) ordinary shares fully paid	26,999	22,078	26,999	22,078
Balance at 1 July	22,078	22,058	22,078	22,058
Issue of shares (i)(ii)	4,921	20	4,921	20
Balance at 30 June	26,999	22,078	26,999	22,078

- (i) April 2008 - 10,000,000 ordinary shares were issued for 50 cents per share. Issue costs of \$119,000 were incurred during the capital raising process.  
May 2008 - 41,998 ordinary shares were issued for 51.6 cents per share.  
December 2007 - 37,396 ordinary shares were issued at 49.7 cent per share.
- (ii) During the prior financial year there were 42,333 ordinary shares issued for 46.8 cents per share during May 2007. Fully paid ordinary shares carry one vote per share and carry the right to dividends. Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value. The Dividend Reinvestment Plan provides shareholders with the opportunity to receive ordinary shares, in lieu of cash dividends, at a discount (set by the directors) from the market price at time of issue.

### Share options granted under the employee share option plan

- (i) For information relating to the Freedom Nutritional Products Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer note 29.
- (ii) For information relating to share options issued to key management personnel during the financial year, refer note 28. At 30 June 2008, there were 5,900,000 (30 June 2007: 6,100,000 of which 200,000 have lapsed in the financial year ended 30 June 2008) unissued ordinary shares for which options were outstanding.

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## 19 Reserves

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
Asset revaluation	473	-	-	-
Equity-settled employee benefits	192	66	192	66
	665	66	192	66
<b>Equity-settled employee benefits</b>				
Balance at 1 July	66	-	66	-
Share based payment	126	66	126	66
Balance at 30 June	192	66	192	66

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the Employee Share Option Plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 29 to the financial statements.

<b>Asset revaluation</b>				
Balance at 1 July	-	-	-	-
Revaluation increment	473	-	-	-
Balance at 30 June	473	-	-	-

The asset revaluation reserve arises on the revaluation of land and buildings. Where a revalued land or building is sold that portion of the asset revaluation reserve which relates to the asset, and is effectively realised, is transferred directly to retained earnings.

## 20 Retained Profits

Balance at 1 July	2,956	2,227	50	627
Transfer from minority interest	(1,446)	-	-	-
Net profit / (loss) attributable to members of the parent	956	1,174	1,766	(132)
Dividends paid	(891)	(445)	(891)	(445)
Balance at 30 June	1,575	2,956	925	50

## 21 Dividends

	2008		2007	
	Cents per share	Total \$'000	Cents per share	Total \$'000
<b>Recognised amounts</b>				
<b>Fully paid ordinary shares</b>				
Interim dividend: fully franked at a 30% tax rate	1.0	445	1.0	445
Interim dividend: fully franked at a 30% tax rate	1.0	446	-	-
<b>Unrecognised amounts</b>				
<b>Fully paid ordinary shares</b>				
Final dividend: fully franked at a 30% tax rate	1.0	546	-	-

On 28 August 2008, the directors declared a fully franked final dividend of 1.0 cents per share to the holders of fully paid ordinary shares in respect of the financial year ending 30 June 2008, to be paid to shareholders on 19 December 2008. The dividend will be paid to shareholders on the Register of Members on 1 December 2008. The total estimated dividend to be paid is \$546,000.



## 21 Dividends (continued)

	Parent \$000	
	2008	2007
Adjusted franking account balance	343	222
Impact on franking account balance of dividends not recognised	(234)	-

## 22 Notes to the cash flow statement

### (a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and funds held in cash management and cheque accounts net of bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:-

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
Cash	1,111	4	1	3
Overdraft	(860)	(5,076)	-	(5,097)
	251	(5,072)	1	(5,094)

### (b) Reconciliation of profit for the period to net cash flows from operating activities

Profit for the year	956	1,169	1,766	(132)
Depreciation	331	162	121	68
Provision for employee entitlements	214	235	32	(19)
Write off of inventory	37	(2)	-	(27)
Gain on disposal of assets	-	(120)	-	(124)
Foreign currency revaluation	151	(23)	-	-
Share based payments	126	66	126	66
Interest received	(195)	(31)	-	(1,162)
Intercompany dividends received	-	-	(3,100)	-
Loss in jointly controlled entity	355	136	317	135
<b>Changes in Assets and Liabilities</b>				
(Increase) / Decrease in receivables	(969)	(2,000)	3,247	(1,038)
(Increase) / Decrease in inventory	3,054	(828)	2,155	(141)
(Increase) / Decrease in other assets	461	(626)	(270)	333
(Increase) / Decrease in deferred tax assets	35	122	(209)	100
Increase / (Decrease) in accounts payable	(2,653)	264	(2,822)	(61)
Increase / (Decrease) in provision for income tax	(150)	34	(132)	41
Increase / (Decrease) in provision for deferred income tax	(33)	(79)	(28)	(72)
Net cash from operating activities	1,720	(1,521)	1,203	(2,033)

Details of credit stand-by arrangements available and unused loan facilities are shown in note 23 to the financial statements.



## 22 Notes to the cash flow statement (continued)

### (c) Non-cash financing and investing activities

During the current financial year, the Group acquired \$48,000 (2007:\$101,000) of motor vehicles under finance leases. These acquisitions will be reflected in the cash flow statement over the term of the finance lease via lease repayments. Furthermore, the group acquired land and buildings which included deferred purchase consideration of \$3,156,000 refer to note 15(ii).

### (d) Business Acquired

During the 2008 financial year consideration was paid for the acquisition of Norganic Foods (Australia) Pty Limited business assets. Also, consideration was finalised in respect of the Cookieman baking assets. During the 2007 financial year, consideration was paid for the acquisition of Cookieman baking assets. Also, deferred consideration was paid in respect of acquiring the remaining 20% of Freedom Foods Pty Limited.

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
Details of these transaction are:				
Purchase consideration	4,500	1,247	-	-
Incidental costs - Cookie man	56	432	-	-
Incidental costs - Norganic Foods (Australia)	618	-	-	-
Deferred consideration for Freedom Foods acquisition	-	86	-	-
Cash consideration	5,174	1,765	-	-
<b>Assets and liabilities held at acquisition date</b>				
Prepayments	-	9	-	-
Inventories	492	412	-	-
Deferred tax assets	-	78	-	-
Property, plant and equipment	-	1,224	-	-
Brands (Intellectual property)	4,626	-	-	-
Employee entitlements	-	(196)	-	-
Rent received in advance	-	(64)	-	-
	5,118	1,463	-	-
Goodwill on acquisition	56	302	-	-
	5,174	1,765	-	-



## 23 Standby arrangements and unused credit facilities

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
<b>Financing Facility</b>				
Secured bank overdraft facility				
• amount used	860	5,076	-	5,076
• amount unused	1,140	2,574	-	2,574
	2,000	7,650	-	7,650
<b>Secured loan facilities</b>				
• amount used	14,791	2,500	-	2,500
• amount unused	534	-	-	-
	15,325	2,500	-	2,500
Unused financing facilities	1,674	2,574	-	2,574

The bank overdraft and multi-option facilities are arranged with Bankwest (2007: Westpac Banking Corporation) with general terms and conditions and is subject to annual review. The bank facilities of the Group are secured by a first registered mortgage over all the Group's property and a first equitable mortgage over the whole of the Group's assets and undertakings including uncalled capital. The mortgage is held by Bankwest (2007: Westpac Banking Corporation). Interest rates are variable and subject to adjustment.

## 24 Capital and leasing commitments

### Finance leases

#### Leasing arrangements

Finance leases relate to motor vehicles and equipment with lease terms of up to 5 years. The Group has options to purchase the equipment for an agreed amount at the conclusion of the lease agreements. The Group's obligation under finance leases are secured by the lessor's title to the leased assets.

	Minimum future lease payments - \$'000				Present value of minimum future lease payments - \$'000			
	Consolidated		Parent		Consolidated		Parent	
	2008	2007	2008	2007	2008	2007	2008	2007
Finance lease liabilities								
Payable:								
• No later than 1 year	82	50	82	50	69	33	69	33
• Later than 1 year but not later than 5 years	89	131	89	131	86	112	86	112
Minimum future lease payments (i)	171	181	171	181	155	145	155	145
Less future finance charges	(16)	(36)	(16)	(36)	-	-	-	-
Present value of minimum lease payments	155	145	155	145	155	145	155	145
Included in the financial statements as: (note 16)								
Current borrowings					69	33	69	33
Non-current borrowings					86	112	86	112
					155	145	155	145



## 24 Capital and leasing commitments (continued)

- (i) Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

### Operating leases

#### Disclosure for lessees

##### Leasing arrangements

Operating leases relate to office equipment with lease terms of between one and two and a half years. The Parent/Group does not have an option to purchase the leased asset at the expiry of the lease period.

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
Non-cancellable operating lease commitments				
• Not longer than 1 year	36	146	-	146
• Longer than 1 year but not longer than 5 years	22	135	-	135
	58	281	-	281
Group's share of jointly controlled entities capital commitments				
• Not longer than 1 year	593	395		

#### Disclosure for lessors

Operating leases relate to warehouse facilities owned by the group with lease terms currently less than 1 year.

Non-cancellable operating lease receivables				
• Not longer than 1 year	15	-	-	-

## 25 Personnel note

	Consolidated Number		Parent Number	
	2008	2007	2008	2007
The entity employs casual and full time staff numbering	152	137	39	39

## 26 Financial instruments

### (a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity balances.

The Group's overall strategy remains unchanged from 2007. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 16, cash and cash equivalents and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in notes 18, 19 and 20 respectively.

Operating cash flows are used to maintain and expand the group's manufacturing and distribution assets, as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group's policy is to borrow centrally, using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

#### Gearing ratio

The Group's management reviews the capital structure on a regular basis. As a part of this review the committee



## 26 Financial instruments (continued)

considers the cost of capital and the risks associated with each class of capital.

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
<b>Financial liabilities</b>				
Debt (i)	15,806	12,702	155	12,723
Cash and cash equivalents	(251)	5,072	(1)	5,094
Net debt	15,555	17,774	154	17,817
Equity (ii)	27,664	22,144	27,191	22,144
Net debt to equity ratio	56%	80%	1%	80%

(i) Debt is defined as long and short-term borrowings, as detailed in note 16.

(ii) Equity includes all capital and reserves.

### (b) Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree magnitude of risks. These risks include market risk (including currency risk and price risk), credit risk and liquidity risk. The Group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, credit risk and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

### (c) Market Risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into foreign exchange forward contracts to manage exposure to foreign currency risk for its imports. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

The Corporate Treasury function reports monthly to the board which monitors risks and policies implemented to mitigate risk exposure.

### (d) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

### (e) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.





## 26 Financial instruments (continued)

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date is as follows:

	Financial assets \$'000		Financial liabilities \$'000	
	2008	2007	2008	2007
<b>Consolidated</b>				
US dollars (USD)	1,032	913	273	26
Canadian dollars (CAD)	945	-	520	791

There have been no change to the group's exposure to foreign currency risks or the manner in which it manages and measures the risks from the previous period.

### Forward Exchange Contracts

The Group enters into forward exchange contracts to buy specified amounts of foreign currencies in the future at stipulated exchange rates. The objective of entering into the forward exchange contracts is to protect the Group against unfavourable exchange rate movements for the contracted purchases undertaken in foreign currencies.

The following table details the forward foreign currency contracts outstanding as at reporting date:

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007
Outstanding contracts	2008	2007	FC'000	FC'000	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>								
<b>Buy US Dollars</b>								
Less than 3 months	0.9397	0.7566	1,869	976	1,989	1,290	(155)	(140)
3 to 6 months	0.9328	0.7951	1,500	927	1,608	1,166	(141)	(74)
Over 6 months	-	0.8406	-	525	-	625	-	(6)
<b>Buy Canadian Dollars</b>								
Less than 3 months	0.9478	0.9128	962	1,973	1,015	2,161	(77)	37
3 to 6 months	0.9378	0.9090	950	1,750	1,013	1,925	(76)	24
Over 6 months	-	0.9069	-	550	-	606	-	7
							(449)	(152)

The Group has entered into contracts to purchase finished goods from suppliers in the United States, Canada and Thailand. The Group has entered into forward exchange contracts (for terms not exceeding 8 months) to hedge the exchange rate risk arising from these anticipated future transactions. The Group does not adopt hedge accounting.

### Foreign currency sensitivity analysis

The following table details the sensitivity to a 10% increase and decrease in the Australian dollar against the relevant currencies in relation to foreign exchange exposures. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

A positive number indicates an increase in profit where the Australia Dollar strengthens against the respective currency. For a weakening of the Australia Dollar against the respective currency there would be an equal and opposite impact on the profit and the balances below would be negative.



## 26 Financial instruments (continued)

	Profit or loss \$'000	
	2008	2007
<b>Consolidated</b>		
<b>US dollars (USD) impact</b>		
AUD appreciates by 10%	(69)	(81)
AUD depreciates by 10%	84	99
<b>Canadian dollars (CAD) impact</b>		
AUD appreciates by 10%	(39)	72
AUD depreciates by 10%	47	(88)

(i) This is mainly attributable to the exposure outstanding on foreign currency receivables and payables at year end in the consolidated entity and the parent.

### (f) Interest rate risk management

The Parent and Group are exposed to interest rate risk as they borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

Exposures to interest rate risk, which is the risk that a financial instrument's value, its borrowing costs and interest income will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial instruments are set out below:

Group Financial Instrument	Note	Weighted average effective interest rate	Fixed rate maturing in						
			Variable Rate		Less than 1 year		1 to 5 years		
			2008	2007	2008	2007	2008	2007	
		%	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Financial Assets</b>									
Cash and cash equivalents	22	5.0%	1,111	4	-	-	-	-	-
Redeemable notes	11	15.8%	-	-	-	-	1,674	1,250	
Total Financial Assets			1,111	4	-	-	1,674	1,250	
<b>Financial Liabilities</b>									
Bank overdrafts	16	10.7%	860	5,076	-	-	-	-	
Finance leases	16	8.0%	-	-	69	33	86	112	
Other payable	15	11.0%	-	-	782	-	2,373	-	
Loan payable	16	9.0%	14,791	2,500	-	-	-	-	
Convertible notes	16	9.5%	-	-	-	4,981	-	-	
Total Financial Liabilities			15,651	7,576	851	5,014	2,459	112	



26 Financial instruments (continued)

Parent Financial Instrument	Note	Weighted average effective interest rate	Fixed rate maturing in					
			Variable Rate		Less than 1 year		1 to 5 years	
			2008	2007	2008	2007	2008	2007
		%	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
<b>Financial Assets</b>								
Cash	22	5.0%	1	3	-	-	-	-
Due from controlled entities	11	10.5%	-	-	-	-	26,335	29,616
<b>Total Financial Assets</b>			<b>1</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>26,335</b>	<b>29,616</b>
<b>Financial Liabilities</b>								
Bank overdrafts	16	8.2%	-	5,097	-	-	-	-
Finance leases	16	8.0%	-	-	69	33	86	112
Loan Payable	16	7.5%	-	2,500	-	-	-	-
Convertible notes	16	9.5%	-	-	-	4,981	-	-
<b>Total Financial Liabilities</b>			<b>-</b>	<b>7,597</b>	<b>69</b>	<b>5,014</b>	<b>86</b>	<b>112</b>

There have been no change to the group's exposure to interest rate risks or the manner in which it manages and measures the risks from the previous period.

**Interest rate sensitivity analysis**

The sensitivity analyses below have been determined based on the exposure to interest rates as detailed in the above table at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

A 100 basis point movement with all other variables being held constant:

- the impact on the consolidated entity's net profit will be an increase/decrease of \$177,000 (2007: \$76,000) respectively; and
- the impact on the parent's net profit will be an increase/decrease of \$nil (2007: \$76,000) respectively.

This is mainly attributable to the company's and consolidated entity's exposure to interest rates on its variable rate borrowings.

A 100 basis point movement is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

**(g) Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and the Parent. The Group has adopted the policy of only dealing with credit worthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties.

Quality of Trade and Other Receivables and Other Financial Assets have been disclosed in notes 10 and 11 respectively.

Credit risk from balances with banks and financial institutions is managed by Group Treasury in accordance with a Board approved policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.



## 26 Financial instruments (continued)

Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated throughout the year subject to approval of the Board. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date, to recognised financial assets of the Group which have been recognised on the Balance Sheet is the carrying amount, net of any allowance for doubtful debts.

### (h) Liquidity risk management

Liquidity risk arises from the possibility that the Group and the Parent may be unable to settle a transaction on the due date. The ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group and the Parent manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching profiles of financial assets and liabilities. Included in Note 23 is a listing of additional undrawn facilities that the company and the consolidated entity has at their disposal to further reduce liquidity risk.

#### Liquidity risk tables

The following table detail the company's and the consolidated entity's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company or the consolidated entity can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate	Less than 1 year		1 to 5 years		More than 5 years	
		2008	2007	2008	2007	2008	2007
<b>Consolidated</b>	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Liabilities</b>							
Trade payables	-	4,995	7,168	-	-	-	-
Other payables and accruals	-	1,823	2,302	-	-	-	-
Other payables	11.0%	850	-	3,400	-	-	-
Due to related parties	-	-	271	-	-	-	-
Bank overdrafts	10.7%	952	5,492	-	-	-	-
Finance leases	8.0%	82	50	89	131	-	-
Loan payable	9.0%	3,998	2,688	16,138	-	-	-
Convertible notes	9.5%	-	5,475	-	-	-	-
<b>Total Financial Liabilities</b>		<b>12,700</b>	<b>23,446</b>	<b>19,627</b>	<b>131</b>	<b>-</b>	<b>-</b>



## 26 Financial instruments (continued)

	Weighted average effective interest rate	Less than 1 year		1 to 5 years		More than 5 years	
		2008	2007	2008	2007	2008	2007
Parent	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Liabilities</b>							
Trade payables	-	-	2,153	-	-	-	-
Other payables	-	64	733	-	-	-	-
Due to related parties	-	-	271	-	-	-	-
Bank overdrafts	8.2%	-	5,515	-	-	-	-
Finance leases	8.0%	82	50	89	131	-	-
Loan payable	7.5%	-	2,688	-	2,500	-	-
Convertible notes	9.5%	-	5,475	-	-	-	-
<b>Total Financial Liabilities</b>		146	16,885	89	2,631	-	-

### (i) Fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

### (j) Options

In May 2004, the Group entered into arrangements with Ian Thorpe whereby both a wholly owned subsidiary of the Parent (TFG) and Ian Thorpe entered into two joint ventures relating to food and beverages and seafood.

The first of these ventures has been formed as Thorpedo Foods Pty Limited (TFG interest 50.01%). Under the arrangements TFG has a call option to acquire up to 75% in Thorpedo Foods Pty Limited until 30 September 2009. The consideration payable is to be calculated based upon EBITDA multiples and will be satisfied by exercise of a call option held by Ian Thorpe for shares in the Parent. These financial instruments do not have a value at 30 June 2008.

On 30 June 2005, TFG exercised a call option and acquired an additional 25.01% in Thorpedo Foods Pty Limited bringing its interest in Thorpedo Foods Pty Limited at 30 June 2005 to 50.01%. The additional 25.01% was acquired for \$20.



## 27 Key management personnel compensation

This report details the nature and amount of remuneration for each Director and the executives receiving the highest remuneration.

### Remuneration policy

Remuneration arrangements for Directors and executives of the Parent and Group ("the Directors and executives") are set competitively to attract and retain appropriately qualified and experienced Directors and executives. As part of its agreed mandate, the Remuneration and Nomination Committee obtains independent advice when required on the appropriateness of remuneration packages given trends in comparable companies and the objectives of the consolidated entity's remuneration strategy.

The remuneration structures explained below are designed to attract suitably qualified candidates. The remuneration structures take into account:

- The capability and experience of the Directors and executives;
- The Directors and executives ability to control the relevant operational performance; and
- The amount of incentives within each Director and executive's remuneration.

### Executive director and executives

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Executive director and executives remuneration levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers the overall performance of the Group.

### Performance based remuneration

Performance based remuneration is at the discretion of the Remuneration and Nomination Committee. This can take the form of share options or cash payments. During the year no options were issued. Options are valued using the bi-nomial method.

The following cash retention bonuses were granted

- Mr. G. J. Hughes on 1 November 2007 for \$50,000; and
- Mr M Christian on 1 January 2008 for \$22,000.

### Non-executive directors

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Total fees for all non-executive directors, last voted upon by shareholders in October 2006, was not to exceed \$300,000 in total.

Total fees for 2008 were \$167,000 (2007: \$122,315). To align director interests with shareholder interests, the directors are encouraged to hold shares in the Parent.

The Chairman receives twice the base fee of non-executive directors. Non-executive directors do not receive performance related remuneration. Directors' fees cover all main Board activities. Non-executive directors who sit on the Remuneration and Nomination Committee and the Audit, Risk and Compliance Committee receive an additional payment of \$1,000 and the Chairman of each receives \$2,000. There are no termination or retirement retirement benefits for non-executive directors.



## 27 Key management personnel compensation (continued)

### Service agreements

It is the Group's policy that service contracts are entered into for the CEO which was extended on 1 February 2007. The key terms and conditions are as follows:

- The contract is for a fixed term to 30 November 2011
- The remuneration comprises a fixed component which includes the cost to the Parent of any superannuation contributions made by the Parent on behalf of the CEO; and
- The Parent can terminate employment at any time without prior notice if the CEO commits any serious breach of any provisions of his agreement or is guilty of an act of serious misconduct or wilful neglect in the discharge of his duties. The CEO may terminate this agreement with one month's notice and the Parent with six month's notice. In the event of dismissal by the Parent, other than for breach, the CEO is also entitled to one year's total remuneration.

### Parent performance, shareholder wealth and directors and senior management remuneration

The remuneration policy of the company and group does not directly link the remuneration of directors and senior executives to parent performance or shareholder wealth.

The following table shows the revenue, profits and dividends for the past five years for the Group.

	2004	2005	2006	2007	2008
Sales Revenue (\$000's)	32,940	37,954	46,963	48,683	54,082
Net Profit / (loss) after tax (\$000s)	(749)	310	1,434	1,174	956
Dividends paid (cents)	Nil	Nil	Nil	1	2

The Remuneration and Nomination Committee considers that the Parent's performance-linked remuneration structure is appropriate to building shareholder value in the medium term.

The aggregate compensation made to directors and other members of key management personnel of the Parent and the Group is set out below:

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
Short-term employee benefits	1,601,890	1,019,335	167,000	122,315
Post-employment benefits	78,992	338,187	15,030	58,988
Share-based payment	126,599	66,350	126,599	66,350
	1,807,481	1,423,872	308,629	247,653





## 27 Key management personnel compensation (continued)

### Details of key management personnel

The directors and other members of key management personnel of the Group during the year were:

- P. R. Gunner (Chairman, non-executive director)
- G.H. Babidge (Managing Director & Chief Executive Officer)
- A. M. Perich (Non-executive director)
- R. Perich (Non-executive director)
- S. Higgs (Non-executive director), resigned October 2007.
- M. Miles (Non-executive director)
- B. W. Bootle (alternate director)
- R. J. F. Macleod (Executive director) appointed to the Board May 2008.
- G. J. Hughes (Chief Operating Officer) appointed July 2007.
- P. J. Nathan (General Manager Marketing)
- M. E. Jenkins (Chief Financial Officer & Company Secretary)
- M. Christian (General Manager Manufacturing)
- M. Haupfleisch (General Manager, Specialty Seafoods) appointed March 2008.

### Determination of remuneration of specified directors

Remuneration of non-executive directors comprise fees determined having regard to industry practice and the need to obtain appropriately qualified independent persons. Fees do not contain any non-monetary elements.

Remuneration of the executive directors is determined by the Remuneration & Nomination Committee. In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility.

Options are granted to the executive directors to acquire ordinary shares in Freedom Nutritional Products Limited.

The compensation of each member of the key management personnel of the Group is set out below:

2008	P. R. Gunner	G H Babidge	A. M. Perich	R. Perich	S.F. Higgs	M. Miles	B. W. Bootle	R. J. F. Macleod
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Short term benefits</b>								
Salaries and fees	63,000	325,871	30,000	32,000	10,000	32,000	-	211,871
Bonus	-	-	-	-	-	-	-	-
Non monetary	-	-	-	-	-	-	-	-
<b>Post employment benefits</b>								
Superannuation	5,670	13,129	2,700	2,880	900	2,880	-	13,129
<b>Equity compensation</b>								
Options	-	42,934	-	-	-	-	22,731	42,934
<b>Total</b>	<b>68,670</b>	<b>381,934</b>	<b>32,700</b>	<b>34,880</b>	<b>10,900</b>	<b>34,880</b>	<b>22,731</b>	<b>267,934</b>

	G.J. Hughes	P. J. Nathan	M. E. Jenkins	M. Christian	M. Haupfleisch	Total
	\$	\$	\$	\$	\$	\$
<b>Short term benefits</b>						
Salaries and Fees	223,509	144,843	185,000	189,596	55,200	1,502,890
Bonus	50,000	-	-	22,000	-	72,000
Non monetary	-	27,000	-	-	-	27,000
<b>Post employment benefits</b>						
Superannuation	10,421	12,283	15,000	-	-	78,992
<b>Equity compensation</b>						
Options	-	9,000	9,000	-	-	126,599
<b>Total</b>	<b>283,930</b>	<b>193,126</b>	<b>209,000</b>	<b>211,596</b>	<b>55,200</b>	<b>1,807,481</b>

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## 27 Key management personnel compensation (continued)

2007	P. R. Gunner	G H Babidge (i)	A. M. Perich	R. Perich	S.F. Higgs	M. Miles	B. W. Bootle (i)	C. C. Grubb
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Short term benefits</b>								
Salaries and fees	31,167	223,487	24,167	27,000	26,833	2,000	-	3,815
Non monetary	-	1,513	-	-	-	-	-	-
<b>Post employment benefits</b>								
Superannuation	25,695	100,000	2,175	2,430	2,415	17,620	-	-
<b>Equity compensation</b>								
Options	-	25,045	-	-	-	-	13,259	-
<b>Total</b>	<b>56,862</b>	<b>350,045</b>	<b>26,342</b>	<b>29,430</b>	<b>29,248</b>	<b>19,620</b>	<b>13,259</b>	<b>3,815</b>

	M. van Ryn	G. J. Reaney	R. J. F. Macleod (i)	P. J. Nathan (ii)	M. E. Jenkins (ii)	H. A. Hurwitz	B. A. O'Brien	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Short term benefits</b>								
Salaries and Fees	-	7,333	187,314	137,325	150,933	137,821	41,761	1,000,956
Non monetary	-	-	-	-	1,367	-	15,500	18,380
<b>Post employment benefits</b>								
Superannuation	7,993	660	12,686	32,829	27,700	12,179	93,805	338,187
<b>Equity compensation</b>								
Options	-	-	25,045	1,500	1,500	-	-	66,349
<b>Total</b>	<b>7,993</b>	<b>7,993</b>	<b>225,045</b>	<b>171,654</b>	<b>181,500</b>	<b>150,000</b>	<b>151,066</b>	<b>1,423,872</b>

(i) On 30 November 2006 share options were granted under the employee share option plan. Further details of the options granted are contained in notes 28 and 29.

(ii) On 26 April 2007 share options were granted under the employee share option plan. Further details of the options granted are contained in notes 28 and 29.

## 28 Related party transactions

### (a) Equity interests in related parties

#### (i) Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 31 to the financial statements.

#### (ii) Equity interest in joint ventures

Details of interests in joint ventures are disclosed in note 33 to the financial statements.

### (b) Transactions with key management personnel

#### (i) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 27 to the financial statements.



## 28 Related party transactions (continued)

### (ii) Key management personnel equity holdings

#### Fully paid ordinary shares of the Parent

	Balance at 1 July 2007	Granted as compensation	Received on exercise of options	Net other change	Balance at 30 June 2008
2008	No.	No.	No.	No.	No.
P. R. Gunner	321,017	-	-	39,500	360,517
G.H. Babidge	69,217	-	-	-	69,217
A. M. Perich (2)	34,901,799	-	-	628,586	35,530,385
R. Perich (2)	34,901,799	-	-	628,586	35,530,385
S. F. Higgs	384,615	-	-	-	384,615
M. Miles	51,069	-	-	53,284	104,353
B. W. Bootle	40,855	-	-	1,631	42,486
R. J. F. Macleod	156,108	-	-	-	156,108
G. J. Hughes	-	-	-	-	-
P. Nathan	40,000	-	-	-	40,000
M. E. Jenkins	30,326	-	-	-	30,326
M. Christian	-	-	-	-	-
M. Haupfleisch	-	-	-	-	-

	Balance at 1 July 2006	Granted as compensation	Received on exercise of options	Net other change	Balance at 30 June 2007
2007	No.	No.	No.	No.	No.
P. R. Gunner	204,346	-	-	116,671	321,017
G. H. Babidge	69,217	-	-	-	69,217
A. M. Perich (1) (2)	8,771,289	-	-	26,130,510	34,901,799
R. Perich (2)	8,771,289	-	-	26,130,510	34,901,799
S. F. Higgs	384,615	-	-	-	384,615
M. Miles	-	-	-	51,069	51,069
B. W. Bootle	-	-	-	40,855	40,855
M. van Ryn	172,074	-	-	(172,074)	-
C. C. Grubb	8,068,435	-	-	(8,058,435)	10,000
G. J. Reaney	8,068,435	-	-	(8,054,430)	14,005
R. J. F. Macleod	156,108	-	-	-	156,108
P. Nathan	-	-	-	40,000	40,000
M. E. Jenkins	30,326	-	-	-	30,326
H. A. Hurwitz	-	-	-	-	-
B. A. O'Brien	-	-	-	-	-

(1) Mr A. M. Perich joined the board as a non-executive director in July 2006. He is joint managing director with Mr R. Perich of Arrovest Pty Ltd. At the date of his appointment Arrovest Pty Ltd already held shares consistent with those shown for Mr R. Perich.

(2) Messrs A. M. Perich and R. Perich each hold an interest in Arrovest Pty Limited which is a registered holder of shares in the Parent.



## 28 Related party transactions (continued)

### Share options of the Parent

	Balance at 1 July	Lapsed	Granted as compensation	Exercised	Net other change	Balance at 30 June	Balance vested at 30 June	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.
<b>2008</b>										
G.H. Babidge	2,400,000	-	-	-	-	2,400,000	1,125,000	-	1,125,000	425,000
B. W. Bootle	900,000	-	-	-	-	900,000	225,000	-	225,000	225,000
R. J. F. Macleod	2,000,000	-	-	-	-	2,000,000	725,000	-	725,000	425,000
P. Nathan	300,000	-	-	-	-	300,000	150,000	-	150,000	150,000
M. E. Jenkins	400,000	(100,000)	-	-	-	300,000	150,000	-	150,000	150,000
<b>2007</b>										
G.H. Babidge	1,925,000	-	1,700,000	-	(1,225,000)	2,400,000	700,000	-	700,000	-
B. W. Bootle	-	-	900,000	-	-	900,000	-	-	-	-
R. J. F. Macleod	650,000	-	1,700,000	-	(350,000)	2,000,000	300,000	-	300,000	-
P. Nathan	-	-	300,000	-	-	300,000	-	-	-	-
M. E. Jenkins	100,000	-	300,000	-	-	400,000	100,000	-	100,000	-
Dr V Lakshminarayana	50,000	-	-	-	-	50,000	50,000	-	50,000	-
H.A. Hurwitz	50,000	-	-	-	-	50,000	50,000	-	50,000	-

All share options issued to key management personnel were made in accordance with the provisions of the Employee Share Option Plan.

During the financial year nil options (2007: nil) were exercised by key management personnel.

Further details of the Employee Share Option Plan and of share options granted during 2008 and 2007 financial years are contained in note 29 to the financial statements.

#### (iii) Other transactions with key personnel of the Group

Profit for the financial year ended 30 June 2007 included \$124,000 on the sale of land and buildings to Contract Beverage Packers of Australia Pty Ltd (CBPA) which is a 50: 50 joint venture with Leppington Pastoral Company which is owned by members of the Perich family.

For further transactions with key personnel of the Group, refer to transactions between Parent and its related parties below.

#### (c) Transactions with other related parties

Other related parties include:

- the parent entity
- entities with joint control or significant influence over the Group.
- joint ventures in which the entity is a venturer
- subsidiaries
- other related parties



## 28 Related party transactions (continued)

### (i) Transactions between Parent and its related parties

During the financial year, the following transactions occurred between the Parent and its related parties:

- the Parent recognised tax payable in respect of the tax liabilities of its wholly-owned subsidiaries. Payments to/from the Parent are made in accordance with the terms of the tax funding arrangement.
- the Parent made dividend payments totalling \$702,000 to its ultimate parent entity (2007: \$348,000). The ultimate parent entity Arrovest Pty Ltd holds 65% of the fully paid ordinary shares of Freedom Nutritional Products Limited (2007: 78%).
- the Parent received interest income of \$nil (2007: \$1,162,000) from controlled entities. Interest is receivable on the last business day of the financial year.
- the Parent made payments of \$215,396 (2007: \$1,562,000) to a controlled entity for selling, corporate and financial services. The amount is payable on the last day of the financial year.
- the Parent paid rental income of \$57,000 (2007: \$nil) to CBPA.
- the Parent received fees for management services provided of \$15,000 (2007: \$3,750) from CBPA.
- The Group was reimbursed by CBPA \$2,407,000 (2007: \$2,134,000) for labour services provided.

The following balances arising from transactions between the Parent and its other related parties are outstanding at reporting date:

- Non Current loans totalling \$26,335,000 are receivable from subsidiaries (2007: \$29,616,000).
- Current loans totalling \$955,000 are receivable from joint ventures (2007: \$1,476,000).
- Current loans totalling \$nil are repayable to the associate of the ultimate parent (2007: \$271,000).

All amounts advanced to or payable to related parties are unsecured and are at call.

The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised during the financial year for bad or doubtful debts in respect of the amounts owed by related parties.

Transactions and balances between the Parent and its subsidiaries were eliminated in the preparation of the consolidated financial statements of the Group.

### (ii) Transactions between the Group and its related parties

During the financial year, the following transactions occurred between the Group and its other related parties:

- CBPA sold goods totalling \$7,668,000 (2007: \$nil) to the Group at cost.
- The Group made interest payments of \$57,000 (2007: \$nil) to Arrovest Pty Ltd. The weighed average interest rate on the loans is 9%.
- The Group received rental income of \$17,000 (2007: \$nil) from A2DP.
- The Group was reimbursed by A2DP \$883,000 (2007: \$18,000) for labour and other administrative services provided.
- The Group received interest income of \$184,000 (2007: \$7,000) from A2DP on its convertible notes. The effective interest rate on the convertible notes is 15.8% (2007: 15.8%).

These services are provided under normal terms and conditions.

The following balances arising from transactions between the Group and its other related parties are outstanding at reporting date:

- Current loans totalling \$707,000 are receivable from joint ventures (2007: \$1,476,000)
- Current loans totalling \$nil are repayable to the associate of the ultimate parent (2007: \$271,000)

All amounts advanced to or payable to related parties are unsecured and are subordinated to other liabilities.

The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised during the financial year for bad or doubtful debts in respect of the amounts owed by related parties.



## 28 Related party transactions (continued)

(iii) Transactions between joint ventures in which the entity is a venturer and other related parties of the Group.

During the financial year, the following transactions occurred between joint ventures in which the entity is a venturer and other related parties of the Group:

- Leppington Pastoral Company sold goods and services totalling \$5,147,000 (2007: \$253,000) to CBPA at cost.
- CBPA incurred a Dairy Management Fee payable to Leppington Pastoral Company totalling \$111,000 (2007: \$15,000).

These services are provided under normal terms and conditions.

### (iv) Guarantee

The Parent has guaranteed bank debt up to \$1.5m for the debts of a jointly controlled entity. The amount of the exposure at balance date is \$nil (2007: \$nil).

### (d) Parent entities

The Parent entity of the Group is Freedom Nutritional Products Limited and the ultimate parent entity is Arrovest Pty Ltd which is incorporated in Australia.

## 29 Share based payments - Employee Share Option Plan

Senior employees are eligible to participate in the share scheme under which executives are issued options to acquire shares in the Parent. Each employee share option converts into one ordinary share of the Parent on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The options granted expire within five years of their issue, or one year of the resignation of the senior employee, whichever is the earlier. In relation to options issued during the financial year ended 30 June 2007 option series 7 vest in four equal tranches over a period of 4 years and option series 8 vests in two equal tranches over two years.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

	Number	Grant date	Expiry date	Exercise price	Fair value at grant
Option series				\$	\$
(1) Issued 1 January 2002	333,334	1/01/02	28/03/07	0.90	-
(2) Issued 1 January 2002	333,333	1/01/02	28/03/07	1.00	-
(3) Issued 1 January 2002	333,333	1/01/02	28/03/07	1.10	-
(4) Issued 29 January 2003	700,000	29/01/03	29/01/08	0.80	-
(5) Issued 3 September 2003	275,000	3/09/03	3/09/08	0.85	-
(6) Issued 27 July 2005	1,000,000	27/07/05	27/07/10	0.50	-
(7) Issued 30 November 2006	4,300,000	30/11/06	30/11/11	0.50	0.10
(8) Issued 26 April 2007	600,000	26/04/07	26/04/10	0.50	0.10

The weighted average fair value of the share options granted during the financial year is nil (2007: \$0.10). Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

Expected volatility is based on historical share price volatility over the past 2 years. It is expected that options will be exercised only in the event of market price exceeding exercise price.



## 29 Share based payments - Employee Share Option Plan (continued)

Inputs into the model	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6	Series 7	Series 8
Grant date share price	0.72	0.72	0.72	0.60	0.80	0.38	0.50	0.48
Exercise price	0.90	1.00	1.10	0.80	0.85	0.50	0.50	0.50
Expected volatility	15%	15%	15%	15%	15%	15%	20%	20%
Option life	5.25 years	5.25 years	5.25 years	5 years	5 years	5 years	5 years	3 years
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	2.5%	2.5%
Risk-free interest rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	8%	8%

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the financial year:

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	6,100,000	0.51	2,975,000	0.77
Granted during financial year		-	4,900,000	0.50
Lapsed during financial year	(200,000)	0.80	(200,000)	0.84
Cancelled during financial year	-		(1,575,000)	0.93
	5,900,000	0.50	6,100,000	0.51
Exercisable at end of financial year	2,375,000	0.50	1,200,000	0.55

### Balance at end of the financial year

The share options outstanding at the end of the financial year had an average exercise price of \$0.50 (2007: \$0.51), and a weighted average remaining contractual life of 1,105 days (2007: 1,501 days). No options were exercised during the financial year.

## 30 Contingent liabilities

	Consolidated \$000		Parent \$000	
	2008	2007	2008	2007
Bank guarantee given to a supplier arising out of the normal course of business. No liability is expected to accrue.	17	51	17	20

A statement of claim received in a prior period was settled for \$25,000 during the financial year 30 June 2008





### 31 Controlled entities

Controlled Entity	Country of Incorporation	Ownership interest	
		2008	2007
Paramount Seafoods Pty Limited (iii)	Australia	100%	100%
Nutrition Ventures Pty Limited (iii)	Australia	100%	100%
Nutrition Ventures Financing Pty Limited (i) (iii)	Australia	100%	-
Freedom Foods Pty Limited (iii)	Australia	100%	100%
Australian Natural Foods Holdings Pty Limited (iii)	Australia	100%	100%
Thorpedo Foods Group Pty Limited (iii)	Australia	100%	100%
Thorpedo Foods Pty Limited	Australia	50.01%	50.01%
Thorpedo Seafoods Pty Limited	Australia	75%	75%

The consolidated income statement and balance sheet of the entities party to the deed of cross guarantee is the consolidated income statement and balance sheet included in the 2008 financial report.

- (i) Nutrition Ventures Financing Pty Limited was incorporated on 1 October 2007.
- (ii) Subsequent to year end Norganic Foods Pty Limited was incorporated on 23 July 2008.
- (iii) These companies are members of the tax consolidated group.

### 32 Companies party to deed of cross guarantee

The following have entered into a deed of cross guarantee as a condition to obtaining relief under ASIC Class Order 98/1418 from the Corporations Act 2001 requirements to prepare and lodge an audited financial report and a directors' report.

Members of the closed group are:

- Freedom Nutritional Products Limited
- Paramount Seafoods Pty Limited
- Nutrition Ventures Pty Limited
- Nutrition Ventures Financing Pty Limited
- Freedom Foods Pty Limited
- Australian Natural Foods Holdings Pty Limited
- Thorpedo Foods Group Pty Limited

Each party to the deed of cross guarantee, guarantees to each creditor in the group payment in full of any debt upon winding up under the provisions of the Corporations Act 2001 or, in any other case, if six months after a resolution or order for winding up, any debt of a creditor that has not been paid in full. The consolidated financial report of the closed group would not be materially different from the report of the group as a whole.

### 33 Jointly controlled operations and assets

The Group is a venturer in the following jointly controlled operations and assets

Name of venture	Country of incorporation	Principal activity	Output interest %	
			2008	2007
CBPA	Australia	Contract beverage packing services	50	50
A2DP	Australia	Sale of a2 milk	1	1



### 33 Jointly controlled operations and assets (continued)

Reconciliation of movement in investments accounted for using the equity method:

	CBPA \$000		A2DP \$000	
	2008	2007	2008	2007
Balance at 1 July	768	450	329	-
Share of loss for the year	(317)	(135)	(38)	(1)
	451	315	291	(1)
Dividends	-	-	-	-
Additions	150	453	622	330
Balance at 30 June	601	768	913	329

Summarised financial information in respect of Freedom Nutritional Products Limited's share in the joint venture is set out below:

Current assets	3,202	1,699	42	16
Non current assets	4,894	4,905	13	13
Total assets	8,096	6,604	55	29
Current liabilities	3,168	2,609	28	6
Non current liabilities	4,799	3,700	65	25
Total Liabilities	7,967	6,309	93	31
Net assets	129	295	(38)	(2)
Shareholder funds	129	295	(38)	(2)
Revenue	5,451	1,088	109	6
Loss after income tax	(317)	(135)	(38)	(1)

### 34 Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 16 to the financial statements, all non-current assets of the Group, except goodwill and deferred tax assets, have been pledged as security. The holder of the security does not have the right to sell or repledge the assets. The Group does not hold title to the equipment under finance lease pledged as security.

### 35 Acquisition of business

On 29 October 2007, the consolidated entity acquired the business assets of Norganic Foods (Australia) Pty Ltd, specialising in the health food category. There were also additional incidental costs associated with the acquisition of the Cookieman baking assets. The Cookieman baking assets were acquired on 18 May 2007. The assets were acquired for the principal activity of biscuit baking. Details of the acquisition and additional incidental costs are as follows:

	Consolidated \$000		Company \$000	
	2008	2007	2008	2007
Purchase consideration - Norganic Foods (Australia)	4,500	-	-	-
Incidental costs - Norganic Foods (Australia)	618	-	-	-
Purchase consideration - Cookieman	-	1,247	-	-
Incidental costs - Cookieman	56	432	-	-
Cash consideration	5,174	1,679	-	-



### 35 Acquisition of business (continued)

The purchase consideration for the business assets of Norganic Foods (Australia) included deferred consideration of \$1,000,000. This deferred consideration is dependent on this business achieving certain sales volume and ranging benchmarks within the first 12 months after the date of acquisition. At the date of this report, the payment of the deferred consideration is not considered probable and as such this deferred consideration has not been recognised as a liability. Should this deferred consideration be required to be paid, the value of intangibles would increase by the amount of the deferred consideration.

	Norganic Foods (Australia)			Cookieman Bake house		
	Book Value \$000	Fair Value Adjustment \$000	Fair Value on Acquisition \$000	Book Value \$000	Fair Value Adjustment \$000	Fair Value on Acquisition \$000
<b>Net Assets Acquired</b>						
<b>Assets</b>						
Prepayment	-	-	-	9	-	9
Inventory	493	-	493	412	-	412
Deferred tax assets	-	-	-	78	-	78
Plant and equipment	-	-	-	1,008	216	1,224
Brand Names	4,625	-	4,625	-	-	-
<b>Liabilities</b>						
Employee entitlements	-	-	-	(196)	-	(196)
Income in advance	-	-	-	(64)	-	(64)
	5,118	-	5,118	1,247	216	1,463
Goodwill			-	-	-	272
			5,118	-	-	1,735

The accounting for the acquisition of the Cookie man Baking assets and for Norganic Foods (Australia) is final as at 30 June 2008.

Any goodwill arising from business combinations is recognised because the cost of the combination included a control premium paid to acquire the business combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit expected synergies, revenue growth, and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Included in the net profit for the period is \$513,000 attributable to the additional business generated by Norganic Foods (Australia). In 2007 additional business attributable to the Cookie man baking assets contributed \$44,000 to net profit for the period.

### 36 Subsequent events

No matters or circumstances have arisen since the end of the financial year which 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 subsequent financial years.



Freedom Nutritional Products Limited

Directors' Declaration

For The Year Ended 30 June 2008

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity; and
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in note 32 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the Corporations Act 2001.

On behalf of the directors

**P. R. Gunner**  
Chairman

**G.H. Babidge**  
Managing Director

Sydney, 2 September 2008



**Deloitte.**

Deloitte Touche Tohmatsu  
A.B.N. 74 490 121 060

The Barrington  
Level 10  
10 Smith Street  
Parramatta NSW 2150  
PO Box 38  
Parramatta NSW 2124 Australia

DX 28485  
Tel: +61 (0) 2 9840 7000  
Fax: +61 (0) 2 9840 7001  
www.deloitte.com.au

## Independent Auditor's Report to the members of Freedom Nutritional Products Limited

### Report on the Financial Report

We have audited the accompanying financial report of Freedom Nutritional Products Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 20 to 70.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These 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 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.



# Deloitte.

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

## *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

## *Auditor's Opinion*

In our opinion:

- (a) the financial report of Freedom Nutritional Products Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 3.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 7 to 11 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Auditor's Opinion*

In our opinion the Remuneration Report of Freedom Nutritional Products Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

**P A Roberts**  
Partner  
Chartered Accountants  
Parramatta, 2 September 2008

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## Shareholding

### Substantial shareholders

The number of shares held by the substantial shareholder as listed in the Parent's register as at 31 August 2008 is:

Shareholder	Number
Arrovest Pty Limited	35,853,870
Telunapa Pty Ltd	9,000,000

### Class of shares and voting Rights

At 31 August 2008, there were 54,606,737 ordinary shares of the Parent on issue.

The Parent's listed ordinary shares are of one class with equal voting rights and all are quoted on a Member Exchange of the Australian Stock Exchange Limited (the home exchange being the Australian Stock Exchange (Sydney) Limited).

### DISTRIBUTION OF SHAREHOLDERS AS AT 31 August 2008

Category	Ordinary
1 - 1,000	322
1,001 - 5,000	276
5,001 - 10,000	91
10,001 - 100,000	132
100,001 - and over	21
	842

Non marketable securities which are holdings of less than 1,099 ordinary shares are held by 345 shareholders. This statistic is based on the share register as at 31 August 2008.



20 LARGEST ORDINARY SHAREHOLDERS AS AT 31 August 2008

Name		Number of Ordinary Shares Held	% Held of Ordinary Capital
1	Arrovest Pty Limited	35,853,870	65.66%
2	Telunapa Pty Ltd	9,000,000	16.48%
3	Mr J Ripplinger	1,000,000	1.83%
4	East Coast Rural Holdings Pty Limited	440,373	0.81%
5	Mr & Mrs S Higgs	384,615	0.70%
6	Mr & Mrs P Gunner ATF Perry Gunner Superannuation Fund	360,517	0.66%
7	Mr & Mrs J Perry	200,000	0.37%
8	Rakzire Pty Limited	195,137	0.36%
9	Mr T E Morris	194,054	0.36%
10	Anisam Pty Limited	192,308	0.35%
11	Economic Consultancy Services Pty Ltd	192,308	0.35%
12	National Nominees Limited	186,502	0.34%
13	Mr L Lip & Ms Y F Chong	171,495	0.31%
14	Gallium Pty Limited	162,180	0.30%
15	Cebourn Partners Pty Limited	156,108	0.29%
16	Berzins Asset Management Pty Limited	150,000	0.27%
17	Symspur Pty Limited	140,871	0.26%
18	Mr Gary Douglas Spence	125,674	0.23%
19	Goldacre Investments Pty Ltd ATF Goldacre Superannuation Fund	124,372	0.23%
20	RD & KA McGavin Pty Limited ATF RD & KA McGavin Superannuation Fund	115,385	0.21%
		49,345,769	90.37%

The proportion of ordinary shares held by the 20 largest shareholders is % 90.37%

Stock exchanges that have granted quotation to the securities of the Parent quoted in Australia:

All Member Exchanges.

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Company Secretary  
Michael Jenkins

Principal Registered Office  
80 Box Road,  
Taren Point NSW 2229  
Tel: (02) 9526 2555  
Fax: (02) 9525 5406

Share Registry  
Registries Limited  
Level 7, 207 Kent Street,  
Sydney NSW 2000  
Tel: (02) 9290 9600  
Fax: (02) 9279 0664

Insurance Brokers  
InterRisk Australia Pty Limited  
Level 1, 7 Macquarie Place,  
Sydney NSW 2000  
Tel: (02) 9346 8050  
Fax: (02) 9346 8051

#### Management

Geoff Babidge - Managing Director  
Rory Macleod - Executive director, Strategic and Corporate Development  
Michael Jenkins - Chief Financial Officer and Company Secretary  
Peter Nathan - General Manager of Marketing  
Mark Christian - General manager of manufacturing  
Megan Hauptfleisch - Business Unit Manager - Specialty Seafood

Solicitors  
Gilbert & Tobin  
2 Park Street,  
Sydney NSW 2001  
Tel: (02) 9263 4000  
Fax: (02) 9263 4111

Addisons  
Level 12, 60 Carrington Street,  
Sydney NSW 2000  
Tel: (02) 8915 1000  
Fax: (02) 8916 2000

Banker  
Bank of Western Australia  
Level 26, 45 Clarence Street,  
Sydney NSW 2000  
Tel: (02) 8299 8000  
Fax: (02) 8299 8293

Auditor  
Deloitte Touche Tohmatsu  
Chartered Accountants  
The Barrington,  
Level 10, 10 Smith Street,  
Parramatta NSW 2150  
Tel: (02) 9840 7000  
Fax: (02) 9840 7001

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**Freedom Nutritional Products Limited**

ABN 41 002 814 235 | Ph: 02 9526 2555 | Fax: 02 9525 5406  
80 Box Road Taren Point NSW 2229 | PO Box 2531 Taren Point NSW 2229