FREEDOM NUTRITIONAL PRODUCTS LIMITED

freedom FOODS

HONEST, NUTRITIOUS & FREE

ANNUAL REPORT 2010

Contents

Annual General Meeting

Date 28 October, 2010. **Time** 11.30 am

Venue Deloitte Touche Tohmatsu
Level 9, Grosvenor Place,
225 George Street,
Sydney, NSW, 2000

Freedom Nutritional Products Limited
ABN 41 002 814 235
Annual Report for the year ended 30 June 2010

	2010	2009	2008	2007	2006
Sales Revenue ($000's)	44,071	48,596	54,082	48,683	46,963
EBDITA ($000's)*	5,129	3,494	3,203	3,173	2,921
Net Profit Before Tax ($000's)	3,094	1,794	1,508	1,789	1,595
Profit Attributable to Members of the Parent ($000's)	3,357	1,320	956	1,174	1,434
Basic Earnings per Share (cents)	5.0	2.4	2.0	2.6	3.2
Number of Ordinary Shares Issued (000's)	77,435	54,660	54,607	44,527	44,485
Dividend per Share (cents)	-	1	2	1	Nil
Dividend Paid ($000's)	-	545	891	445	Nil
Total Assets ($000's)	71,090	63,659	56,295	47,428	43,548
Shareholders Equity ($000's)	40,263	30,161	29,239	23,654	22,844
Net Tangible Asset Backing (cents)	22	13	13	14	13

** Earnings before depreciation, interest, tax and amortisation*

Dear Shareholder

In the 2010 financial year, Freedom Nutritional Products Limited ("FNP") delivered a Net Profit for the Group of $3.4m representing an increase of 154% compared to the prior year. The result includes $570k of restructuring costs and asset write downs relating to the closure and relocation of the Hornsby baked products operation.

Contributing to these results, the A2DPA and CBPA 50% owned joint ventures both reported solid growth achieving EBIT contributions of $2.6m and $2m representing +149% and +76% respectively on the prior year. As a result, the Group equity accounted $1.3m of Joint Venture profits.

The Specialty Seafood business performed ahead of budget and the corresponding prior year.

As reported in the first half, the Group has successfully commissioned the key "free from" cereal manufacturing project at the Leeton factory. The Company is progressed in commissioning baked products relocated from Hornsby and should complete an associated breakfast bar project by Christmas.

The Chief Executive Officer's report provides further commentary on operations.

In October 2009, the company invited shareholders to participate in a non-renounceable entitlement offer which successfully raised the full entitlement of $6.8m through the issue of 22,775,112 additional Ordinary Shares. The capital raising demonstrates the ongoing support from our pre existing shareholders and from new investors who believe in the company's growth initiatives which the company is well placed to achieve.

In July 2010 the company entered into a Sale and Subscription Implementation Agreement with A2 Corporation Limited (NZAX:ATM) (A2C) under which it exchanged its 50% interest in A2 Dairy Products Australia Pty Limited for an issue of shares representing 25% of the enlarged capital of A2C. The transaction will build on our successes in Australia, create an integrated business model with reduced complexity and enable FNP to share in A2C's growth opportunities in global markets.

To better align with the current strategic direction of the Group, the Board is recommending a change in Company name to 'Freedom Foods Group Limited'. As such you will find included in the notice of meeting a special resolution to this effect.

The Board thanks Geoff Babidge and his management team for their ongoing contributions and we look forward to the year ahead.

Perry Gunner
Chairman
23 September 2010

12 months to 30 June	2010 $'000	2009 $'000	% Change
Gross Sales Revenues *	56,612	61,571	(8%)
Net Sales Revenues *	44,071	48,596	(9%)
EBDITA – Operating **	4,511	4,568	(1%)
EBDITA – Reported pre Equity Associates	3,821	3,282	16%
Equity accounted share of profit	1,308	212	517%
Net Profit	3,357	1,320	154%
Return on Average Funds Employed % ***	8.9%	9.4%	
Return on Average Funds Employed % ****	11.5%	9.8%	

Notes

** Excludes Royalty income received from Yakult, convertible note interest and rental income.*

*** Excludes non recurring restructuring and corporate development costs, non cash expenses of management employee options, non cash equity share of joint ventures, non cash mark to market adjustments for foreign exchange contracts and write off of decommissioned plant & equipment.*

**** Operating EBDITA / Funds Employed, Funds Employed excludes $10.8 million ($8.2m 2009) in assets relating to Leeton Manufacturing Facility not in operation for the period.*

***** Operating EBDITA + Equity Associates share of profits.*

SUMMARY

Freedom Nutritional Products Limited (FNP) achieved a record Net Profit of $3.36 million for the 12 months ended 30 June 2010 representing an increase of 154% on the corresponding 12 month period.

The result is after including non operating expense items that contributed ($571k) to Net Profit. These items included redundancy costs and write down of redundant plant and equipment on closure and relocation of a baked goods operation from Hornsby to the company owned Leeton facility. The results also included an overall tax benefit of $263k largely relating to the recognition of a prior year tax adjustment for increased allowances for research and development.

While overall better than budget, the result reflected lower operating earnings from the Freedom Foods business in consequence of higher input costs and margin pressure in cereals and biscuits prior to production coming on stream at Leeton. Conversely the Specialty Seafood and Joint Venture businesses showed substantial improvement on the prior year.

Gross sales excluding JV associates decreased by 8% given lower sales in cereals, biscuits and beverages and from discontinuing a number of low margin lines.

HIGHLIGHTS

Highlights for the year included:

- Commissioning cereals manufacturing at the unique gluten and nut free cereal and baked products facility near Leeton, NSW, with biscuits and bar facilities well progressed.
- Cereal and biscuit product quality improved from in-house manufacture and new Freedom Foods brand positioning and packaging developed.
- Improved contribution from the Speciality Seafood business.
- Strong growth in sales and profitability for the CBPA and A2 Dairy Products Australia joint ventures.
- Sale of FNP's interest in A2DPA in exchange for a 25% cornerstone shareholding in A2 Corporation Limited in July 2010.
- Increase in Net Profit to $3.36m.

BUSINESS UNITS – WHOLLY OWNED

Freedom Foods

A key focus for the Company has been progressing the dedicated gluten, wheat and nut free manufacturing facility near Leeton NSW. This facility delivers capability for Freedom Foods to internally manufacture its core range of shelf stable "free from" products and provides a platform for growth through improved quality, innovation and lower costs.

During the period, commissioning of cereals manufacturing was successfully completed and expenditure on the biscuit line substantially progressed. The planned installation of breakfast/snack bar equipment was deferred until commissioning of biscuits is completed during 2011.

Sales and contribution for the year were below plan given the impact of higher input costs and pressure on margins in cereals and biscuits during the period before internal production came fully on stream. The business exited a number of non core lower margin products as well as those unable to be manufactured in a gluten or nut free environment. Almost the entire range of cereals is now produced at Leeton and show a substantial improvement in quality at lower cost than externally sourced product.

Wraps and mayonnaise showed continued growth on the prior year. Soy and rice proprietary beverages performed overall to plan with growth in the Australia's Own Organic portfolio.

Specialty Seafood

Paramount salmon and Brunswick sardine and specialty seafood products performed ahead of plan for the year.

Paramount salmon volumes were down on last year primarily due to the impact of higher purchase costs from the 2009 pink salmon catch flowing into selling prices and some changes in store gradings. Brunswick sardine volumes were also impacted by lower private label sales in New Zealand. Notwithstanding this, Paramount red salmon performed credibly including during the important Lent period and our margins on sardines increased on the prior year. In addition, our logistics cost base reduced from relocating warehousing and distribution to Leeton.

The procurement relationship with Bumble Bee Foods continues to provide competitive advantage in sourcing, quality management and NPD. The salmon and sardine fisheries from where our product is sourced are well managed and sustainable by international standards.

Thorpedo Foods (75% owned)

FNP increased its stake in the Thorpedo Foods joint venture to 75% in September 2009 at negligible cost under a prior option arrangement. Yakult Honsha, our licensee, continues to support the Thorpedo beverage portfolio in Japan with regular promotional visits by Ian Thorpe.

BUSINESS UNITS - JOINT VENTURES

A2 Dairy Products Australia

A2 Dairy Products Australia (A2DP), 50% owned during the year, continued to grow fresh milk sales and achieved an Operating EBIT of approximately $2.6m. The growth was due to increased marketing spend, ongoing support from the grocery trade and an increasing awareness of the potential benefits of a2 milk™. New fresh milk packaging to improve shelf differentiation was introduced from December. Jalna Dairy Foods Pty Limited launched a range of A2 branded yoghourts into the grocery channel under a license deal in April.

In May, FNP announced it had entered into a Sale and Subscription Implementation Agreement with A2 Corporation Limited (A2C) under which it would exchange its 50% interest in A2DP in consideration for 120,376,950 fully paid ordinary shares in A2C, being 25% of the enlarged capital of A2C. A2C is listed on the alternative market of the New Zealand Stock Exchange and owns and commercialises intellectual property relating to a2 milk™. Completion of the transaction took place in July 2010 and FNP booked a profit on sale of around $3.9m at that time.

The transaction is expected to provide a stable platform for the ongoing development of the business in Australia, create an integrated business model with A2C and enable FNP and its shareholders to share in A2C's growth opportunities in global markets.

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

Contract Beverages Packers of Australia Pty Ltd

Contract Beverage Packers of Australia (CBPA), 50% owned, continued its improving trend in operating and financial performance. Sales grew on the prior year by 26% from higher volumes of dairy milk, soy and rice beverages and entry into the liquid stocks sector. EBIT increased to approximately $2m for the year which represents a very satisfactory return on capital. The improvement in this business is impressive and is expected to continue from management's focus on continuing improvement.

CAPITAL RAISING

In October 2009, the company invited shareholders to participate in a non-renounceable entitlement offer which successfully raised the full entitlement of $6.8m through the issue of 22,775,112 additional Ordinary Shares. The capital raising demonstrates the ongoing support from our pre existing shareholders and from new investors to the growth strategy we are pursuing.

OUTLOOK

FNP has continued to take forward its "free from" functional foods strategy with the successful commissioning and integration of the unique Leeton facility and by repositioning its investment in a2 milk™ to participate in global markets in addition to Australia.

The major capital expenditure initiatives are now in place and the Board is expecting improvements in the Freedom Foods business to drive improving financial performance in the short to medium term.

As foreshadowed in the Chairman's letter, the Directors are recommending a change in company name to Freedom Foods Group Limited to better align with the purpose and refined direction of the Group.

Geoff Babidge
Managing Director and Chief Executive Officer
23 September 2010

Your Directors submit the financial report of Freedom Nutritional Products Limited (the Parent) for the year ended 30 June 2010. 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 Gilio B Comm (Acct), ACA, ACIS was appointed Company Secretary 25 September 2008. He has been with the Company for over 7 years and is a current member of Chartered Secretaries Australia.

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 $3,357,000 (2009 profit: $1,320,000).

Refer to the commentary in the Chief Executive's Review of Operations.

Dividends paid or recommended

In respect of the financial year ended 30 June 2010, the Directors are recommending that no final dividend will be paid. During 2009 a 1 cent dividend per share was declared and paid totaling $545,000.

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, not otherwise disclosed in this report.

Subsequent events

On 21 May 2010 Freedom Nutritional Products Limited announced that it had entered into a Sale and Subscription Implementation Agreement with A2 Corporation Limited ("A2C") (NZAX:ATM) under which it would sell its 50% interest in A2 Dairy Products Australia Pty Limited (being 2,700,000 fully paid ordinary shares) to A2C in consideration for 120,376,950 fully paid ordinary shares in A2C, being 25% of the enlarged A2C transaction.

The transaction was completed on 22 July 2010. Freedom Nutritional Products directors, Geoffrey Babidge, Melvyn Miles and Perry Gunner have been appointed to the Board of A2 Corporation Limited and Perry Gunner will assume the role of Deputy Chairman.

The transaction will result in Freedom Nutritional Products recording a profit on sale of its 50% interest in A2 Dairy Products Australia of approximately $3.9 million in the financial year ended 30 June 2011.

The Group has finance facilities, comprising bank overdraft, multi option and term facilities with BankWest. The facility was subject to renewal following an initial 3 year term in October 2010. The Group has received a proposal in relation to a refinancing of the facilities with the security profile generally consistent with the existing facilities. The Group expects new facilities to be formally established on or before 31 October 2010.

No other 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	11	10	2	-	2	2
G.H. Babidge	11	11	-	-	-	-
A.M. Perich	11	10	-	-	-	-
R. Perich	11	10	2	2	2	1
M. Miles	11	10	2	2	2	2
R.J.F. Macleod	11	11	-	-	-	-
M.R. Perich (alternate director)	1	1	-	-	-	-

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 Strategy, Corporate Development and Chief Financial Officer

P. Wilson – General Manager Leeton Manufacturing Operations

P. Brown – Executive General Manager Sales (commenced 10 August 2009)

M. Gilio – Group Finance Manager & Company Secretary

P. Bartier – National Supply Chain Manager

C. Pensini – Leeton Manufacturing and Operations Manager (commenced 1 July 2009)

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 cash payments were made and no further options were issued.

Options are valued using the binomial 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 employment.

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 2010 was $163,000 (2009: $157,000). 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 a service contract is 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.

	2010	2009	2008	2007	2006
Revenue ($000s)	44,071	48,596	54,082	48,683	46,963
Net Profit / (Loss) After Tax ($000s)	3,357	1,320	956	1,174	1,434
Dividends Paid (cents)	-	1	2	1	Nil
Basic Earnings per Share (cents)	5.0	2.4	2.0	2.6	3.2

The Remuneration and Nomination Committee considers that the Parent's 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 2010 are as follows:

2010	Short-term employee benefits					Post employment benefits	Share based payments		% of total being
Directors	Salary $	Directors' Fees $	Committee Fees $	Other $	Non-cash Benefits $	Superannuation Contributions $	Options $	Total $	Options $
P.R. Gunner	-	60,000	3,000	-	-	5,670	-	68,670	-
G.H. Babidge	375,778	-	-	-	-	15,428	42,934	434,140	10%
A.M. Perich	-	36,000	-	-	-	2,700	-	38,700	-
R. Perich	-	30,000	2,000	-	-	2,880	-	34,880	-
M. Miles	-	30,000	2,000	-	-	2,880	-	34,880	-
R.J.F. Macleod	255,778	-	-	-	-	14,222	42,934	312,934	14%
Executive Officers									
G.J. Hughes (1) (Chief Operating Officer)	-	-	-	141,356	-	-	-	141,356	-
P. Wilson (General Manager Leeton Manufacturing Operations)	187,692	-	-	-	-	-	-	187,692	-
M. Gilio (Group Finance Manager & Company Secretary)	159,011	-	-	-	-	14,323	-	173,334	-
P. Bartier (National Supply Chain Manager)	136,697	-	-	-	-	12,303	-	149,000	-
P. Brown (2) (Executive General Manager Sales)	144,084	-	-	-	-	12,968	-	157,052	-
C. Pensini (3) (Manufacturing and Operations Manager)	137,615	-	-	-	-	12,385	-	150,000	-

(1) $141,356 termination payment made 3 July 2009

(2) Commenced 10 August 2009

(3) Commenced 1 July 2009

2009	Short-term employee benefits					Post employment benefits	Share based payments		% of total being
Directors	Salary $	Directors' Fees $	Committee Fees $	Other $	Non-cash Benefits $	Superannuation Contributions $	Options $	Total $	Options $
P.R. Gunner	-	60,000	3,000	-	-	5,670	-	68,670	-
G.H. Babidge	355,755	-	-	-	-	13,745	42,934	412,434	10%
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	228,755	-	-	-	-	13,745	42,934	285,434	15%
B.W. Bootle (1)	-	-	-	-	-	-	11,393	11,393	100%
Executive Officers									
G.J. Hughes (2) (Chief Operating Officer)	216,567	-	-	-	-	13,226	-	229,793	-
M.E. Jenkins (3) (Chief Financial Officer & Company Secretary)	71,358	-	-	-	-	3,750	26,250	101,358	26%
M. Christian (4) (General Manager of Manufacturing)	124,935	-	-	-	-	-	-	124,935	-
P. Wilson (5) (General Manager Leeton Manufacturing Operations)	198,426	-	-	-	-	-	-	198,426	-
M. Gilio (6) (Group Finance Manager & Company Secretary)	139,144	-	-	-	-	12,523	-	151,667	-
P. Bartier (National Supply Chain Manager)	126,606	-	-	-	-	11,394	-	138,000	-

(1) Resigned 12 December 2008

(2) Resigned 3 July 2009

(3) Resigned 25 September 2008

(4) Resigned 31 December 2008

(5) Commenced 1 July 2008

(6) Appointed Company Secretary 25 September 2008

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

No bonus payments were granted during 2010.

Bonus payments as compensation for the prior financial year

No bonus payments were granted during 2009.

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 options	Expiry date of options
Freedom Nutritional Products Limited (i)	3,400,000	Ordinary	$0.50	30 November 2011
Freedom Nutritional Products Limited (ii)	300,000	Ordinary	$0.50	26 April 2012
Grant date				**Fair value at grant**
(i) Issued 30 November 2006				$0.10
(ii) Issued 26 April 2007				$0.10
Recipients	**Name**	**Number**	**Fair Value ($)**	**Conditions**
Issued 30 November 2006	G.H. Babidge	1,700,000	170,000	Employment
	R.J.F. Macleod	1,700,000	170,000	Employment
Issued 26 April 2007	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 2 or 4 years and relate to an employee's 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.

Directors' shareholding

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

Non-audit services

During the year Deloitte Touche Tohmatsu, 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.

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	
	2010 $	2009 $
Audit Services		
Auditors of the Parent - Deloitte Touche Tohmatsu		
• audit and review of financial reports	167,660	145,000
• taxation advice	43,542	43,575
• accounting advice	5,838	-
	217,040	188,575

Auditor's independence declaration

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

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 made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Perry Gunner

Geoff Babidge

Dated at Sydney 23 September 2010.

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

23 September 2010

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 2010, 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

DELOITTE TOUCHE TOHMATSU

P A Roberts
Partner
Chartered Accountants

Freedom Nutritional Products Limited (the Parent) is committed to implementing the highest possible standards of corporate governance and ensures, wherever possible, that its practices are consistent with the Second Edition of the Australian Securities Exchange (ASX) Corporate Governance Council's Principles and Recommendations

Each of the eight principles are listed in turn. In certain circumstances, due to the size and stage of development of the Company and its operations, it may not be practicable or necessary to implement the ASX Principles in their entirety. In such instances, the Company will identify the areas of divergence. The Corporate Governance Statement, policies and Charters are published on the Parent's website: http://www.freedomnutritional.com.au.

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 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 Company. Without intending to limit this general role of the Board, the specific functions and responsibilities of the Board include:

(1) oversight of the Company, 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 Company'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 Company, 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 Company'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 Company, 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 Company. 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.

The responsibilities delegated by the Board to the Company's management, as set out in the Company's Statement of Delegated Authority, include managing the day-to-day operations of the Parent and Consolidated entities. The Statement of Delegated Authority has been posted to the Parent's website (http://www.freedomnutritional.com.au).

The CEO and CFO have service contracts and position descriptions respectively setting out their duties, responsibilities, and conditions of service and termination entitlements. Any new Directors appointed will receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Executives are subject to a formal performance review process on an annual basis. The Remuneration and Nomination Committee reviews the performance of senior executives and the Board reviews the performance of the Chief Executive Officer and Chief Financial Officer against clear performance objectives. Principal and secondary objectives for the financial year have been established which are evaluated against and includes monthly monitoring of performance. A performance evaluation has taken place in the year.

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 comprises of six Directors, two of whom are non-executive independent Directors including the Chairman. A Director is deemed to be independent if he or she is a Non-Executive Director and:

(1) is not a substantial shareholder;

(2) has not been employed in an executive capacity in the Company in the last three years;

(3) has not acted as a material consultant to the Company in the last three years;

(4) is not a material supplier or customer of the Company;

(5) has no material contractual relationship with the Company;

(6) has not served on the Board for a period which could materially interfere with his or her ability to act in the best interests of the Company; and

(7) is free from any interest which could materially interfere with his or her ability to act in the best interests of the Company.

The test of independence for Directors is set out in detail under section 4 of the Board Charter, which has been posted on the website of the Parent: (http://www.freedomnutritional.com.au). Materiality thresholds referred to above are assessed on a case-by-case basis.

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 63

B.Ag.Sc – is former Chairman and CEO of Orlando Wyndham Wine Group. Also current Deputy Chairman of Viterra Inc and Director of Australian Vintage Ltd. Appointed Director in April 2003 and Chairman in July 2006. Chairman of the Remuneration & Nomination Committee and member of the Audit, Risk and Compliance Committee.

Interest in shares and options are 510,732 ordinary shares and nil options. Measured against the independence criteria adopted by the Parent, Mr. Gunner is considered an independent Director.

Mr G.H. Babidge
Managing Director (Executive), Age 57

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 98,057 ordinary shares and 1,700,000 options. Mr Babidge, being the Managing Director and Chief Executive Officer of the Parent, is not considered independent.

Mr A.M. Perich
Director (Non-Executive), Age 69

Member of the Order of Australia – 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, farmer and business entrepreneur. Outside of the Perich Group Mr. A.M. Perich holds a number of other directorships which include MRC Biotech Limited, Greenfields Narellan Holdings, East Coast Woodshavings Pty Limited, Breeders Choice Woodshavings Pty Limited, Austral Malaysian Mining Limited, Pulai Mining Sdn Bhd (Malaysia) and Inghams Health Research Institute. Memberships include Narellan Chamber of Commerce, Narellan Rotary Club, Urban Development Institute of Australia, Urban Taskforce, Property Council of Australia, past President of Narellan Rotary Club and Past President of Dairy Research at Sydney University. Appointed Director in July 2006.

Interest in shares and options are 51,164,454 ordinary shares and nil options. Being a substantial shareholder of the Parent, Mr. A.M. Perich is not considered an independent Director.

Mr R. 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, farmer and business entrepreneur. Former Director of United Dairies Limited. Appointed Director in April 2005. Member of the Audit, Risk & Compliance Committee and member of the Remuneration & Nomination Committee.

Interest in shares and options are 51,164,454 ordinary shares and nil options. Being a substantial shareholder of the Parent, Mr. R. Perich is not considered an independent Director.

Mr M. Miles
Director (Non-Executive), Age 61

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 in November 2006. Chairman of Audit, Risk & Compliance Committee and member of the Remuneration and Nomination Committee.

Interest in shares and options are 206,667 ordinary shares and nil options. Measured against the independence criteria adopted by the Parent, Mr. Miles is considered an independent director.

Mr R.J.F. Macleod
Director (Executive), Chief Financial Officer, Age 42

B.Econ (Hons) – has for the past 7 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 182,775 ordinary shares and 1,700,000 options. Mr Macleod, being an Executive Director of the Parent, is not considered independent.

Mr M.R. Perich
Alternate Director (Non-Executive), Age 35

B AppSci (SysAg) 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. Former Director of Contract Beverages Packers of Australia Pty Limited, a joint venture controlled equally by the Parent and Arrovest, Director of Australian Dairy Conference, affiliated with NSW Farmers Association (Diary Section), Future Dairy Steering Group, Intensive Agriculture Consultative Committee and Dairy Research Foundation. Appointed alternate Director for Mr Ron Perich and Mr Anthony Perich on 26 March 2009.

Interest in shares and options are 51,164,454 ordinary shares and nil options. Being a substantial shareholder of the Parent, Mr. M.R. Perich is not considered an independent director.

Considering that all incumbent Directors bring an independent judgement to bear in Board deliberations, the Parent believes that at this stage of development and operations, the above mix of Directors is appropriate.

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 exceeds $50,000 (exclusive of GST), such approval is 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.

There is a clear division of responsibility between the Chairman and Chief Executive Officer.

The Remuneration & Nomination Committee of the Board comprises of three Non-Executive Directors – Messrs P.R. Gunner, R. Perich and M. Miles. Two out of the three Committee members are independent. Mr Gunner, who is an independent Director, is the Committee Chairman. The Committee Charter which has been posted on the website of the Parent: http://www.freedomnutritional.com.au details out the process and timing for re-election of directors. The Board's policy for nomination and appointment of Directors also forms part of the Charter.

The Parent Constitution states that at each Annual General Meeting (AGM) one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the nearest number greater than one-third, shall retire from office. A retiring Director shall be eligible for re-election. No Director (other than the Managing Director or, if there is more than one Managing Director, one of those Managing Directors only) may hold office without re-election past the third annual general meeting following their appointment or three years, whichever is longer or, in the case of a Director appointed by the Directors as an additional Director or to fill a casual vacancy, past the next annual general meeting of the company. Any Director appointed by the Board since the last AGM must stand for election at the next AGM.

The 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 Committee's 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 annually; and
- remuneration policies and practices.

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. The Committee has completed evaluating the performance of the Board, Committees and individual Directors during the year. This was undertaken by way of an informal review by the Remuneration and Nomination Committee. The next performance evaluation will take place within the year.

The Committee meets as frequently as required and at least once a year. The quorum for such meetings is two members, at least one of whom shall be independent. Details of the Committee members' attendance at Committee meetings are set out in the Directors' Report.

Subject to normal privacy requirements, each Director has the right of access to all of the Parent's records, information and senior Executives. 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. New Directors undergo an induction process in which they are given a full briefing of the operations of the Company. Where possible, this includes meetings with key Executives, tours of the operating sites (if practicable), provision of an induction package containing key corporate information and presentations. 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 Company meets expenses involved in such activities.

Names of Members of Committees

	Remuneration and Nomination Committee	Audit Risk and Compliance Committee
P.R. Gunner	✓	✓
G.H. Babidge	-	-
A.M. Perich	-	-
R. Perich	✓	✓
M. Miles	✓	✓
R.J.F. Macleod	-	-

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:

(1) behave with integrity in all its dealings with customers, shareholders, employees, suppliers, business partners and the community;

(2) ensure its actions comply with applicable laws and regulations;

(3) not engage in any activity that could be construed to involve an improper inducement;

(4) 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.

The Board, senior Executives and all employees of the Parent are committed to implementing this Code of Ethics and each individual is accountable for such compliance. A copy of the Code is made available to Directors, employees, contractors and relevant personnel on the Parent's website: http://www.freedomnutritional.com.au.

The CEO is responsible for establishing, implementing and reviewing the effectiveness of the Code of Ethics as well as for overseeing that all of the Company's employees and contractors understand, and act in accordance with the Code.

The Board has implemented a range of procedures designed to oversee 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 Company.

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

The Parent has also implemented Securities Trading Policies for Directors, CEO and Executives. The policies generally allow Directors, CEO and Executives to deal in the Parent's securities other than in the following periods:

(1) within the period of one month prior to the announcement of interim and final results of the Company; and

(2) within the period of two weeks prior to the Annual General Meeting,

but only after waiting at least two hours after the relevant release so that the market has time to absorb the relevant information. Further details of the policies are available on the website of the Parent: http://www.freedomnutritional.com.au.

Principle 4

Safeguard integrity in financial reporting

The Board has established an Audit, Risk and Compliance Committee comprising three Non-Executive Directors, with appropriate experience. Every member of the Committee must be able to read and understand financial statements with experience in financial and accounting matters. Currently, the Committee comprises of Mr M. Miles (Chairman), Mr R. Perich and Mr P. R. Gunner. Two out of the three Committee members are independent. The Chairman of the Committee is an independent Director and is not Chairman of the Board.

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

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 of the Board.

The Audit, Risk and Compliance Committee is responsible for:

(1) reviewing and reporting to the Board on the half yearly and annual reports and financial statements of the Parent and consolidated entities;

(2) nominating the external auditor and reviewing the adequacy, scope and quality of the annual statutory audit and half yearly statutory review;

(3) reviewing the effectiveness of the Company's internal control systems;

(4) monitoring and reviewing the reliability of financial reporting;

(5) monitoring and reviewing the compliance of the Company with applicable laws and regulations;

(6) monitoring the Australian Accounting Standards and Interpretations;

(7) monitoring financial risks and exposure of the Company's assets;

(8) monitoring the risk management policy and plans;

(9) reviewing the Company's Occupational Health and Safety obligations and the Company's compliance;

(10) reviewing the Company's insurance policies and coverage; and

(11) overseeing the independence of external auditors and annually reviewing the Company's policy on maintaining the independence of external auditor.

The Committee has a formal Charter which is posted on the website of the Parent http://www.freedomnutritional.com.au. The Committee meets as frequently as required and at least twice a year. The quorum for such meetings is two members, at least one of whom shall be independent. Details of the Committee members' attendance at Committee meetings are set out in the Directors' Report. 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 candidates for the position of external auditor must be able to demonstrate complete independence from the Parent and an ability to maintain independence throughout the engagement period. The external auditors have advised, after consultation with the Parent, that the audit engagement partner shall be rotated every five years. The Board may select an external auditor based on the criteria relevant to the business of the Parent such as experience in the industry in which the Parent operates, references, costs, and any other matters deemed relevant by the Board.

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.

This Policy is designed to ensure that the Parent meets its continuous disclosure obligations under the ASX Listing Rules and has been posted to the website of the Parent http://www.freedomnutritional.com.au.

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. The Company Secretary in discussion with the CEO, CFO or Company Chairman decides 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.

To enhance clarity and balance of reporting and to enable investors to make an informed assessment of the Parent's performance, financial results are accompanied by commentary.

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.

Risk oversight and management policies

The Parent has recently adopted a Risk Management Policy, which has been posted to its website http://www.freedomnutritional.com.au. The Policy covers the areas of oversight, risk management, risk profile, compliance and control and assessment of effectiveness. The Audit, Risk and Compliance Committee (details and composition of which have been set out earlier) is responsible for providing the Board with advice and recommendations regarding the ongoing development of the Policy.

Risk management and risk profile

The Committee is responsible for:

(1) providing the Board with advice and recommendations regarding the Parent's:

 (i) risk management system; and

 (ii) risk profile that describes the material risks (including financial and non-financial risks)

(2) reviewing the effectiveness of the Parent's implementation of the risk management system at least once a year;

(3) regularly reviewing and updating the Parent's risk profile; and

(4) 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.

Executives provide the Committee and Board with regular reports on operational, financial, regulatory and commercial matters within their business divisions. This ensures Management accountability. Management is responsible for designing and implementing a risk management and internal control system to manage the Parent's material business risks. Management identifies and reviews the major risks impacting each area of the business and develops strategies to effectively mitigate these risks.

As required by the ASX Principles, Management has reported to the Board on the effectiveness of the management of its material business risks. The ultimate responsibility for risk oversight and management rests with the Board.

Due to the size and scale of operations of the Parent, there is no separate internal audit function.

CEO and CFO assurances

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 consolidated entities financial position in all material aspects and that the integrity of the financial statements is founded on a 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 in relation to financial reporting risks. As part of internal management reporting policy relevant senior personnel provide written assurances regarding the integrity of the financial reports to support the CEO and CFO assurances to the board.

Principle 8

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. The 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. The composition and details of the Committee have been detailed earlier in this Statement.

In respect of remuneration issues, the responsibilities of the 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 Company are consistent with its strategic goals and human resource objectives;

(2) the Company's recruitment, retention and termination policies and procedures for executives;

(3) incentive schemes;

(4) superannuation arrangements; and

(5) the remuneration framework for Directors.

The Committee operates independently of the senior management of the Company 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 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 structure of remuneration for Non-Executive Directors and Executive Directors is different. As explained in the Remuneration Report, Executive Directors and key management personnel receive fixed remuneration, employer contributions to superannuation funds and options. Options are valued using the binomial method and are not linked to the performance of the Parent, but to the personnel's employ. The Securities Trading Policy for Directors, CEO and other executives restricts entering into transactions with securities in associated products which operate to limit the economic risk of any unvested entitlements under any equity based remuneration scheme offered by the Parent. Remuneration packages of Non-Executive Directors are fee based. Non-Executive Directors do not participate in bonus payments or any retirement benefits other than statutory superannuation.

Consolidated Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Notes	Consolidated $'000	
		2010	2009
Revenue from sale of goods	5	44,443	49,388
Cost of sales		(30,676)	(34,874)
Gross profit		13,767	14,514
Other income	5	465	654
Marketing expenses		(1,558)	(1,872)
Selling and distribution expenses		(4,862)	(5,392)
Administrative expenses		(3,741)	(3,916)
Loss on disposal of Non Current Assets		(250)	-
Profit before depreciation, income tax, finance costs and equity accounted investments	6	3,821	3,988
Depreciation		(1,004)	(453)
Profit before income tax, finance costs and equity accounted investments		2,817	3,535
Finance costs	6	(1,031)	(1,247)
Unrealised fair value mark-to-market of derivative financial instruments	6	-	(706)
Share of profit of joint ventures accounted for using the equity method	34	1,308	212
Profit before income tax		3,094	1,794
Income tax benefit/(expense)	7	263	(474)
Profit for the year		3,357	1,320
Other comprehensive income		-	-
Total comprehensive income for the year		3,357	1,320
Profit attributable to:			
Owners of the parent		3,357	1,320
Non-controlling interests		-	-
		3,357	1,320
Total comprehensive income attributable to:			
Owners of the parent		3,357	1,320
Non-controlling interests		-	-
		3,357	1,320
Earnings per share			
From continuing operations:			
Basic earnings per share (cents per share)	9	5.0	2.4
Diluted earnings per share (cents per share)	9	5.0	2.4
Dividends per share paid (cents per share)		-	1.0

Notes to the statement of comprehensive income are included on pages 26 to 70.

	Notes	Consolidated $'000	
		2010	2009
ASSETS			
Current assets			
Cash and cash equivalents	22(a)	34	762
Trade and other receivables	10	9,362	10,247
Other financial assets	11	784	1,078
Inventories	12	7,121	6,853
Current tax assets	7	151	-
Prepayments		610	637
		18,062	19,577
Assets Classified as held for Sale	38	4,141	-
Total Current Assets		22,203	19,577
Non-current assets			
Investments accounted for using the equity method	11	1,152	3,535
Deferred tax assets	7	2,038	1,958
Property, plant and equipment	14	22,431	15,323
Goodwill	13	6,992	6,992
Other intangible assets	13	16,274	16,274
Total non-current assets		48,887	44,082
TOTAL ASSETS		71,090	63,659
LIABILITIES			
Current liabilities			
Trade and other payables	15	7,252	7,493
Borrowings	16	15,576	9,558
Current tax liabilities	7	-	72
Provisions	17	868	667
Total current liabilities		23,696	17,790
Non-current liabilities			
Trade and other payables	15	1,064	1,686
Borrowings	16	5,766	13,742
Deferred tax liability	7	47	17
Provisions	17	254	263
Total non-current liabilities		7,131	15,708
TOTAL LIABILITIES		30,827	33,498
NET ASSETS		40,263	30,161
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	18	33,637	27,019
Reserves	19	919	792
Retained earnings	20	5,707	2,350
TOTAL EQUITY		40,263	30,161

Notes to the statement of financial position are included on pages 26 to 70.

Consolidated Statement of Cash Flows
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Notes	Consolidated $'000	
		2010	2009
Cash flows from operating activities			
Receipts from customers		45,082	51,802
Payments to suppliers and employees		(40,982)	(46,483)
Interest and other costs of finance paid		(1,338)	(1,595)
Income tax paid / (refund)		9	(423)
Receipt of government grant		-	47
Net cash provided by operating activities	22(b)	2,771	3,348
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		19	34
Payment for purchase of property, plant and equipment		(7,225)	(8,426)
Acquisition of business assets	22(d)	-	(1,062)
Interest received		-	10
Investment in jointly controlled entity		(10)	-
Loan from related party		-	4,500
Advance from / (to) Joint Venture		294	(371)
Net cash used in investing activities		(6,922)	(5,315)
Cash flows from financing activities			
Proceeds from issue of shares		2,332	-
Payment of share issue costs		(215)	-
Proceeds from borrowings		4,362	3,547
Repayment of borrowings		(3,023)	(1,975)
Dividends paid		-	(527)
Net cash provided by financing activities		3,456	1,045
Net decrease in cash and cash equivalents		(695)	(922)
Cash and cash equivalents at beginning of financial year		(671)	251
Cash and cash equivalents at end of financial year	22(a)	(1,366)	(671)

Notes to the statement of cash flows are included on pages 26 to 70.

	Notes	Attributable to equity holders of the parent: Fully paid ordinary shares $'000	Retained earnings $'000	Equity - settled employee benefits reserve $'000	Asset revaluation reserve $'000	Total $'000	Non controlling interest $'000	Total Equity $'000
CONSOLIDATED								
Balance as at 30 June 2008		26,999	1,575	192	473	29,239	-	29,239
Equity issues	18	20	-	-	-	20	-	20
Profit for the year		-	1,320	-	-	1,320	-	1,320
Other comprehensive income for the year		-	-	-	-	-	-	-
Total comprehensive income for the year		-	1,320	-	-	1,320	-	1,320
Recognition of share-based payments	19	-	-	127	-	127	-	127
Dividends paid	21	-	(545)	-	-	(545)	-	(545)
Balance as at 30 June 2009		27,019	2,350	319	473	30,161	-	30,161
Equity issues	18	6,833	-	-	-	6,833	-	6,833
Share issue costs	18	(215)	-	-	-	(215)	-	(215)
Profit for the year		-	3,357	-	-	3,357	-	3,357
Other comprehensive income for the year		-	-	-	-	-	-	-
Total comprehensive income for the year		-	3,357	-	-	3,357	-	3,357
Recognition of share-based payments	19	-	-	127	-	127	-	127
Dividend paid	21	-	-	-	-	-	-	-
Balance as at 30 June 2010		33,637	5,707	446	473	40,263	-	40,263

Notes to the statement of changes in equity are included on pages 26 to 70.

1 Corporate Information

The financial report of Freedom Nutritional Products Limited for the year ended 30 June 2010 was authorised for issue in accordance with resolution of Directors on 23 September 2010.

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

2.1 Standards and Interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure

AASB 101 *Presentation of Financial Statements* (as revised September 2007)

AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*

AASB 2007-10 *Further Amendments to Australian Accounting Standards arising from AASB 101*

AASB 8 *Operating Segments*

AASB 2009-2 *Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments*

Amendments to AASB 107 *Statement of Cash Flows* (adopted in advance of effective date of 1 January 2010)

2.2 Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

AASB 2008-1 *Amendments to Australian Accounting Standard- Share-based Payments: Vesting Conditions and Cancellations*

AASB 123 Borrowing Costs (as revised in 2007) and AASB 2007- 6 Amendments to Australian Accounting Standards arising from AASB 123

AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

2.3 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

2 Adoption of New and Revised Accounting Standards (continued)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	1 January 2010	30 June 2011
AASB 2009-8 *Amendments to Australian Accounting Standards–Group Cash-Settled Share-based Payment Transactions*	1 January 2010	30 June 2011
AASB 2009-10 *Amendments to Australian Accounting Standards–Classification of Rights Issues*	1 February 2010	30 June 2011
AASB 124 *Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards*	1 January 2011	30 June 2012
AASB 9 *Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9*	1 January 2013	30 June 2014
AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*	1 January 2011	30 June 2012
Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010	30 June 2011

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 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, except for the revaluation of certain non-current assets and financial instruments. 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.

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

As at 30 June 2010, the consolidated entity had an excess of current liabilities over current assets amounting to $1,503,000. This excess resulted from the financing facilities with the principal financier maturing in October 2010 and, as a result, such facilities are classified as current liabilities as at 30 June 2010.

The directors have received a letter of offer for a replacement financing facility which contains conditions precedent that are considered procedural in nature. The new financing facility, together with the projected cash flow forecasts, provide the directors with the expectation that the company and consolidated entity will have sufficient financial accommodation to support the existing business and to enable the payment of their debts as and when they fall due for a period of at least 12 months from the date of signing the financial statements.

3 Significant Accounting Policies

(continued)

(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.

Key sources of estimation uncertainty:

<u>Impairment of goodwill and other intangible assets</u>

Determining whether goodwill or other intangible assets are impaired requires an estimation of the value in use of the cash generating units to which the goodwill or other intangible assets have been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

The value of the goodwill as at the end of the financial year was $6,992,000, with no impairment loss charged against this goodwill.

The value of other intangible assets as at the end of the financial year was $16,274,000, with no impairment loss charged against the other intangible assets.

Further details in relation to the goodwill and other intangible assets of the consolidated entity are set out in note 13.

(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 statement of comprehensive income 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.

(e) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition 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. Acquisition related costs are recognised in profit and loss as incurred. 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.

(f) 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.

(g) Foreign currency translation

Both the functional and presentation currency of Freedom Nutritional Products Limited and its

3 Significant Accounting Policies

(continued)

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 end of each reporting period. Exchange differences are recognised in the statement of comprehensive income in the period in which they arise.

(h) 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 statement of financial position 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 cash flows 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 end of each reporting period. 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 statement of comprehensive income 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. 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.

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. 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.

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%

(i) 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.

(j) Borrowing cost

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

3 Significant Accounting Policies

(continued)

costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(k) 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.

(l) 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(m).

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 an intangible asset. 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.

(m) 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 CGU 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 (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 (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 (CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(n) Inventories

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

3 Significant Accounting Policies

(continued)

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.

(o) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position 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 Statement of Cash Flows, 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 statement of financial position.

(p) 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.

(q) 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.

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.

(r) 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 cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows. 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.

(s) 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 short term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long term employee benefits are measured at 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.

3 Significant Accounting Policies

(continued)

(t) 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.

(u) 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 statement of financial position as a finance lease obligation.

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(j). 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.

(v) 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.

3 Significant Accounting Policies

(continued)

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(u).

(w) 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 statement of financial position 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.

(x) 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 statement of financial position. 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.

3 Significant Accounting Policies

(continued)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, 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 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.

(y) 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 statement of financial position.

Cash flows are included in the Statement of Cash Flows 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.

(z) 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 statement of comprehensive income 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'.

3 Significant Accounting Policies

(continued)

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 the end of each reporting period. 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.

Financial liabilities

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

(aa) 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 and the host contracts are not measured at their fair value with changes in fair value recognised in profit or loss.

4 Operating Segments

The Group is organised into three 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.

The company has adopted AASB 8 Operating Segments with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors in their capacity as the chief operating decision maker of the company in order to allocate resources to the segments and assess their performance. The segments identified do not represent a significant change from those presented in prior years.

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of AASB 8.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

	External sales		Other revenue		Total	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Segment revenue						
Continuing operations						
Seafood	18,093	19,691	-	-	18,093	19,691
Freedom Foods	25,804	28,700	-	-	25,804	28,700
Thorpedo Foods	174	205	378	832	552	1,037
Other	-	-	-	-	459	614
Total revenue of the consolidated group					44,908	50,042

Revenue generated by equity accounted associates from external sales is not consolidated, instead under the equity method of accounting, the carrying amounts of interest in joint venture entities are increased or decreased to recognise the Group's 50% share of post acquisition profits or losses and other changes in net assets of the joint ventures.

97% of total external sales of the consolidated group and equity accounted associates are generated in Australia (2009: 95%)

4 Operating Segments (continued)

	2010 $'000	2009 $'000
Segment result		
Continuing operations		
Seafood	3,440	3,222
Freedom Foods	4,010	4,192
Thorpedo Foods	249	572
	7,699	7,986
FNPL share of equity accounted associates	1,308	212
Shared services	(3,878)	(4,706)
Finance costs	(1,031)	(1,245)
Depreciation	(1,004)	(453)
Profit before income tax	3,094	1,794
Income tax expense	263	(474)
Profit for the year from continuing operations	3,357	1,320

Total profit from equity accounted associates for the period totalled $2,616,000 (2009: $414,000). The consolidated entities 50% share of these profits was $1,308,000 (2009: $212,000).

5 Revenue

	Consolidated $'000	
	2010	2009
Continuing operations		
• Sale of goods	44,071	48,596
• Interest received		
Loans and receivables		
• Cash and cash equivalents	16	10
• License fee	356	782
	44,443	49,388
Other revenue		
• Government/State grants - refer below	85	50
• Gain/(loss) on disposal of fixed assets	13	(15)
• Payroll Tax Refund	10	-
• Rental income	3	65
• Convertible note interest	-	263
• Management fee received	354	291
	465	654

The above government grant is the Export Market Development Grant received for 2009 and receivable for 2010 (2010 $22,000, 2009 $50,000).

The above state grants are the Dept of Innovation Grant ($20,000) and State Training Grant ($43,000) receivable for 2010.

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

	Consolidated $'000	
Profit for the year was arrived at after charging the following expenses:	2010	2009
Finance costs		
• Interest on bank overdrafts and loans	990	1,235
• Interest on obligations under finance leases	41	12
• Interest on convertible notes	-	-
Total borrowing costs	1,031	1,247
Unrealised fair value mark-to-market of derivative financial instruments (i)	-	706
Unrealised foreign currency exchange losses/(gains)	8	(151)
Depreciation on property, motor vehicles, plant and equipment	1,004	453
Gain/Loss on disposal of plant and equipment	(13)	15
Rental expense on operating leases (equipment)	123	82
Rental expense on operating leases (property)	222	496
Research and development costs expensed	100	530
Impairment of trade receivables	10	3
Employee benefit expense		
Post employment benefits - defined contribution plans	587	544
Share-based payments - equity settled share based payments	127	127
Redundancies	321	465
Other employee benefits	5,302	5,654
Total employee benefit costs	6,337	6,790

(i) The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

During the financial year the Group utilised foreign exchange contracts for the purchase of inventory and for the purchase of manufacturing equipment for the Freedom Foods Leeton site. The foreign exchange contracts were denominated in $USD and $CDN. As at 30 June 2010 there were no foreign exchange contracts held.

The contracts related to highly probable forecasted transactions for the purchase of inventory for the Specialty Seafood business (Salmon and Sardines) and the Freedom Foods business (Cereals and Spreads) with the purchase consideration being settled in the above currencies. The Group's objective in entering into foreign exchange contracts is to provide certainty to the income and cash flow implications for the designated foreign currency purchase, relating to purchase of inventory or other capital assets.

As the Group does not utilise hedge accounting, derivative financial instruments held by the Group are required under the Australian Accounting Standards to be valued at fair value as at balance sheet date. A valuation at fair value assumes that the Group would settle the contracts at a specific date and recognise a gain or loss depending on the prevailing spot rate at value date, even though the intention of the Group is to settle the contract at contract expiry in relation to the purchase of inventory or an asset required for manufacturing.

6 Profit for the year before tax (continued)

The gain or loss value at fair value is required by Australian Accounting Standards to be recognised in the statement of comprehensive income. As there were no foreign exchange contracts open as at 30 June 2010 a valuation at fair value of foreign exchange contracts held at balance sheet date reflected no adjustment compared with a loss of $706,000 ($AUD) as at 30 June 2009.

(ii) Operating EBDITA (being EBDITA adjusted for corporate development costs, redundancies, equity settled share based payments, share of profits under equity accounting, unrealised exchange losses, fair value mark to market of derivative financial instruments and asset write downs) was $4,511,000 (2009: $4,568,000).

7 Income Taxes

	Consolidated $'000	
	2010	2009
Income tax recognised in profit or loss		
Tax expense comprises:		
Current income tax expense	(258)	295
Adjustments recognised in the current year in relation to the current tax of prior years	45	65
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(50)	114
Deferred tax expense/(income) relating to the origination and reversal of temporary differences transferred from wholly owned subsidiaries within the tax-consolidated group	-	-
Income tax expense /(income)	(263)	474
Attributable to continuing operations	(263)	474

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:

	2010	2009
Profit from continuing operations	3,094	1,794
Income tax expense calculated at 30%	928	538
Effect of revenue/expenses that are not deductible in determining taxable profit	(1,228)	(89)
Effect of tax concessions (research and development)	(8)	(40)
Previously unrecognised and unused tax losses now recognised as deferred tax assets	-	-
Effect of transactions within the tax-consolidated group that are exempt from taxation	-	-
Adjustments recognised in the current year in relation to the current tax of prior years	45	65
	(263)	474

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.

Income tax recognised in other comprehensive income.
No current or deferred tax amounts were charged/(credited) directly to the other comprehensive income during the year.

7 Income Taxes (continued)

	Consolidated $'000	
	2010	2009
Current tax assets		
Income tax receivable attributable to:		
• Entities in the tax-consolidated group	151	-
• Other	-	-
	151	-
Current tax liabilities		
Income tax payable attributable to:		
• Entities in the tax-consolidated group	-	71
• Other	-	1
	-	72

Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

Consolidated 2010	Opening Balance $'000	Charged to income $'000	Closing balance $'000
Temporary differences:			
Provisions	273	64	337
Doubtful debts	9	3	12
Property plant & equipment	7	(31)	(24)
Other	317	(152)	165
	606	(116)	490
Unused tax losses and credits:			
Tax losses (i)	1,013	148	1,161
Withholding tax paid	322	18	340
	1,335	166	1,501
	1,941	50	1,991
Presented in the statement of financial position as follows:			
Deferred tax (liability) - non current			(47)
Deferred tax asset - non current			2,038
			1,991

(i) Current year earnings together with forecast future earnings support the recognition of carried forward losses as deferred tax assets

Consolidated 2009	Opening Balance $'000	Charged to income $'000	Closing balance $'000
Temporary differences:			
Provisions	339	(66)	273
Doubtful debts	37	(28)	9
Property plant & equipment	12	(5)	7
Other	177	140	317
	565	41	606

7 Income Taxes (continued)

Consolidated 2009	Opening Balance $'000	Charged to income $'000	Closing balance $'000
Unused tax losses and credits:			
Tax losses	1,224	(211)	1,013
Withholding tax paid	266	56	322
	1,490	(155)	1,335
	2,055	(114)	1,941
Presented in the statement of financial position as follows:			
Deferred tax (liability) - non current			(17)
Deferred tax asset - non current			1,958
			1,941

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 $	
Current year	2010	2009
Remunerations of the auditors of the Group for:		
• audit or review of the financial report	167,660	145,000
• taxation advice and preparation of tax returns	43,542	43,575
• accounting advice	5,838	-
	217,040	188,575

The auditor of the consolidated entity is Deloitte Touche Tohmatsu.

9 Earnings per share

	Consolidated	
	2010	2009
	Cents per share	
Basic earnings per share	5.0	2.4
Diluted earnings per share	5.0	2.4

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

	$'000	
(a) Earnings used in the calculation of basic EPS	3,357	1,320
(b) Earnings used in the calculation of diluted EPS	3,357	1,320
	Number '000	
(c) Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	66,823	54,635
Add weighted average number of options outstanding	-	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	66,823	54,635

During 2010 no options were issued over ordinary shares by the Parent.

10 Trade and other receivables

	Consolidated $'000	
	2010	2009
Current		
Trade receivables	8,712	9,396
Allowance for doubtful debts	(43)	(31)
	8,669	9,365
Other receivables	693	882
	9,362	10,247

The average credit period on sales of goods is 37 days (2009: 40 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 $12,000 (2009: decreased by $91,000) in the Group. Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of $43,000 (2009: $31,000). The Group does not hold any collateral over these balances.

	Consolidated $'000	
	2010	2009
Current (i)	8,545	9,287
Past due but not impaired (ii)	124	78

10 Trade and other receivables (continued)

(i) The current receivables for the Group are with a weighted average of 38 days (2009: 37 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 a weighted average of 135 days (2009: 86 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 81% (2009 - 87%) of sales and 86% (2009 - 86%) of year end receivables are concentrated in major supermarkets throughout Australia.

Movement in the allowance for doubtful debts

	Consolidated $'000	
	2010	2009
Balance at the beginning of the year	31	122
Impairment losses recognised on receivables	8	-
Amounts written off as uncollectable	-	(55)
Amounts recovered during the year	4	3
Impairment losses reversed	-	(39)
Balance at the end of the year	43	31

Other receivables

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

11 Other financial assets

	Consolidated $'000	
	2010	2009
Current		
Loans to joint ventures - refer Note 28 Related party transactions	784	1,078
Non-current		
Investment in joint venture entities - refer note 34 Jointly controlled operations and assets	1,152	3,535
	1,152	3,535

(i) **Loans to related parties:**
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.

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

12 Inventories

	Consolidated $'000	
	2010	2009
Current		
Raw materials	1,228	751
Finished goods	5,909	6,134
Provision for stock obsolescence	(36)	(32)
Work In Progress Factory	20	-
	7,121	6,853

All inventories of the Group are expected to be recovered within a 12 month period.

13 Intangibles

	Goodwill $'000	Brand Names $'000	Total $'000
2010			
Balance at 1 July 2009	6,992	16,274	23,266
Costs incurred during the year	-	-	-
Balance at 30 June 2010	6,992	16,274	23,266
2009			
Balance at 1 July 2008	6,992	15,174	22,166
Costs incurred during the year	-	1,100	1,100
Balance at 30 June 2009	6,992	16,274	23,266

Goodwill and brands are initially recorded at cost. All brands have been assessed as having indefinite useful lives.

No impairment losses were charged during the 2010 financial year (2009: $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 $16,274,000 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.

13 Intangibles (continued)

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

	Consolidated $'000	
	2010	2009
Seafood	1,982	1,982
Freedom Foods	3,232	3,232
Thorpedo Foods	1,778	1,778
	6,992	6,992

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 five-year period, and a discount rate of 10.3% pa (2009: 9.9% 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	
	2010	2009
Non current		
Freehold land (at fair value)	150	150
Accumulated depreciation	–	–
Total Land	150	150
Buildings (at fair value)	4,850	4,850
Accumulated depreciation	(263)	(141)
Total Buildings	4,587	4,709
Total Land and Buildings	4,737	4,859
Plant and Equipment (at cost)	15,553	3,163
Accumulated depreciation	(2,039)	(1,463)
	13,514	1,700
Capital work in progress at cost	4,122	8,713
Total Owned Plant and Equipment	17,636	10,413

14 Property, plant and equipment (continued)

	Consolidated $'000	
	2010	2009
Motor Vehicles (under finance leases)	157	148
Accumulated depreciation	(99)	(97)
Total Motor Vehicles	58	51
Total property, plant and equipment	22,431	15,323

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

	Freehold Land	Buildings	Plant and Equipment	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000
Group 2010					
Balance at 1 July 2009	150	4,709	10,413	51	15,323
Additions	-	-	8,319	49	8,368
Disposals	-	-	(254)	(2)	(256)
Depreciation expense	-	(122)	(842)	(40)	(1,004)
Balance at 30 June 2010	150	4,587	17,636	58	22,431
Group 2009					
Balance at 1 July 2008	150	4,830	2,279	137	7,396
Additions	-	-	8,426	-	8,426
Disposals	-	-	(7)	(39)	(46)
Depreciation expense	-	(121)	(285)	(47)	(453)
Balance at 30 June 2009	150	4,709	10,413	51	15,323

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

	Consolidated $'000	
	2010	2009
Freehold land and buildings	122	121
Plant and equipment	842	285
Motor vehicles	40	47
	1,004	453

Freehold land and buildings carried at revaluation

An independent valuation of the Group's land and buildings was performed by Herron Todd White (MIA) Pty Limited to determine the fair value of the land and buildings. The valuation, which conforms to Australian Valuation Standards, was determined by reference to capitalisation of net income method, utilising a net rental of approximately $37 per square metre per annum. The effective date of the valuation was 30 June 2009.

15 Trade and other payables

	Consolidated $'000	
	2010	2009
Current		
Trade payables (i)	4,754	3,682
Other payables and accruals (ii)	2,498	3,105
Other financial liabilities (iii)	-	706
	7,252	7,493
Non-current		
Other payables and accruals (ii)	1,064	1,686
	1,064	1,686

(i) The average credit period on purchases of certain goods from North America is 60 days (2009: 60 days). 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 an amount due to the vendor of $1,724,000 (2009: $2,402,000) for the purchase of the Leeton property. The portion of this payable due to be settled within 12 months is $660,000 (2009: $717,000).

(iii) Liability arising from year end mark to market of unrealised derivative financial instruments.

16 Borrowings

	Consolidated $'000	
	2010	2009
Secured - at amortised cost		
Current		
Bank overdrafts (i)	1,400	1,433
Loan payable (i)	13,047	3,073
Finance leases (ii) (iii)	1,129	552
Due to related parties	-	4,500
Non-current		
Loan payable (i)	-	11,050
Finance leases (ii) (iii)	5,766	2,692
	21,342	23,300
Disclosed in the financial statements as:		
Current borrowings	15,576	9,558
Non-current borrowings	5,766	13,742
	21,342	23,300

(i) Secured by assets as detailed in note 35.

(ii) Secured by leased assets as detailed in note 24.

(iii) Included as part of the finance leases is the Equipment Financing utilised to purchase equipment for Leeton.

17 Provisions

	Consolidated $'000	
	2010	2009
Current		
Employee benefits (i)	868	667
Non-current		
Employee benefits	254	263
	1,122	930
Employee benefits movement		
Balance at 1 July	930	1,084
Additional provision recognised	1,147	549
Amounts used	(955)	(703)
Balance at 30 June	1,122	930

(i) The current Group provision for employee benefits includes $163,000 of annual leave and vested long service leave entitlements accrued but not expected to be taken within 12 months (2009: $214,000).

18 Issued capital

Fully paid ordinary shares		
77,435,382 (2009: 54,660,270) ordinary shares fully paid	33,637	27,019
Balance at 1 July	27,019	26,999
Issue of shares (i)(ii)	6,618	20
Balance at 30 June	33,637	27,019

(i) During the year there were 22,775,112 ordinary shares issued for 30 cents per share. Issue costs of $215,207 were incurred during the share issue process.

(ii) During the prior year there were 53,533 ordinary shares issued for 45 cents per share which incurred $3,700 worth of Share issue costs.

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 2010, there were 4,700,000 (30 June 2009: 5,450,000 of which 750,000 have lapsed in the financial year ended 30 June 2010) unissued ordinary shares for which options were outstanding.

19 Reserves

	Consolidated $'000	
	2010	2009
Asset revaluation	473	473
Equity-settled employee benefits	446	319
	919	792
Equity-settled employee benefits		
Balance at 1 July	319	192
Share based payment	127	127
Balance at 30 June	446	319

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.

Asset revaluation		
Balance at 1 July	473	473
Revaluation increment	-	-
Balance at 30 June	473	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

	Consolidated $'000	
	2010	2009
Balance at 1 July	2,350	1,575
Net profit attributable to members of the parent	3,357	1,320
Dividends paid	-	(545)
Balance at 30 June	5,707	2,350

21 Dividends

	2009	
	Cents per share	Total $'000
Recognised amounts		
Fully paid ordinary shares		
Final dividend in relation to 30 June 2008: fully franked at a 30% tax rate	1.0	545

On 26 August 2010, the Directors declared that there will be no fully franked final dividend paid in respect of the financial year 2010.

21 Dividends (continued)

	Parent $'000	
	2010	2009
Adjusted franking account balance	472	481
Impact on franking account balance of dividends not recognised	-	-

22 Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of Cash Flows, 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 statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated $'000	
	2010	2009
Cash	34	762
Overdraft	(1,400)	(1,433)
	(1,366)	(671)

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

Profit for the year	3,357	1,320
Depreciation	1,004	453
Movement in provision for employee entitlements	192	(154)
Write off of inventory	-	2
(Gain) / loss on disposal of assets	(13)	15
Foreign currency revaluation	8	(151)
Unrealised fair value mark-to-market of derivative financial instruments	-	706
Fair value interest recognised regarding Leeton facility	172	-
Share based payments	127	127
Interest received	(16)	(10)
Interest capitalised	(479)	(322)
Non cash interest expensed	-	252
(Gain) / Loss in jointly controlled entity	(1,308)	(212)
Changes in Assets and Liabilities		
Decrease in receivables	857	1,546
(Increase) / Decrease in inventory	(168)	735
Decrease / (Increase) in other assets	41	(349)
(Increase) / Decrease in deferred tax assets	(75)	100
Decrease in accounts payable	(730)	(606)
Decrease in provision for income tax	(227)	(119)
Increase / (Decrease) in provision for deferred income tax	29	15
Net cash from operating activities	2,771	3,348

22 Notes to the statement of cash flows (continued)

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

(c) Non-cash financing and investing activities

During the current financial year, the Group acquired $49,000 (2009: $nil) of motor vehicles under finance leases. These acquisitions will be reflected in the statement of Cash Flows over the term of the finance lease via lease repayments.

(d) Business Acquired

During the 2009 financial year contingent consideration was finalised in respect of the purchase of Norganics Foods (Australia) Pty Limited business assets.

	Consolidated $'000	
	2010	2009
Details of these transaction are:		
Purchase consideration	-	1,000
Incidental costs - Norganic Foods (Australia)	-	62
Cash consideration	-	1,062
Assets and liabilities held at acquisition date:		
Brands (Intellectual property)	-	1,062
	-	1,062
Goodwill on acquisition	-	-
	-	1,062

23 Standby arrangements and unused credit facilities

	Consolidated $'000	
	2010	2009
Financing Facility		
Secured bank overdraft facility		
• amount used	1,400	1,433
• amount unused	600	567
	2,000	2,000
Secured loan facilities		
• amount used	13,047	14,140
• amount unused	3	60
	13,050	14,200
Secured finance facilities		
• amount used	7,520	3,159
• amount unused	480	4,841
	8,000	8,000
Unused financing facilities	1,083	5,468

23 Standby arrangements and unused credit facilities (continued)

The bank overdraft and multi-option facilities are arranged with Bankwest with general terms and conditions and are subject to annual review. The bank facilities of the Group are secured by a first registered mortgage over all the Group's property, excluding items specifically discharged under the Freedom Foods equipment finance arrangement, and a first equitable mortgage over the whole of the Group's assets and undertakings including uncalled capital. The mortgage is held by Bankwest.

The Freedom Foods equipment finance facility has been arranged with the National Australia Bank. This facility is secured over the assets financed under the facility, which have been specifically discharged from the first registered mortgage held over all the Group's property.

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		Present value of minimum future lease payments	
	Consolidated $'000		Consolidated $'000	
	2010	2009	2010	2009
Finance lease liabilities				
Payable:				
• No later than 1 year	1,701	731	1,129	552
• Later than 1 year but not later than 5 years	6,514	3,179	5,766	2,692
Minimum future lease payments (i)	8,215	3,910	6,895	3,244
Less future finance charges	(1,320)	(666)	-	-
Present value of minimum lease payments	6,895	3,244	6,895	3,244
Included in the financial statements as: (note 16)				
Current borrowings			1,129	552
Non-current borrowings			5,766	2,692
			6,895	3,244

(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 Group does not have an option to purchase the leased asset at the expiry of the lease period.

24 Capital and leasing commitments (continued)

	Consolidated $'000	
	2010	2009
Non-cancellable operating lease commitments		
• Not longer than 1 year	114	369
• Longer than 1 year but not longer than 5 years	4	60
	118	429
Group's share of jointly controlled entities capital commitments		
• Not longer than 1 year	624	652

25 Personnel note

	Consolidated Number	
	2010	2009
The entity employs casual and full time staff numbering	133	140

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 2009. 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 considers the cost of capital and the risks associated with each class of capital.

	Consolidated $'000	
	2010	2009
Financial liabilities		
Debt (i)	19,942	21,867
Cash and cash equivalents	1,366	671
Net debt	21,308	22,538
Equity (ii)	40,263	30,161
Net debt to equity ratio	53%	75%

26 Financial instruments (continued)

(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 management 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 and interest 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.

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	
	2010	2009	2010	2009
Consolidated				
US dollars (USD)	498	647	214	54
Canadian dollars (CAD)	100	766	1,013	503

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

26 Financial instruments (continued)

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 Group had entered into contracts (for terms not exceeding 12 months) to purchase finished goods from suppliers in the United States and Canada. The contracts related to highly probable forecasted transactions for the purchase of inventory for the Specialty Seafood business (Salmon and Sardines) and the Freedom Foods business (Cereals and Spreads) with the purchase consideration being settled in the above currencies. The Group's objective in entering into foreign exchange contracts is to provide certainty to the income and cash flow implications for the designated foreign currency purchase, relating to purchase of inventory or other capital assets. The Group had no outstanding foreign exchange contracts as at 30 June 2010.

The Group does not adopt hedge accounting.

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

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2010	2009	2010	2009	2010	2009	2010	2009
			FC'000	FC'000	$'000	$'000	$'000	$'000
Outstanding contracts								
Consolidated								
Buy US Dollars								
Less than 3 months	-	0.685	-	2,713	-	3,960	-	(609)
3 to 6 months	-	0.705	-	175	-	219	-	(1)
Over 6 months	-	0.792	-	1,735	-	2,190	-	(23)
Buy Canadian Dollars								
Less than 3 months	-	0.878	-	1,025	-	1,168	-	(69)
3 to 6 months	-	0.923	-	780	-	845	-	(4)
Over 6 months	-	-	-	-	-	-	-	-
							-	(706)

Foreign currency sensitivity analysis

The following table details the sensitivity to an increase / decrease in the Australian dollar against the relevant currencies in relation to foreign exchange exposures. Sensitivity rates of 7% (USD) and 8.8% (CAD) have been used as these represent managements assessment of a likely maximum 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	
	2010	2009
Consolidated		
US dollars (USD) impact		
AUD appreciates by 7%	(22)	(96)
AUD depreciates by 7%	25	110
Canadian dollars (CAD) impact		
AUD appreciates by 8.8%	166	(52)
AUD depreciates by 8.8%	(197)	62

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 Group is exposed to interest rate risk as they borrow funds at both fixed and floating interest rates. The Group manages this risk 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		Fixed rate maturing in						
		Weighted average effective interest rate	Variable Rate		Less than 1 year		1 to 5 years	
Financial Instrument	**Note**		**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
		%	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets								
Cash and cash equivalents	22	0%	34	762	-	-	-	-
Total Financial Assets			34	762	-	-	-	-
Financial Liabilities								
Bank overdrafts	16	10%	1,400	1,433	-	-	-	-
Finance leases	16	7%	-	-	1,129	552	5,766	2,692
Other payable	15	11%	-	-	660	717	1,064	1,686
Due to related parties	16	12%	-	-	-	4,500	-	-
Loan payable	16	6%	13,047	14,123	-	-	-	-
Total Financial Liabilities			14,447	15,556	1,789	5,769	6,830	4,378

During the financial year there has been no change to the group's interest rate risk exposure or the manner in which it manages and measures these risks.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the impact of 100 basis point increase in interest rates on the exposure to interest rates as detailed in the above table.

The impact of a 100 basis point interest rate movement during the year with all other variables being held constant will be:

26 Financial instruments (continued)

- an increase/decrease on the consolidated entity's net profit of $72,000 (2009: $111,000) respectively.

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

A 100 basis point movement 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. 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.

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 statement of financial position date, to recognised financial assets of the Group which have been recognised on the statement of financial position is the carrying amount, net of any allowance for doubtful debts.

(h) Liquidity risk management

Liquidity risk arises from the possibility that the Group 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 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 details the consolidated entity's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date on which the consolidated entity can be required to pay. The table includes both interest and principal cash flows.

26 Financial instruments (continued)

	Weighted average effective interest rate	Less than 1 year		1 to 5 years		More than 5 years	
		2010	2009	2010	2009	2010	2009
	%	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated							
Financial Liabilities							
Trade payables	-	4,754	3,682	-	-	-	-
Other payables and accruals	-	1,838	2,388	-	-	-	-
Other payables	11%	850	850	1,700	2,550	-	-
Due to related parties	12%	-	5,040	-	-	-	-
Bank overdrafts	10%	1,539	1,551	-	-	-	-
Finance leases	7%	1,701	1,701	6,514	6,514	-	-
Loan payable	6%	13,737	4,353	-	13,825	-	-
Total Financial Liabilities		24,419	19,565	8,214	22,889	-	-

(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; and
- 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. Under the arrangements TFG had a call option to acquire up to 75% in Thorpedo Foods Pty Limited until 30 September 2009.

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.

On 8 September 2009, TFG exercised a call option and acquired an additional 24.99% in Thorpedo Foods Pty Limited bringing its interest in Thorpedo Foods Pty Limited at 30 June 2010 to 75%. The additional 24.99% was acquired for $60.

27 Key management personnel compensation

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

27 Key management personnel compensation (continued)

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 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 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 and no cash retention bonuses were paid. Options are valued using the binomial method.

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.

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 2010 were $163,000 (2009: $157,000). 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 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

27 Key management personnel compensation (continued)

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.

	2010	2009	2008	2007	2006
Sales Revenue ($000's)	44,071	48,596	54,082	48,683	46,963
Net Profit After Tax ($000s)	3,357	1,320	956	1,174	1,434
Dividends Paid (cents)	-	1	2	1	Nil
Basic Earnings per Share (cents)	5.0	2.4	2.0	2.6	3.2

The Remuneration and Nomination Committee considers that the Parent's 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	
	$	$
	2010	2009
Short-term employee benefits	1,559,655	1,618,546
Post-employment benefits	95,759	82,513
Share-based payment	85,868	123,511
Termination payments	141,356	-
	1,882,638	1,824,570

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)
M. Miles (Non-Executive Director)
R. J. F. Macleod (Executive Director Strategy, Corporate Development and Chief Financial Officer)
P. Wilson (General Manager Leeton Manufacturing Operations), commenced July 2008
M. Gilio (Group Finance Manager & Company Secretary), appointed Company Secretary 25 September 2008
P. Bartier (National Supply Chain Manager)
P. Brown (Executive General Manager Sales)
C. Pensini – (Leeton Manufacturing and Operations Manager), commenced 1 July 2009

27 Key management personnel compensation (continued)

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:

	P. R. Gunner	G.H. Babidge	A. M. Perich	R. Perich	M. Miles	R. J. F. Macleod
2010	$	$	$	$	$	$
Short term benefits						
Salaries and fees	63,000	375,778	36,000	32,000	32,000	255,778
Bonus	-	-	-	-	-	-
Non monetary	-	-	-	-	-	-
Other	-	-	-	-	-	-
Post employment benefits						
Superannuation	5,670	15,428	2,700	2,880	2,880	14,222
Equity compensation						
Options	-	42,934	-	-	-	42,934
Total	68,670	434,140	38,700	34,880	34,880	312,934

	G.J. Hughes (i)	P. Wilson	M. Gilio	P. Bartier	P. Brown (ii)	C. Pensini (iii)	Total
	$	$	$	$	$	$	$
Short term benefits							
Salaries and Fees	-	187,692	159,011	136,697	144,084	137,615	1,559,655
Bonus	-	-	-	-	-	-	-
Non monetary	-	-	-	-	-	-	-
Other	141,356	-	-	-	-	-	141,356
Post employment benefits							
Superannuation	-	-	14,323	12,303	12,968	12,385	95,759
Equity compensation							
Options	-	-	-	-	-	-	85,868
Total	141,356	187,692	173,334	149,000	157,052	150,000	1,882,638

(i) G.J. Hughes received a $141,356 termination payment made 3 July 2009

(ii) P. Brown commenced 10 August 2009

(iii) C. Pensini commenced 1 July 2009

27 Key management personnel compensation (continued)

2009	P. R. Gunner	G.H. Babidge	A. M. Perich	R. Perich	M. Miles	B. W. Bootle (i)	R. J. F. Macleod
	$	$	$	$	$	$	$
Short term benefits							
Salaries and fees	63,000	355,755	30,000	32,000	32,000	-	228,755
Bonus	-	-	-	-	-	-	-
Non monetary	-	-	-	-	-	-	-
Post employment benefits							
Superannuation	5,670	13,745	2,700	2,880	2,880	-	13,745
Equity compensation							
Options	-	42,934	-	-	-	11,393	42,934
Total	68,670	412,434	32,700	34,880	34,880	11,393	285,434

	G.J. Hughes (ii)	P. Wilson	M. E. Jenkins (iii)	M. Christian (iv)	M. Gilio	P. Bartier	Total
	$	$	$	$	$	$	$
Short term benefits							
Salaries and Fees	216,567	198,426	71,358	124,935	139,144	126,606	1,618,546
Bonus	-	-	-	-	-	-	-
Non monetary	-	-	-	-	-	-	-
Post employment benefits							
Superannuation	13,226	-	3,750	-	12,523	11,394	82,513
Equity compensation							
Options	-	-	26,250	-	-	-	123,511
Total	229,793	198,426	101,358	124,935	151,667	138,000	1,824,570

(i) Mr B. W. Bootle resigned as alternate Director on 12 December 2008

(ii) Mr G. J. Hughes resigned as Chief Operating Officer on 3 July 2009

(iii) Mr M. E. Jenkins resigned as Chief Financial Officer and Company Secretary on 25 September 2008

(iv) Mr M. Christian resigned as General Manager of Manufacturing 31 December 2008

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 34 to the financial statements.

28 Related party transactions (continued)

(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.

(ii) Key management personnel equity holdings

Fully paid ordinary shares of the Parent

	Balance at 1 July 2009	Granted as compensation	Received on exercise of options	Net other change	Balance at 30 June 2010
	No.	No.	No.	No.	No.
2010					
P. R. Gunner	360,517	-	-	150,215	510,732
G.H. Babidge	69,217	-	-	28,840	98,057
A. M. Perich (1)	36,164,454	-	-	15,000,000	51,164,454
R. Perich (1)	36,164,454	-	-	15,000,000	51,164,454
M. Miles	106,667	-	-	100,000	206,667
R. J. F. Macleod	156,108	-	-	26,667	182,775
P. Wilson	-	-	-	-	-
M. Gilio	-	-	-	-	-
P. Bartier	-	-	-	-	-
P. Brown	-	-	-	-	-
C. Pensini	-	-	-	-	-

	Balance at 1 July 2008	Granted as compensation	Received on exercise of options	Net other change	Balance at 30 June 2009
	No.	No.	No.	No.	No.
2009					
P. R. Gunner	360,517	-	-	-	360,517
G.H. Babidge	69,217	-	-	-	69,217
A. M. Perich (1)	35,530,385	-	-	634,069	36,164,454
R. Perich (1)	35,530,385	-	-	634,069	36,164,454
M. Miles	104,353	-	-	2,314	106,667
B. W. Bootle	42,486	-	-	943	43,429
R. J. F. Macleod	156,108	-	-	-	156,108
G. J. Hughes	-	-	-	-	-
P. Wilson	-	-	-	-	-
M. E. Jenkins	30,326	-	-	(3,957)	26,369
M. Christian	-	-	-	-	-
M. Gilio	-	-	-	-	-

(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.

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.
2010										
G.H. Babidge (i)	2,400,000	-	-	-	-	2,400,000	1,975,000	-	1,975,000	425,000
B. W. Bootle	450,000	(450,000)	-	-	-	-	-	-	-	-
R. J. F. Macleod (i)	2,000,000	-	-	-	-	2,000,000	1,575,000	-	1,575,000	425,000
P. Nathan	300,000	-	-	-	-	300,000	300,000	-	300,000	-
M. E. Jenkins	300,000	(300,000)	-	-	-	-	-	-	-	-
2009										
G.H. Babidge	2,400,000	-	-	-	-	2,400,000	1,550,000	-	1,550,000	425,000
B. W. Bootle	900,000	(450,000)	-	-	-	450,000	450,000	-	450,000	225,000
R. J. F. Macleod	2,000,000	-	-	-	-	2,000,000	1,150,000	-	1,150,000	425,000
P. Nathan	300,000	-	-	-	-	300,000	300,000	-	300,000	150,000
M. E. Jenkins	300,000	-	-	-	-	300,000	300,000	-	300,000	150,000

(i) As at 27 July 2010 700,000 vested options relating to G.H. Babidge and 300,000 vested options relating to R.J.F. Macleod expired in accordance with the provisions of the Employee Share Option Plan.

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 (2009: nil) were exercised by key management personnel.

Further details of the Employee Share Option Plan and of share options granted during 2010 and 2009 financial years are contained in note 29 to the financial statements.

(iii) Other transactions with key personnel of the Group

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

(i) 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 $5,527,000 (2009: $5,852,000) to the Group at cost.
- The Group made interest payments of $284,000 (2009: $264,000) to Arrovest Pty Ltd. The weighed average interest rate on the loans is 12%.

28 Related party transactions (continued)

- The Group received rental income of $35,000 (2009: $25,000) from A2DP.
- The Group was reimbursed by A2DP $769,000 (2009: $764,000) for labour and other administrative services provided.
- The Group received interest income of $nil (2009: $263,000) from A2DP on its convertible notes. The effective interest rate on the convertible notes was 15.8%.

These services are provided under normal terms and conditions.

(ii) The Group converted accrued interest on convertible notes of $250,000 and a related party loan of $200,000 to ordinary shares at par value on July 2009. Refer to Note 34

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

- Current loans totalling $784,000 are receivable from joint ventures (2009: $1,078,000).

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.

(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 $8,596,000 (2009: $8,659,000) to CBPA at cost.

These services are provided under normal terms and conditions.

(iv) Guarantee

The Parent has guaranteed 50% of the A2DP debtor finance facility up to $1.5m. The remaining 50% has been guaranteed by the other party to this jointly controlled entity. The amount of the exposure at balance date is $nil (2009: $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. There are no vesting conditions attached to these options other than continuing employment within the Group.

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 4 vest in four equal tranches over a period of 4 years and option series 5 vests in two equal tranches over two years.

29 Share based payments – Employee Share Option Plan (continued)

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				$	$
(3) Issued 27 July 2005	1,000,000	27/07/05	27/07/10	0.50	-
(4) Issued 30 November 2006	3,400,000	30/11/06	30/11/11	0.50	0.10
(5) Issued 26 April 2007	300,000	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 (2009: $nil). 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.

Inputs into the model	Series 3	Series 4	Series 5
Grant date share price	0.38	0.50	0.48
Exercise price	0.50	0.50	0.50
Expected volatility	15%	20%	20%
Option life	5 years	5 years	5 years
Dividend yield	Nil	2.5%	2.5%
Risk-free interest rate	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:

	2010		2009	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	5,450,000	0.50	5,900,000	0.50
Granted during financial year	-	-	-	-
Lapsed during financial year	(750,000)	0.50	(450,000)	0.50
Cancelled during financial year	-	-	-	-
	4,700,000	0.50	5,450,000	0.50
Exercisable at end of financial year	3,850,000	0.50	3,750,000	0.50

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 (2009: $0.50), and a weighted average remaining contractual life of 423 days (2009: 740 days). No options were exercised during the financial year.

30 Contingent liabilities

	Consolidated $'000	
	2010	2009
Bank guarantee arising from rental of office premises. No liability is expected to accrue.	14	17

31 Controlled entities

Controlled Entity	Country of Incorporation	Ownership interest 2010	Ownership interest 2009
Paramount Seafoods Pty Limited (i)	Australia	100%	100%
Nutrition Ventures Pty Limited (i)	Australia	100%	100%
Nutrition Ventures Financing Pty Limited (i)	Australia	100%	100%
Freedom Foods Pty Limited (i)	Australia	100%	100%
Australian Natural Foods Holdings Pty Limited (i)	Australia	100%	100%
Thorpedo Foods Group Pty Limited (i)	Australia	100%	100%
Thorpedo Foods Pty Limited	Australia	75%	50.01%
Thorpedo Seafoods Pty Limited	Australia	75%	75%

The consolidated statement of comprehensive income and statement of financial position of the entities party to the deed of cross guarantee is the consolidated statement of comprehensive income and statement of financial position included in the 2010 financial report.

(i) 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 Parent entity disclosures

(a) Financial position

	Parent	
	$'000	$'000
	2010	2009
Assets		
Current assets	1,845	1,025
Non-current assets	36,201	28,935
Total assets	38,046	29,960

33 Parent entity disclosures (continued)

	Parent	
	$'000	$'000
	2010	2009
Liabilities		
Current liabilities	410	377
Non-current liabilities	203	134
Total liabilities	613	511
Net Assets		
	37,433	29,449
Equity		
Issued capital	33,637	27,019
Reserves	445	319
Retained earnings	3,351	2,111
Total equity	37,433	29,449

(b) Financial performance Parent

	$'000	$'000
	2010	2009
Profit for the year	1,240	1,731
Other comprehensive income	-	-
Total comprehensive income	1,240	1,731

(c) Contingent liabilities of the parent entity Parent

	$'000	$'000
	2010	2009
Bank guarantee	14	17

(d) Commitments for the acquisition of property, plant and equipment by the parent entity

	$'000	$'000
	2010	2009
Plant and equipment, PV of minimum future lease payments		
Not longer than 1 year	21	68
Longer than 1 year and not longer than 5 years	55	18
Longer than 5 years	-	-

34 Jointly controlled operations and assets

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

			Output interest %	
Name of venture	**Country of incorporation**	**Principal activity**	**2010**	**2009**
CBPA	Australia	Contract beverage packing services	50	50
A2DP	Australia	Sale of a2 milk	50	50

In May 2009, the group increased its shareholding ownership in A2DPA from 1% to 50%.

34 Jointly controlled operations and assets (continued)

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

	CBPA $'000		A2DP $'000	
	2010	2009	2010	2009
Balance at 1 July	676	601	2,859	913
Share of profits/(losses) for the year	476	75	832	137
	1,152	676	3,691	1,050
Dividends	-	-	-	-
Additions (i) (ii)	-	-	450	1,809
Balance at 30 June	1,152	676	4,141	2,859

(i) The Groups holding of non-listed unsecured convertible notes in A2DP were converted at par value on 1 May 2009.

(ii) The Group converted accrued interest on convertible notes of $250,000 and a related party loan of $200,000 to ordinary shares at par value on July 2009.

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

	CBPA $'000		A2DP $'000	
	2010	2009	2010	2009
Current assets	5,419	4,205	3,506	2,829
Non current assets	4,819	4,600	770	645
Total assets	10,238	8,805	4,276	3,474
Current liabilities	4,651	4,369	1,353	929
Non current liabilities	4,909	4,232	644	1,540
Total Liabilities	9,560	8,601	1,997	2,469
Net assets	678	204	2,279	1,005
Shareholder funds	678	204	2,279	1,005
Revenue	14,379	11,452	13,010	1,942
Profit / (loss) after income tax	476	75	832	137

35 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.

During 2009, Freedom Foods Pty Limited entered into an equipment lease with National Australia Bank to assist in financing equipment requirements for the Freedom manufacturing site at Leeton. The maximum facility limit is for financing amounts of up to $8 million with a lease term of 5 years with a 20% residual. The facility is secured by the financed equipment and Freedom Foods obligations under the lease are guaranteed by Freedom Nutritional Products Limited.

36 Acquisition of business

On 18 November 2008 contingent consideration of $1,000,000 plus additional incidental costs associated with the acquisition of the business assets of Norganic Foods (Australia) Pty Ltd were paid. This payment resulted in an increase to the value of intangibles by the amount of the deferred consideration.

36 Acquisition of business (continued)

Details of the acquisitions and additional incidental costs are as follows:

	Consolidated $'000	
	2010	2009
Purchase consideration - Norganic foods (Australia)	-	1,000
Incidental costs - Norganic foods (Australia)	-	62
Cash consideration	-	1,062

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 $4,298,000 (2009: $3,917,000) attributable to the additional business generated by Norganic Foods (Australia) on a gross margin basis.

37 Subsequent events

On 21 May 2010 Freedom Nutritional Products Limited announced that it had entered into a Sale and Subscription Implementation Agreement with A2 Corporation Limited ("A2C") (NZAX:ATM) under which it would sell its 50% interest in A2 Dairy Products Australia Pty Limited (being 2,700,000 fully paid ordinary shares) to A2C in consideration for 120,376,950 fully paid ordinary shares in A2C, being 25% of the enlarged A2C transaction.

The transaction was completed on 22 July 2010. Freedom Nutritional Products directors, Geoffrey Babidge, Melvyn Miles and Perry Gunner have been appointed to the Board of A2 Corporation Limited and Perry Gunner will assume the role of Deputy Chairman.

The transaction will result in Freedom Nutritional Products recording a profit on sale of its 50% interest in A2 Dairy Products Australia of approximately $3.9 million in the following financial year.

The Group has finance facilities, comprising bank overdraft, multi option and term facilities with BankWest. The facility was subject to renewal following an initial 3 year term in October 2010. The Group has received a proposal in relation to a refinancing of the facilities with the security profile generally consistent with the existing facilities. The Group expects new facilities to be formally established on or before 31 October 2010.

No other 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.

38 Assets Classified as Held for Sale

	Consolidated $'000	
	2010	2009
Investments Accounted for Using the Equity Method Held for Sale (Note 34)	4,141	-
	4,141	-

On 21 May 2010 Freedom Nutritional Products Limited announced that it had entered into a Sale and Subscription Implementation Agreement with A2 Corporation Limited ("A2C") (NZAX:ATM) under which it would sell its 50% interest in A2 Dairy Products Australia Pty Limited (being 2,700,000 fully paid ordinary shares) to A2C in consideration for 120,376,950 fully paid ordinary shares in A2C, being 25% of the enlarged A2C transaction.

FREEDOM NUTRITIONAL PRODUCTS LIMITED

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2010

The director's 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) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3 to the financial statements.

(c) 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

(d) 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, 23 September 2010

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

We have audited the accompanying financial report of Freedom Nutritional Products Limited, which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, 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 22 to 71.

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 consolidated 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. Those 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 of the financial report that gives a true and fair view, 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.

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 consolidated entity's financial position as at 30 June 2010 and of its 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 statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 30 June 2010. 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.

Opinion

In our opinion the Remuneration Report of Freedom Nutritional Products Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

P A Roberts
Partner
Chartered Accountants
Parramatta, 23 September 2010

Shareholding

Substantial shareholders

The number of shares held substantial shareholders as listed in the Parent's register as at 31 August 2010 are:

Shareholder	Number
Arrovest Pty Limited	51,164,454
Telunapa Pty Ltd	12,750,000

Class of shares and voting Rights

At 31 August 2010, there were 77,435,382 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 2010

	Ordinary
1- 1,000	297
1,001- 5,000	250
5,001- 10,000	87
10,001- 100,000	142
100,001- and over	35
	811

Non marketable securities which are holdings of less than 1,666 ordinary shares are held by 366 shareholders. This statistic is based on the share register as at 31 August 2010.

20 largest ordinary shareholders as at 31 August 2010

	Name	Number of Ordinary Shares Held	% Held of Ordinary Capital
1	Arrovest Pty Ltd	51,164,454	66.07%
2	Telunapa Pty Ltd	12,750,000	16.47%
3	National Nominees Limited	999,903	1.29%
4	East Coast Rural Holdings Pty Limited	699,220	0.90%
5	Mr & Mrs P Gunner Atf Perry Gunner Superannuation Fund	510,732	0.66%
6	Mr & Mrs S Higgs	434,615	0.56%
7	Mr L Lip & Mrs S Lip	308,339	0.40%
8	Mr T E Morris	274,910	0.36%
9	Mr L Rose & Mrs J Rose (Rose Executive Superannuation Fund	259,184	0.34%
10	Mr & Mrs Mi Miles (Miles Super Fund)	206,667	0.27%
11	Australian Food Holdings Pty Limited	204,350	0.26%
12	Boussal Pty Ltd	200,000	0.26%
13	Mr R J Perry & Mrs J J Perry	200,000	0.26%
14	Anisam Pty Limited	192,308	0.25%
15	Economic Consultancy Services Pty Ltd	192,308	0.25%
16	Moorebank Property Management Pty Ltd	185,770	0.24%
17	Cebourn Partners Pty Ltd	182,775	0.24%
18	Goldacre Investments Pty Ltd Atf Goldacre Super Fund	176,194	0.23%
19	Symspur Pty Ltd	167,538	0.22%
20	Gallium Pty Limited	162,180	0.21%
		69,471,447	89.72%

The proportion of ordinary shares held by the 20 largest shareholders is 89.72%

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

All Member Exchanges.

Corporate Directory

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Mark Gilio

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Insurance Brokers
InterRisk Australia Pty Limited
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Fax: (02) 8916 2000

Bankers
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Fax: (02) 8299 8293

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Chartered Accountants
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Parramatta NSW 2150
Tel: (02) 9840 7000
Fax: (02) 9840 7001

Management
Geoff Babidge – Chief Executive Officer and Managing Director
Rory Macleod – Executive Director, Strategy, Corporate Development and Chief Financial Officer
Mark Gilio – Group Finance Manager and Company Secretary
Phil Wilson – General Manager Leeton Manufacturing Operations
Peter Brown – Executive General Manager Sales
Peter Bartier – National Supply Chain Manager
Chris Pensini – Leeton Manufacturing and Operations Manager

FREEDOM NUTRITIONAL PRODUCTS LIMITED

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