

MAKING  
FOOD  
BETTER



**Freedom Foods Group Limited**

Annual Report **2014**



## Contents

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Financial Highlights and Five Year Summary .....	2
Chairman's Letter .....	3
Managing Director's Review of Operations .....	5
Directors' Report .....	13
Lead Auditor's Independence Declaration .....	20
Corporate Governance Statement .....	21
Consolidated Statement of Profit and Loss and Other Comprehensive Income .....	29
Consolidated Statement of Financial Position .....	30
Consolidated Statement of Cash Flows .....	31
Consolidated Statement of Changes in Equity .....	32
Notes to the Financial Statements .....	33
Directors' Declaration .....	76
Independent Auditor's Report .....	77
Shareholder Statistics .....	79
Corporate Directory .....	82

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## Annual General Meeting

<b>Date</b>	30 October 2014	<b>Time</b>	12.00 pm
<b>Venue</b>	DLA Piper Australia Level 22, 1 Martin Place Sydney NSW 2000		

## ■ Financial Highlights and Five Year Summary

	2014	2013	2012	2011	2010
Gross Sales Revenues (i)	122,722	115,514	72,556	57,664	56,612
Net Sales Revenue (\$000's)	87,856	88,831	58,132	45,256	44,071
EBDITA (Operating) (\$000's)(ii)	16,611	11,600	5,447	4,041	3,816
EBITA (Operating) (\$000's) (ii)	13,868	8,972	4,075	2,949	2,812
Equity Associates Share of Profit/Loss	(26)	819	1,214	1,136	1,308
Pre Tax Profit (Operating)	13,059	7,524	3,476	2,469	3,666
Pre Tax Profit (Reported)	12,673	18,524	3,250	4,249	3,094
Net Profit (Operating) (\$000's)	12,518	6,351	3,305	2,607	3,929
Net Profit (Reported) (\$000's)	12,132	13,722	3,012	4,387	3,357
Interim Ordinary Dividend (cents)	1.50	1.00	-	0.50	-
Final Ordinary Dividend (cents)	1.50	1.00	1.00	0.50	-
Interim Convertible Redeemable Preference Share Dividend (cents)	1.35	1.40	1.40	0.10	-
Final Convertible Redeemable Preference Share Dividend (cents)	1.35	1.40	1.40	2.00	-
Earnings per Share (Fully Diluted for CRPS) on Adjusted Reported Net Profit	8.21	11.96	3.11	4.99	5.00
Earnings per Share (Fully Diluted for CRPS) on Operating Net Profit	8.22	5.40	3.32	2.91	5.48
Net Debt / Equity	4%	10%	82%	36%	53%
Net Assets per Share (cents)	81	63	49	52	52
Total Assets (\$000's)	151,229	126,839	103,881	75,456	71,090
Shareholders Equity (\$000's)	122,233	82,395	47,270	49,983	40,263
Number of Ordinary Shares Issued (000's)	150,645	113,754	77,996	77,497	77,435
Number of Convertible Redeemable Preference Shares Issued (000's)	152	17,219	19,415	19,415	-
Dividend Paid (\$000's)	3,186	2,327	1,020	405	-

(i) Gross Sales Revenues includes revenues from the group associate entities. It also includes intercompany revenue which is eliminated from the reported Net Sales Revenue figure.

(ii) Operating Earnings before depreciation, interest, tax and amortisation and Earnings before interest, tax and amortisation, excludes abnormal or non-operating charges.

## ■ Chairman's Letter

Dear Shareholder

In the 2014 financial year, Freedom Foods Group Limited ("FFG") achieved Operating EBDITA of \$16.6 million, an increase of 43.2% against the prior corresponding period, reflecting increased sales and profitability in the Freedom Foods business, consolidation of Pactum Australia for 12 months and a contribution from Specialty Seafood.

Operating Pre-tax Profit was \$13.1 million for the 12 months ended 30 June 2014, reflecting a 73.6% increase on the previous corresponding 12 month period.

The Reported Net Profit of \$12.1 million included non-operating employee share option expense of \$252k (after tax).

With improving profitability, the Board has recommended payment of a final fully franked dividend of 1.5 cents per ordinary share in November 2014. The total dividend for the year of 3 cents (last year 2 cents) represents a dividend payout ratio of 29% of operating net profit in FY 2014.

The result included strong sales growth in the Freedom Foods business unit reflecting growth in Cereals and Non Dairy beverages, with a significant business unit EBDITA increase reflecting sales growth and improved operating efficiencies at Leeton.

In the Specialty Seafood business unit, the Brunswick Sardine brand maintained its No 1 brand leadership position in Australia and New Zealand.

The Pactum business unit provided a strong sales and business EBDITA contribution, reflecting increasing non-dairy production volumes, in support of Freedom branded and Private Label products in the fast growing almond beverage category.

The Board is pleased with these results and the Company has continued the positive trend in the development of its unique business platforms in specialised areas of the food market, with two key growth opportunities in Freedom Foods and Pactum Australia, a stable business base in Specialty Seafood and a strategic opportunity in The a2 Milk Company.

The Managing Director's report provides further commentary on operations and future plans.

The Company completed a capital raising of \$30 million (gross proceeds) from a placement and entitlements offer in September 2013. The capital raising was significantly oversubscribed with strong demand from a broad range of high quality institutional investors and existing shareholders. The proceeds of the Placement and Entitlement Offer are being used to fund the Company's growth strategy including acceleration of new capital projects within Freedom Foods, Pactum Australia, new product initiatives, acceleration of international sales activities and additional working capital requirements.



The a2 Milk Company (a2MC) (formerly A2 Corporation) (17.9% FNP shareholding) reported continued strong growth in the Australian fresh milk business with sales up 24% over the prior year. a2MC current market capitalisation implies a value for the Company's 17.9% post sale shareholding of approximately A\$70 million, materially above the book value of A\$10.6 million. The Company did not recognise any equity accounted profit from a2MC during the year, compared to \$819k in the prior year period.

On behalf of the Board, I would like to thank my fellow directors and all employees for their dedication and hard work throughout the year. There is much to be done and a great deal of confidence about Freedom Foods Group long-term prospects.



**Perry Gunner**  
Chairman

## ■ Managing Director's Review of Operations

### Group Summary Result

Year ended 30th June	2014 \$000	2013 \$000	% Change
Gross Sales Revenues (1)	122,772	115,514	6.28%
Net Sales Revenues	87,856	88,831	-1.10%
EBDITA (Operating) (2)	16,611	11,600	43.20%
EBITA (Operating) (2)	13,868	8,972	54.57%
Equity Associates Share of Profit/Loss	-26	819	-103.17%
Pre Tax Profit (Operating)	13,059	7,524	73.56%
Pre Tax Profit (Reported)	12,673	18,524	-31.59%
Net Profit (Operating)	12,518	6,351	97.10%
Net Profit (Reported)	12,132	13,722	-11.59%
Interim Ordinary Dividend (cps)	1.50	1.00	+50%
Final Ordinary Dividend (cps)	1.50	1.00	+50%
Interim CRPS Dividend (cps)	1.35	1.40	-
Final CRPS Dividend (cps) (3)	1.35	1.40	-
Fully Diluted Earnings per Share ( for CRPS)	8.21	11.96	-31.35%
Net Debt / Equity	4%	10%	-59.50%
Net Assets per Share	\$0.81	\$0.63	28.80%

#### Notes:

- (1) Gross Sales Revenues includes revenues from the group associate entity The a2 Milk Company. It also includes intercompany revenue which is eliminated from the reported Net Sales Revenue figure.
- (2) Operating EBDITA and EBITA, excludes abnormal or non-operating charges with an add back of non cash employee share option expense of \$352k, bad debts written off expense of \$293k and employee claim settlement expense of \$200k.

The company achieved an Operating EBDITA of \$16.6 million, an increase of 43.20%, reflecting increased sales and profitability in the Freedom Foods business, consolidation of Pactum Australia for 12 months and a contribution from Specialty Seafood.

Operating Pre-tax Profit was \$13.1 million for the 12 months ended 30 June 2014, reflecting a 73.6% increase on the previous corresponding 12 month period.

The Reported Net Profit of \$12.1 million included non-operating employee share option expense of \$252k (after tax).

Net Operating Profit was \$12.5 million, an increase of 97.1%, including a decrease in operating income tax expense to \$0.5 million, against a \$4.8 million tax expense for the prior year period.

The prior year period reported net profit included non-operating pre-tax profit of \$11.8 million from the sale of 40 million shares in The a2 Milk Company (formerly A2 Corporation) in December 2012. After a detailed review, the Company has written back an amount of \$3.1 million relating to over accrual of tax on the disposal, which has had the effect of reducing the income tax expense for this period. Going forward, the Company expects a low effective tax rate relating to any capital gain on a sale of shares in a2 Milk Company.

Net assets per share at \$0.81 and net tangible assets of \$0.67 per share, with The a2 Milk Company investment recorded at a book value of \$10.6 million.



## HIGHLIGHTS

Highlights for the year included :

- Group Operating EBDITA of \$16.6 million, a 43.20% increase on the previous corresponding period.
- Operating Net Profit was \$12.5 million for the 12 months ended 30 June 2014, reflecting a 97.1% increase on the previous corresponding 12 month period.
- Successful year building on the Company's capability and capacities for profitable growth, investing in our brands and establishing key customer relationships in Asia and North America.
- Strong sales growth in the Freedom Foods business unit reflecting growth in Cereals and Non Dairy beverages, with a significant business unit EBDITA increase reflecting sales growth and improved operating efficiencies at Leeton.
- Pactum Australia provided a strong sales and business EBDITA contribution, reflecting increasing non-dairy production volumes, in support of Freedom branded and Private Label products in the fast growing almond beverage category.
- Commencement of commercial operations at Pactum Dairy Group (PDG) in Shepparton in April 2014, with initial volumes ahead of its 3 year business plan, reflecting strong demand from customers from China, SE Asia and Australia.
- Specialty Seafood business made a steady profit contribution, with the Brunswick Sardine brand maintaining its number 1 brand leadership position in Australia and New Zealand.
- The a2 Milk Company (a2MC) (17.9% FNP shareholding) reported continued strong growth in the Australian fresh milk business with sales up 24% over the prior year period. a2MC's current market capitalisation implies a value for the Company's 17.9% shareholding of approximately A\$70 million, materially above the book value of A\$10.6 million.



- The Company completed a capital raising of \$30m (gross proceeds) at \$2.10 per share from a placement and entitlements offer in September 2013. The capital raising was significantly oversubscribed with strong demand from a broad range of high quality institutional investors and existing shareholders. In addition, the exercise of options by shareholders and employees raised \$2.2 million.
- Net Cash position including financial assets (loans to PDG associate of \$12.8 million) at June of \$7.9 million. During the period, the Company invested \$19.9 million in capital expenditure, \$4.5 million in equity associates and repaid debt of \$12.5 million.
- Net assets per share at \$0.81 and net tangible assets of \$0.67 per share. If The a2 Milk Company investment was recorded at market value (as compared to book value of \$10.4 million), the Net Assets per share would be \$1.27.
- The Company is to pay a final dividend for the half year of 1.5 cents fully franked per ordinary share paid on 3 November 2014. A fully franked converting preference share dividend will be paid on 15 October 2014.

## BUSINESS UNITS - WHOLLY OWNED

### Freedom Foods

The Freedom Foods business unit continued to build momentum, investing significantly in capability and capacities for future growth including capital expenditure at Leeton and increase in brand marketing.

The business delivered overall gross sales growth of 15% compared to the previous corresponding period. With a focus on its core product portfolio of Cereal, Snacks and Non Dairy Beverage for future growth, the business is progressively reducing its presence in non-core categories including biscuits. The reduction in non-core products impacted sales in the period by approximately \$2.6 million, with some resulting impact on manufacturing recoveries.

Growth in Cereal volumes contributed to increased efficiencies at the Leeton manufacturing facility, with further benefits arising from a focus on improving efficiencies in labour, supply chain and distribution. To our knowledge, the Leeton facility is the only integrated large scale manufacturing capability in Australia and overseas producing cereals and snacks "free from" gluten, nuts and dairy to the lowest detectable standards.

Dairy alternative beverage sales continued the strong upward trend from the half year with volume growth of 44% compared to the previous corresponding period, reflecting increased market share of Australia's Own Organic and Blue Diamond Almond Breeze brands, within a category which is itself growing significantly. As at 30 June 2014, the Almond Milk category accounted for 30% of the retail non dairy category, compared to 16% at 30 June 2013.

The business invested in senior sales & marketing expertise during the year in order to drive growth in retail and other channels in the medium term, as well as marketing investment in building awareness of the brand and products across a broader consumer market.

In North America, our new 80% owned subsidiary Freedom Foods North America, invested in building sales and distribution capabilities, including establishing key relationships with distributors, brokers and retailers within the Specialty and Natural Product Retailer markets. While an operating loss was incurred in this business, this investment now provides a strong base of retail distribution coming on stream into calendar year 2015, building on Freedom Foods unique allergen free and non GMO capabilities.

During the second half of FY 2014, the business invested \$6 million in incremental capital expenditure at Leeton, including an upgrade of cereal packaging capabilities to improve efficiencies and provide increased capacity in range and format and additional Cereal extrusion capacity to meet growth requirements in Cereals and other Cereal based products. The investment will significantly increase Freedom Foods production capability, with no material increase in cash overheads and lower cost per case. The commissioning was completed in August 2014.

The impact of sales and efficiency improvements, against increased sales and marketing investment during the period resulted in an increased business unit EBDITA to \$7.1 million. The North American operations reported an EBDITA loss of \$684k from start up operations during the period.







The focus for the business into 2015 remains on increasing sales in Australia through building on its category leadership in the health channel and further growth in distribution channels, while establishing key products, channels and distribution for expansion of product into export markets in North America and Asia.

An exciting innovation pipeline has been developed which will be launched into 2015, through new products in Cereals, Non Dairy Beverages, Nutritional Snacks and new formats for convenience and food service channels.



The additional \$9 million upgrade to Freedom Foods nutritional snack capabilities at Leeton will materially improve efficiencies on current business and provide the ability to meet demand for nutritious allergen free snacks in a range of formats in Australia and internationally. The new capabilities will come on line in 2 stages between November 2014 and March 2015.

Our capital investment at Leeton has been made to improve operating efficiencies, increase production capability and improve quality. This investment, aligned with ongoing marketing investment in building awareness of the brand and products across a broader consumer market open to healthier digestive and nutritional products, provides a strong base for growth.

In North America, the business is focused on building sales within a core base of retail distribution that has been established in 2014. The business has obtained ranging in excess of 3,000 Stores that is either on shelf or due to be ranged over the next few months in retailers such as Sprouts, Whole Foods, PCCC, Raleys, Wegmans, HEB and Kroger's, reflecting Freedom Foods unique proposition in Allergen Free and Non GMO. The business remains focused on delivering its medium term sales target of up to 1 million cases of Freedom Foods branded Cereals and Cereal snacks per annum.

With the launch of the Australia's Own brand in China in late 2014, via our licensing agreement with Shenzhen JLL Group (JLL), Freedom Foods will be looking to develop and grow a range of high quality and safe food products relevant to the Asian consumer. The initial launch will comprise Dairy products, manufactured through Pactum. The existing and new capabilities with Freedom Foods and Pactum's manufacturing facilities will provide superior capabilities to customise food and beverage products for these markets.



## Specialty Seafood

The Specialty Seafood business performed broadly in line with the previous corresponding period, with business unit EBDITA of \$2.4 million.

Brunswick sardines maintained its No 1 brand leadership position in Australia and New Zealand.

In salmon, the Paramount brands full year sales result was impacted by SKU ranging reductions implemented during 2nd half FY 2013, although the effect on profitability of these reductions was reduced in the FY 2014 year through management of promotional spend and improved cost of goods



against plan. The impact of this SKU reduction impacted sales in the full year by approximately \$2.5m.

The business remains focused on driving growth into 2015 through category leadership of the specialty seafood channel, including new product opportunities aligned to consumer demand for convenience and superior health benefits.

As part of this the business is introducing revitalized packaging for the Brunswick brand in 1st half FY 2015 and for Paramount during 2015.

The business continued to utilise the procurement power of Bumble Bee Foods of North America, with Bumble Bee securing 2014/15 inventory requirements through priority access to salmon and sardine catch volumes.

## Pactum Group Business

### Pactum Food and Beverage

The Pactum business unit continued to build momentum investing significantly in capability and capacities for future growth including the new Pactum Dairy Group (PDG) facility at Shepparton and investment in additional value added format capability.

Pactum provides innovative solutions in long life (UHT) food beverages for private label and proprietary customers and delivered a business EBDITA contribution of \$9.7 million.

Pactum's non-dairy production volumes increased during the period to support the growth of the Australia's Own and Blue Diamond brands, as well as external private label requirements in the fast growing almond beverage category.

The business continued to see the benefit of increasing its mix of value added UHT products to a range of private label and proprietary customers. Dairy milk production has been transferred to the PDG facilities in Shepparton.

During the 2nd half 2014, Pactum expanded its capabilities with the installation of 250ml Prisma Format and 330ml Prisma Dreamcap formats. The packaging capability is currently owned by Pactum and operated at PDG's Shepparton facility. Both capabilities will be for domestic customers, with a significant proportion of capacity being allocated to PDG dairy based export customers into 2015. The total investment of approximately \$15 million will provide an initial earnings contribution in FY 2015.

With increasing demand from its private label and proprietary customer base for increased capacity and product format capability across dairy and non dairy categories, Pactum invested significantly in capability and capacities for future growth including additional capacity at the Shepparton facility and planned expansion at a new site in South West Sydney.

Pactum's planned new facility in Ingleburn in South West Sydney will provide for significant expansion in capacity and efficiency improvements





compared to current operations, including providing more efficient and lower cost warehousing and logistics compared to current arrangements. Pactum will acquire approximately 66,000 sq. metres of land in Ingleburn for an acquisition price subject to final adjustments, of approximately \$16.6 million. Settlement is expected on or around February 2015, once final sub divisions and other approvals have been obtained.

The new facility will provide superior capabilities to customise food and beverage products for local and export markets with efficiency and speed to meet the growing demand for high quality safe foods from Australia marketed under the Company's brands "Australia's Own" and "Freedom Foods" and leading brands of key customers in Australia and internationally.

Construction of the facility is expected to commence in 2nd half FY 2015, with production commencing from 2nd half FY 2016. The acquisition of land, associated building and capital requirements is expected to be funded from Freedom Foods Group existing finance facilities and other assets.

### Pactum Dairy Group (PDG)

PDG was established in 2013 to operate UHT dairy milk operations for supply into both the domestic and export markets. PDG is a joint venture between Pactum and Australian Consolidated Milk (ACM), a major Australian dairy milk supply group.

Pactum manages PDG on behalf of the joint venture partners, with sales to key customers undertaken as an integrated contract packaging offer.

The facility was established in the northern Victorian city of Shepparton, for a total investment of approximately \$45 million, with initial capacity for 100 million litres of dairy milk production, with capability to be increased up to 300 million litres in the longer term. The facility was completed over a construction period of approximately 9 months, with the project largely on budget.

The plant commenced operations in April 2014, with commencing volumes ahead of its 3 year business plan, with strong demand from customers for 1 Litre and Portion pack volume from South East Asia and China. These customers are expected to grow beyond their initial volumes as demand for milk increases, with Australian milk products providing highest quality and safety at a comparative cost advantage compared to locally sourced milk.

To date, key relationships include Bright Dairy (Shanghai), New Hope Dairy (Chengdu), Shenzhen JLL (Guangzhou) and online retailer Yihaodian. Each of these relationships is complementary with significant diversification in local market distribution, product range and capability.

PDG has also developed other relationships for China and SE Asia including A2 Milk Company (for exclusive UHT supply into Australia, China and SE Asia) and selected retailers and distributors in China, SE Asia and Australia.

Total dairy milk volume processed in 2015 is expected to be over 100 million litres, with the site total capacity estimated at 300 million litres, based on current planning configuration.

To meet expected expansion in milk volumes over the medium term, PDG is evaluating additional processing and filling capacity expansion, including expansion of warehousing and logistics capability.

Opportunities to vertically integrate into other value added dairy products streams are also being reviewed, consistent with our customer's long term requirements.

With the commencement of operations and significant resourcing to meet the expected ramp up in volumes, the business recorded a loss in FY 2014. FNP equity accounted 1% of the loss in line with the current ownership structure. The Company has the capacity to obtain a 50% interest in PDG by converting convertible notes issued to it as part of its original investment. This is expected to occur in FY 2015.

## STRATEGIC EQUITY ASSOCIATES

### The a2 Milk Company Limited (a2MC), 17.9% Equity Interest

The Company is the largest single shareholder in The a2 Milk Company Limited (a2MC). a2MC owns and commercialises unique and comprehensive intellectual property rights relating to a2™ brand milk and related dairy products in international markets.

a2™ branded milk is the fastest growing milk brand in the Australian market and the major driver of category growth nationally, accounting for approximately 9% of grocery channel market share by value. a2MC also markets a2™ Platinum™ infant formula to consumers in Australia and China. a2MC's plan to enter the North American fresh milk market is progressing, with a launch expected to commence during calendar year 2015.

The Company is the largest single shareholder in a2MC with a fully diluted shareholding of 17.9%. a2MC is listed on the main board of the New Zealand Stock Exchange (NZX: ATM), with a current market capitalisation of approximately NZ\$429million (A\$391 million) implying a value for the Company's 17.9% investment of around A\$70 million, materially above the book value of A\$10.6 million. The Company did not recognise any equity accounted profit from a2MC during the year, compared to \$819k in the prior year period.

While the Company intends to maintain a strategic shareholding in the medium term, it will retain the option to realise capital from the investment to support growth opportunities.

### Capital Management

The Company held cash of \$4.8m at the full year, with total borrowings of \$9.8 million, comprising mainly equipment finance leases. Net debt at 30th June 2014 was \$4.9m. Net debt excludes financial assets and loans to Associate entities. At 30th June 2014, the Company had lent \$12.8 million to Pactum Dairy Group to support further capital investment and working capital requirements. The loan attracts interest at a rate of 8.0% per annum.

Net cash flow from operations was \$7.2m, reflecting improved operating performance and increased working capital from change in product mix and inventory build for capital installation. During the period, the Company invested \$19.9m in capital expenditure, \$4.5m in equity associates and repaid debt of \$12.5m. The capital expenditure of \$19.9 million comprised normal operating expenditures, commitments to expansion at Freedom's Leeton facility and expansion of Pactum's packaging capabilities at Shepparton.

The Company completed a capital raising of \$30m (gross proceeds) from a placement and entitlements offer in September 2013. The capital raising was significantly oversubscribed with strong demand from a broad range of high quality institutional investors and existing shareholders. The proceeds of the Placement and Entitlement Offer is being used to fund the Company's growth strategy including acceleration of new capital projects within Freedom Foods, Pactum Australia, new product initiatives, acceleration of international sales activities and additional working capital requirements.

The Company has approximately 152,127 convertible redeemable preference shares (CRPS) on issue, which are convertible 1 for 1 into ordinary shares at election of the holder at any time.



## Dividends

Consistent with the continued improvement in group performance, the Company will pay a final fully franked dividend of 1.5 cents per ordinary share, an increase of 0.5 cents on the final dividend paid in November 2013. The record date for determining entitlements is 3 October 2014 and the payment date is 3 November 2014.

The Company's dividend reinvestment plan (DRP) remains open.

The Company will pay a fully franked converting preference share dividend to be paid in accordance with the terms of the converting preference shares. The record date for determining entitlements is 3 October 2014 and the payment date is 15 October 2014. There are 152,127 converting preference shares on issue.

## Outlook

The Company will continue to build on its capability and capacities for growth, investing in our brands and establishing key customer relationships in Asia and North America through its Freedom Foods and Pactum businesses.

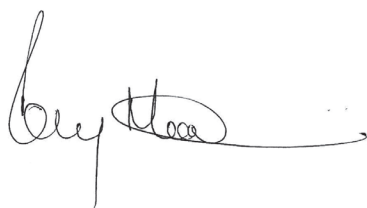
Freedom Foods is expected to continue to deliver improved results from growth through innovation in new products, expansion of distribution channels in Australia and international markets, aligned with increasing manufacturing efficiencies from volume and cost efficiencies arising from the capital investment program at the Leeton facility. This, aligned with investment in building awareness of the brand across a broader consumer market open to healthier products, provides a strong base for growth into future years.

The expansion of capabilities in Pactum will result in an increase in sales and profitability, with further growth opportunities through meeting the increasing demands of its private label and proprietary customer base, including under the Company's brands "Australia's Own" and "Freedom Foods" and leading brands of key customers in Australia and internationally.

The investment in Pactum Dairy Group provides a material opportunity to increase exposure to the growing demand for high quality and safe dairy products from South East Asia, including China aligned with our key strategic customers. PDG is expected to provide a material profit contribution in FY 2015.

The strategic investment in a2 Milk Company provides the Company and its shareholders a potentially significant value creation opportunity through a2 Milk Company's growth in Australia and international markets.

Overall the Company anticipates growth in sales, operating profitability and improving return on funds employed in FY 2015.



**Rory J F Macleod**

Managing Director  
Freedom Foods Group Limited



## ■ Directors' Report

Your Directors submit the financial report of Freedom Foods Group Limited (the Company) for the year ended 30 June 2014. 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 Company during or since the end of the financial year, refer to the Corporate Governance Statement.

### Company Secretary

Mr Rory J F Macleod held the position of Company Secretary during and at the end of the financial year. He has been with the Company for over 10 years and is the Managing Director. Mrs Sharon Maguire is the Assistant Company Secretary.

### Principal activities

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

- manufacture, distribution and marketing of allergen free cereals, nutritional snacks and biscuits;
- manufacture and distribution of long life beverages;
- distribution and marketing of canned seafood;
- investment in branded dairy milk manufacture, marketing and distribution activities.

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 Company, after providing for income tax, amounted to \$12,132,000 (2013 profit: \$13,722,000).

Refer to the commentary in the Managing Directors Review of Operations.

### Dividends paid or recommended

In respect of the financial year ended 30 June 2014, the Directors are recommending that a final ordinary dividend of 1.5 cent per share be paid at the beginning of November 2014 and a converting preference share (CRPS) dividend of 1.35 per CRPS to be paid mid October 2014.

### Significant changes in state of affairs

There are no significant changes in the state of affairs for the current financial year.

### Subsequent Events

As disclosed in Note 27 the following subsequent events occurred.

- (i) The Company entered into an agreement on 21 August 2014 to acquire land for a new integrated Aseptic (UHT) production and logistics facility in south west Sydney. It will acquire approximately 66,000 sq. metres of land at Ingleburn in South West Sydney. The acquisition price subject to final adjustments is approximately \$16.6 million. Settlement is expected on or around February 2015, once final sub divisions and other approvals have been obtained.
- (ii) The Company acquired a further 942,500 shares in The a2 Milk Company in September 2014 for NZD 589,000. This increases it's shareholding in the company to 17.9% of issued capital.

## Future developments

In future financial years, the consolidated entity expects to further its growth through expansions to other territories, and forming strategic alliances and partnerships.

## 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 Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company 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 Company 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 Company. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## Rounding off of amounts

The Company 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 there were 13 meetings of Directors (including committees).

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	10	9	-	-	1	1
A.M. Perich	10	9	-	-	-	-
R. Perich	10	9	2	1	1	1
M. Miles	10	9	2	2	-	-
T.J. Allen	10	9	2	2	1	1
R.J.F. Macleod (i)	10	10	-	2	-	-
M.R. Perich (alternate director)	2	2	-	-	-	-

(i) R.J.F. Macleod attended the Audit Committee meetings at the invitation of the Audit Committee.

Remuneration report - audited

This report details the nature and amount of remuneration for each Director and the Executives.

Key management personnel include:

P.R. Gunner	Chairman and Non-Executive Director
R.J.F. Macleod	Managing Director
A.M. Perich	Non-Executive Director
R. Perich	Non-Executive Director
M. Miles	Non-Executive Director
T.J. Allen	Non-Executive Director
A. Haddad	CEO Pactum Australia
M. Bracka	CEO Freedom Foods North America

Remuneration policy

Remuneration arrangements for key management personnel of the Company 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.

Managing Director and Executives

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

The Managing 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. These can take the form of share options or cash bonuses, although the Company's preference is to link performance and service to a long term incentive arrangement through the Company's Employee Share Option Plan (ESOP).

The ESOP allows the Company to grant options over shares to all directors (excluding Ron and Anthony Perich) and permanent full time or part time employees, or their respective nominees, of a company in the group (Group Companies), which includes related bodies corporate of the Company and a body corporate in which the Company has voting power of 20% or more, whom the Board determines to be eligible to participate. The Board believes that Options granted are appropriate to aligning key executive performance with long term performance and growth of the Company.

Options are valued using the binomial method.



## Non-Executive Directors

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at an Annual or Extraordinary General Meeting. Total fees for all Non-Executive Directors, last voted upon by shareholders in June 2013, was not to exceed \$500,000 in total. Total fees paid to Non-Executive Directors for 2014 was \$334,129 (2013: \$223,179). To align director interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

The Chairman receives approximately twice the base fee of Non-Executive Directors. Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main Board activities including Committee Fees. There are no termination or retirement benefits for Non-Executive Directors.

## Service agreements

Neither the Managing Director or any other Executive has a fixed term contract. All senior executive management are employed under contract. The agreements outline the components of the remuneration paid to executives including annual review. The agreements do not obligate the business to increase fixed remuneration, pay a short term incentive, make termination benefits or offer a long term incentive in any given year. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. The agreements may be terminated by written notice from either party or by the employing entity within the Group making a payment in lieu of notice. The notice periods are 9 months for the Managing Director, 6 months for the CEO of Pactum Australia and 12 months for the CEO of Freedom Foods North America. Other notice periods for other executives are between 1 and 2 months.

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

The remuneration policy of the company and group is at the discretion of the Remuneration and Nomination Committee.

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

	2014	2013	2012	2011	2010
Gross Sales Revenue (\$000s) (i)	122,722	115,514	72,556	57,664	56,612
Revenue (\$000s)	87,856	88,831	58,132	45,256	44,071
Operating EBDITA (\$000s)	16,611	11,600	5,447	4,041	3,816
Operating Net Profit (\$000s)	12,518	6,351	3,305	3,735	2,786
Net Profit (\$000s)	12,132	13,722	3,012	4,387	3,357
Ordinary Dividends Per Share (cents)	2.50	2.00	0.50	0.50	-
CRPS Dividends Per Share (cents)	2.75	2.75	3.40	1.00	-
Basic Earnings per Share (cents)	8.65	14.73	3.88	5.67	5.00
Diluted earnings per share (cents per share)	8.21	11.96	3.03	4.99	5.00

(i) Gross Sales Revenues includes revenues from the group associate entity The a2 Milk Company. It also includes intercompany revenue which is eliminated from the reported Net Sales Revenue figure.

The Remuneration and Nomination Committee considers that the Company'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 other key management personnel for the year ended 30 June 2014 are as follows:

2014	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	-	85,000	-	-	-	7,853	-	92,853	-
R.J.F. Macleod	332,225	-	-	-	-	17,775	106,067	456,067	23%
A.M. Perich	-	65,000	-	-	-	6,012	-	71,012	-
R. Perich	-	55,000	-	-	-	5,088	-	60,088	-
M. Miles	-	55,000	-	-	-	5,088	-	60,088	-
T.J. Allen (1)	-	55,000	-	-	-	5,088	-	60,088	-
<b>Executive Officers</b>									
A. Haddad	312,225	-	-	-	-	17,775	75,567	405,567	19%
(CEO, Pactum Australia)									
M. Bracka (2)	335,000	-	-	-	-	-	85,733	420,733	20%
(CEO, Freedom Foods North America)									
	979,450	315,000	-	-	-	64,679	267,367	1,626,496	16%

(1) TJ Allen became a director in July 13

(2) M Bracka was resident in North America during the year and therefore Superannuation Contributions were not due or payable

2013	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	-	68,250	-	-	-	6,143	-	74,393	-
R.J.F. Macleod (1)	350,460	-	-	-	-	15,674	151,605	517,739	29%
G.H. Babidge (2)	-	34,667	-	-	-	3,120	-	37,787	-
A.M. Perich	-	35,425	-	-	-	-	-	35,425	-
R. Perich	-	36,779	-	-	-	1,008	-	37,787	-
M. Miles	-	34,667	-	-	-	3,120	-	37,787	-
<b>Executive Officers</b>									
A. Haddad (3)	276,226	-	-	62,000	-	25,106	108,139	471,471	23%
(CEO, Pactum Australia)									
M. Bracka	317,493	-	-	-	-	17,046	122,628	457,167	27%
(CEO, Freedom Foods North America)									
	944,179	209,788	-	62,000	-	71,217	382,372	1,669,556	23%

- (1) RJF Macleod remuneration included pay out of accrued leave during the financial year
- (2) GH Babidge resigned as a director on 30 June 2013
- (3) Other is a bonus for performance relating to FY 2012

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.

### Bonus payments as compensation for the current financial year

No material bonus payments are payable to Group employees with respect to the financial year ended 30 June 2014.

### Employee share options

Details of unissued shares or interests under option granted to key management personnel 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 Foods Group Limited (i)	3,766,667	Ordinary	\$0.40	2 February 2017
Freedom Foods Group Limited (ii)	1,791,668	Ordinary	\$0.60	30 August 2017

Grant date	Fair value at grant
(i) Issued 2 February 2012	\$0.122
(ii) Issued 30 August 2012	\$0.066

Recipients (i)	Name	Number	Fair Value (\$)	Conditions
Issued 2 February 2012	R.J.F. Macleod	1,266,667	154,533	Employment
Issued 2 February 2012	M. Bracka	1,333,333	162,667	Employment
Issued 2 February 2012	A. Haddad	1,166,667	142,333	Employment
Issued 30 August 2012	R.J.F. Macleod	133,333	8,800	Employment
Issued 30 August 2012	M. Bracka	133,334	8,800	Employment
Issued 30 August 2012	A. Haddad	200,000	13,200	Employment
Issued 30 August 2012	Senior Employees	1,325,001	87,450	Employment

There are no further performance criteria that need to be met in relation to options granted. The options detailed above vest over a period of 3 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 Company 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	
	2014 \$	2013 \$
Audit Services		
Auditors of the Company - Deloitte Touche Tohmatsu		
- audit and review of financial reports	246,500	219,810
- taxation advice	165,500	125,429
- research and development advice	60,000	59,872
	472,000	405,111

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is included on page 20.

### Proceedings on behalf of Company

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

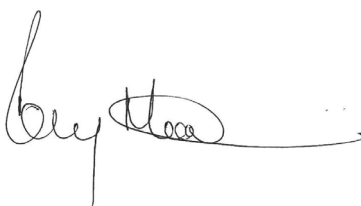
On behalf of the Directors



**Perry Gunner**

Chairman

Dated at Sydney 26 September 2014



**Rory J F Macleod**

Managing Director

## ■ Lead Auditor's Independence Declaration



Deloitte Touche Tohmatsu  
ABN: 74 490 121 060

Eclipse Tower  
Level 18  
60 Station Street  
Parramatta NSW 2150  
PO Box 38  
Parramatta NSW 2124 Australia

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

The Board of Directors  
Freedom Foods Group Limited  
80 Box Road  
TAREN POINT NSW 2229

Dear Board Members

### **Freedom Foods Group 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 Foods Group Limited.

As lead audit partner for the audit of the financial statements of Freedom Foods Group Limited for the financial year ended 30 June 2014, 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

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink that reads "Catherine Hill".

**Catherine Hill**  
**Partner**  
**Chartered Accountants**  
**Sydney, 26 September 2014**

Liability limited by a scheme approved under Professional Standards Legislation.  
A member of Deloitte Touche Tohmatsu Limited.

## ■ Corporate Governance Statement

Freedom Foods Group Limited (the Company) 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 (ASX Principles).

Each of the eight principles is 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 and the reasons for such divergence. The Corporate Governance Statement, policies and Charters are published on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section.

### 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 the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section. 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 Managing Director (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 Managing Director and remuneration policy and succession plans for the Managing Director;
- (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 executive management 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 executive management performance. The Board adopts a three-year strategic 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 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 Company and consolidated entities. The Statement of Delegated Authority is available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section.

The Managing Director and Senior Executive management 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.

The Managing Director and Senior Executive management are subject to a formal performance review process on an annual basis. The Remuneration and Nomination Committee reviews the performance of the Managing Director and Senior Executive management 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 was undertaken in August 2014 in accordance with the process disclosed.



## Principle 2

### Structure of the Board to add value

The Board determines the Board's size and composition, subject to limits imposed by the Company'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 (excluding alternate Director), three 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 or an associate of 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 or provided material professional services 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 is available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section. Materiality thresholds referred to above are assessed on a case-by-case basis.

Whilst the Board is not structured with a majority of independent directors in terms of the ASX Corporate Governance Council's discussion of independent status, the Board believes that the Directors are able, and do make, quality and independent decisions in the best interests of the Company on all relevant issues before the Board. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of a majority of independent Directors.

The Board aims to attract and maintain a Board which has an appropriate mix of skills, experience, expertise and diversity.

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

### Mr Perry R. Gunner

*Chairman (Non-Executive), Age 67. Appointed in April 2003, Director 11 years.*

B.Ag.Sc - is former Chairman and CEO of Orlando Wyndham Wine Group, a current Director of A2 Corporation and Director of Australian Vintage Ltd. Appointed Chairman in July 2006. Chairman of the Remuneration & Nomination Committee.

Interest in shares in the Company is 853,157 ordinary shares. Measured against the independence criteria adopted by the Company, Mr Gunner is considered an independent Director.

### Mr Rory J.F. Macleod

*Managing Director Age 46. Appointed Director in May 2008, Director 6 years.*

B.Econ (Hons) - currently Managing Director and director of all Group entities. Mr Macleod has been with the group for the past 11 years responsible for strategic and corporate development and finance and administration. 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.

Interest in shares and options over shares in the Company are 1,426,108 ordinary shares and 1,400,000 options (1,266,667 exercisable at \$0.40 and 133,333 exercisable at \$0.60) under the group employee share option scheme. Mr Macleod, being Managing Director of the Company, is not considered independent.

### Mr Anthony M. Perich

*Director (Non-Executive), Age 73. Appointed Director in July 2006, Director 8 years.*

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, 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.

Interest in shares in the Company is 86,000,000 ordinary shares. Being a substantial shareholder of the Company, Mr A.M. Perich is not considered an independent Director.

#### **Mr Ronald Perich**

*Director (Non-Executive), Age 71. Appointed Director in April 2005, Director 9 years.*

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. Member of the Audit, Risk & Compliance Committee and member of the Remuneration & Nomination Committee.

Interest in shares in the Company is 86,000,000 ordinary shares. Being a substantial shareholder of the Company, Mr R. Perich is not considered an independent Director.

#### **Mr Melvyn Miles**

*Director (Non-Executive), Age 65. Appointed Director in November 2006, Director 7 years.*

B.Sc (Hons), F.I.B.D. – Extensive Fast Moving Consumer Goods (FMCG) experience throughout Australasia, North America and the UK over a period of 26 years. Former Vice President of Carlton and United Breweries and Foster's Group, former Director of Carlton & United Breweries & its subsidiaries. Current Director of The a2 Milk Company and Brewtique Pty Limited and former Chairman of South Pacific Distilleries, Fiji. Member of the Audit, Risk & Compliance Committee.

Interest in shares in the Company is 331,893 ordinary shares. Measured against the independence criteria adopted by the Company, Mr Miles is considered an independent director.

#### **Mr Trevor J. Allen**

*Director (Non-Executive), Age 58. Appointed in July 2013, Director 1 year.*

B Comm (Hons), CA, FF, MAICD – former partner of KPMG and, at the time of his retirement, the National Head of its Mergers and Acquisitions business. With over thirty years experience in the corporate advisory sector including senior positions at SBC Warburg (now part of UBS), Baring Brothers and KPMG. He is a non-executive director of Peet Limited, where he chairs its Audit & Risk Management Committee and is a member of its Remuneration Committee. He is also a non-executive director and honorary treasurer of the Juvenile Diabetes Research Foundation, and a consultant to ShawICS Advisory Limited, and PPB Advisory. He is Chairman of the Audit Risk &

Compliance Committee and a member of the Remuneration Committee.

Interest in shares in the Company is 51,178 ordinary shares. Measured against the independence criteria adopted by the Company, Mr Allen is considered an independent director.

#### **Mr Michael R. Perich**

*Alternate Director (Non-Executive), Age 39. Appointed Alternate Director for A.M Perich and R. Perich in March 2009, Alternate Director 5 years.*

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 Company and Arrovest, Director of Australian Dairy Conference and Dairy NSW, Vice President of Dairy Research Foundation and Graduate Member of the Australian Institute of Company Directors post nominals.

Interest in shares in the Company is 86,000,000 ordinary shares. Being a substantial shareholder of the Company, Mr M. Perich is not considered an independent Director.

In order to facilitate independent judgement in decision making, each Director may seek independent professional advice at the Company'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 Managing Director.

The Remuneration and Nomination Committee of the Board comprises of three Non-Executive Directors-Messrs. P.R. Gunner, R. Perich and T.J. Allen. Two out of three committee members are independent. Mr Gunner, who is an independent Director, is the Committee Chairman. The Committee Charter which is available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section, details 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 Company 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 a Managing Director) 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 after his or her appointment.

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

- (1) decisions to be made expediently;
- (2) a range of different perspectives to be put forward regarding issues before the Board;
- (3) a range of different skills to be brought to Board deliberations; and
- (4) Board decisions to be made in the best interests of the Company 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 Managing Director, Senior Executives and Non-Executive Directors);
- identifying nominees for Directorships and other key Executive appointments;
- appointment and re-election of Directors;
- assessing Director competencies;
- evaluating the performance of the Board, its committees and the directors, 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.

A review of the performance of the individual Directors occurs each year. The Board undertook a performance

evaluation of itself and its committees in August 2014 in accordance with the process disclosed, with all Directors providing input as to the effectiveness of the board processes, meetings, board composition and reporting with Directors having an opportunity to discuss and comment on such matters with the Chairman. The Board reviews its performance and composition on an annual basis to ensure that it has the appropriate mix of expertise and experience. The Board also reviews the performance and composition of its committees on an annual basis.

The Remuneration and Nomination 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 which is included in this Annual Report.

Subject to normal privacy requirements, each Director has the right of access to all of the Company's records, information and senior Executives. They receive regular detailed reports on financial and operational aspects of the Company'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 Company'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	✓	-
A.M. Perich	-	-
R. Perich	✓	✓
M. Miles	-	✓
T.J. Allen	✓	✓
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 Company 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 Company are committed to implementing this Code of Ethics and each individual is accountable for such compliance. A copy of the Code of Ethics is made available to Directors, employees, contractors and relevant personnel and is available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section.

Senior Executive management 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 of Ethics.

The Board has implemented a range of procedures designed to oversee that the Company 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 Company's Securities Trading Policies for Directors and senior executives generally allow Directors and senior executives to deal in the Company's securities other than the following:

- a. from the end of the half year or full year financial period to the release of the half year or full year accounts;
- b. within the period of 1 month prior to the issue of a prospectus;

- c. where there is price sensitive information that has not been disclosed because of an ASX Listing Rule exemption; and
- d. any additional period arising from time to time that the Board imposes a prohibition on trading by Key Management Personnel as an 'ad-hoc' prohibition on trading of securities.

Further details of the Company's Securities Trading Policies are available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section.

### Diversity Policy

In accordance with the ASX Corporate Governance Recommendations on diversity, the Board adopted a diversity policy in the financial year ended 30 June 2012 which includes:

- a. a requirement that the Board establish measurable objectives for achieving gender diversity; and
- b. a requirement for the Board to assess annually both the gender objectives and the progress in achieving them.

This policy is available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section. The Company acknowledges the positive outcome that can be achieved through a diverse workforce and is committed to actively managing diversity as a means of enhancing the Company's performance.

The Board will establish measurable objectives for achieving gender diversity in the upcoming financial year and will report on those measurable objectives and the progress in achieving them in the following year's annual report.

As at 30 June 2014, the proportion of women employed by the Company was as follows:

- Board of Directors: 0%
- Senior Executive positions (Managing Director and two Chief Executive Officers): 0%
- Senior Management positions: 24%
- Total Company workforce: 30%

### Workplace Gender Equality

The Workplace Gender Equality Act 2012 (WGE Act) puts a focus on promoting and improving gender equality and outcomes for both women and men in the workplace. All non-public sector employers with 100 or more employees are required to report annually under the WGE Act.

The Company has submitted its 2014 report to the Workplace Gender Equality Agency. A copy of this report is available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section.



## 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 T Allen (Chairman), Mr R Perich and Mr M Miles. 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 Managing Director, other senior management 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 Company and consolidated entities;
- (2) nominating, appointing and removing 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 available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section. 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 and the number of times the Committee met throughout the financial year are set out in the Directors' Report which is included in this Annual 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 to the Board on the Committee's conclusions and recommendations.

The candidates for the position of external auditor must be able to demonstrate complete independence from the Company and an ability to maintain independence throughout the engagement period. The external auditors have advised, after consultation with the Company, 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 Company such as experience in the industry in which the Company 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 Company. 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 Company meets its continuous disclosure obligations under the ASX Listing Rules and is available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section.

### Type of information that needs to be disclosed

ASX Listing Rule 3.1 states that any information that a reasonable person would expect to have a material effect on the price or value of the Company's securities must be immediately disclosed to the ASX. 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. Since the Company's website went live on 25 September 2014, all announcements made since that date are posted to the Company's website: <http://www.ffgl.com.au> in the "Investor Information" section. A report is submitted at 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 Chairman (as required) decides what information must be disclosed. The Disclosure Officer holds the primary responsibility for ensuring that the Company 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 Company's performance, financial results are accompanied by commentary.

### Principle 6

#### Respect the rights of shareholders

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

- (1) Annual Report which is available to all shareholders. The Annual Report includes relevant information about the Company's operations and performance;
- (2) Invitation to the annual general meeting and all accompanying papers;
- (3) The Company's website at <http://www.ffgl.com>;
- (4) Reports to the ASX and the press;
- (5) Half year and full year 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 Company 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.

In accordance with Principle 6 of the ASX Principles, the Company will establish a Communications with Shareholder Policy, incorporating matters disclosed above. The policy once adopted will be available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section.

### Principle 7

#### Recognise and manage risk.

Risk oversight and management policies

The Company's Risk Management Policy is available on the Company's website: <http://www.ffgl.com.au> in the 'Corporate Governance' section. 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 Company'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 Company's implementation of the risk management system at least once a year;
- (3) regularly reviewing and updating the Company'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 Company's internal compliance and control systems.

Executive management provide the Committee and Board with regular reports on operational, financial, regulatory and commercial matters within their business divisions. This ensures Management accountability. Executive management is responsible for designing and implementing a risk management and internal control system to manage the Company's material business risks. Executive 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, Executive 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 Company, there is no separate internal audit function.

### Executive Management Assurances

As part of the structure of financial review and authorisation, the Managing Director and Senior Executive management are required to provide written assurances that the financial reports present a true and fair view of the Company's and consolidated entity's financial position in all material aspects and that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and is operating efficiently and effectively in all material aspects 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 Managing Director and Senior Executive management assurances to the Board. The Board received the written assurances with respect to the financial year ended on 30 June 2014.

## 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 executives of the Company. 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 Executive management group 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 Executive management and their direct reports;
- (2) Performance of the Executive management;
- (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 Company.
- (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.

Executive management attend 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 Managing Director is different. As explained in the Remuneration Report, the Managing Director and key management personnel receive fixed remuneration, employer contributions to superannuation funds and options. The current options on issue are valued using the binomial method and are linked to both the performance of the Company and to the personnel's employment. The Securities Trading Policy for Directors and senior executives prohibits them entering into transactions in associated products which operate to limit the economic risk of any unvested entitlements under any equity based remuneration scheme offered by the Company. 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 Profit and Loss and Other Comprehensive Income For the financial year ended 30 June 2014

	Notes	Consolidated \$000	
		2014	2013
Revenue from sale of goods	5	89,163	88,922
Cost of sales		(53,960)	(60,522)
<b>Gross profit</b>		35,203	28,400
Other income	5	665	108
Marketing expenses		(3,070)	(2,433)
Selling and distribution expenses		(12,075)	(10,157)
Administrative expenses		(4,472)	(5,072)
Depreciation		(2,743)	(2,628)
Finance costs	6	(809)	(2,356)
Profit on sale of a2MC shares		-	11,843
Share of profit of associates accounted for using the equity method	36	(26)	819
<b>Profit before tax</b>		12,673	18,524
Income tax expense	7	(541)	(4,802)
<b>Profit for the year</b>		12,132	13,722
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the year</b>		12,132	13,722
Profit attributable to:			
Owners of the company		12,132	13,722
Non-controlling interests		-	-
		12,132	13,722
<b>Total comprehensive income attributable to:</b>			
Owners of the company		12,132	13,722
Non-controlling interests		-	-
		12,132	13,722
<b>Earnings per share</b>			
From continuing operations:			
Basic earnings per share (cents per share)	9	8.65	14.73
Diluted earnings per share (cents per share)	9	8.21	11.96
Ordinary Dividends per share paid - Final 2013 (cents per share)		1.00	1.00
CRPS Dividends per share paid - Final 2013 (cents per share)		1.40	1.40
Ordinary Dividends per share paid - Interim 2014 (cents per share)		1.50	1.00
CRPS Dividends per share paid - Interim 2014 (cents per share)		1.35	1.35

Notes to the financial statements are included on pages 33 to 75.



## ■ Consolidated Statement of Financial Position

For the financial year ended 30 June 2014

	Notes	Consolidated \$000	
		2014	2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	23(a)	4,873	14,106
Trade and other receivables	10	20,655	19,076
Other financial assets	11	689	148
Inventories	12	18,967	14,886
Prepayments		1,211	918
<b>Total Current Assets</b>		46,395	49,134
<b>Non-current assets</b>			
Investments in associates	11	15,061	9,909
Deferred tax assets	7	385	1,146
Property, plant and equipment	13	54,597	45,162
Loans due from associated entities	14	13,303	-
Goodwill	15	5,214	5,214
Other intangible assets	15	16,274	16,274
<b>Total non-current assets</b>		104,834	77,705
<b>TOTAL ASSETS</b>		151,229	126,839
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	16	13,068	15,847
Borrowings	17	3,899	14,282
Current tax liabilities	7	4,155	4,375
Other financial liabilities	16	287	472
Provisions	18	1,438	1,217
<b>Total current liabilities</b>		22,847	36,193
<b>Non-current liabilities</b>			
Trade and other payables	16	53	63
Borrowings	17	5,927	8,066
Provisions	18	169	122
<b>Total non-current liabilities</b>		6,149	8,251
<b>TOTAL LIABILITIES</b>		28,996	44,444
<b>NET ASSETS</b>		122,233	82,395
<b>EQUITY</b>			
<b>Capital and Reserves</b>			
<b>Equity attributable to owners of the company</b>			
Issued capital	19	94,419	62,978
Reserves	20	(3,636)	(3,549)
Retained earnings	21	31,450	22,966
<b>TOTAL EQUITY</b>		122,233	82,395

Notes to the financial statements are included on pages 33 to 75.

■ **Consolidated Statement of Cash Flows**  
For the financial year ended 30 June 2014

	Notes	Consolidated \$'000	
		2014	2013
<b>Cash flows from operating activities</b>			
Receipts from customers		87,783	87,480
Payments to suppliers and employees		(80,595)	(81,605)
<b>Cash generated from operations</b>		7,188	5,875
Interest paid		(1,010)	(1,979)
Income tax paid		-	(353)
Other income received		578	-
Receipt of government grants		143	115
<b>Net cash generated by operating activities</b>	23(b)	6,899	3,658
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment		(19,937)	(10,193)
Purchase of shares in associated entity		(678)	(20)
Proceeds from sale of associate shares		-	15,277
Advance to associates		(14,146)	-
Proceeds from associate		17,500	-
Investment in equity interest		(4,500)	-
<b>Net cash provided by/(used in) investing activities</b>		(21,761)	5,064
<b>Cash flows from financing activities</b>			
Proceeds from issue of equity instruments of the company		32,198	24,109
Payment of share issue costs		(1,227)	(722)
Dividends paid		(3,186)	(2,327)
Proceeds from borrowings			4,201
Repayment of borrowings		(12,539)	(12,257)
Payment of related party transactions		(9,617)	(8,387)
<b>Net cash provided by financing activities</b>		5,629	4,617
Cash and cash equivalents at beginning of financial year		14,106	767
Net increase in cash and cash equivalents		(9,233)	13,339
<b>Cash and cash equivalents at end of financial year</b>	23(a)	4,873	14,106

Notes to the financial statements are included on pages 33 to 75.

## ■ Consolidated Statement of Changes in Equity

For the financial year ended 30 June 2014

		ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT								
	Notes	Fully paid ordinary shares \$000	CRPS Shares \$000	Retained earnings \$000	Equity - settled employee benefits reserve \$000	Other Reserve \$000	Asset revaluation reserve \$000	Total \$000	Non controlling interest \$000	Total Equity \$000
<b>CONSOLIDATED</b>										
<b>Balance as at 30 June 2012</b>		33,875	5,633	11,663	639	(5,013)	473	47,270	-	47,270
Equity issues	19	24,851	(659)	-	-	-	-	24,192	-	24,192
Share issue costs	19	(1,026)	(4)	-	-	-	-	(1,030)	-	(1,030)
Related income tax	19	308	-	-	-	-	-	308	-	308
Profit for the year		-	-	13,722	-	-	-	13,722	-	13,722
Total comprehensive income for the year	21	-	-	13,722	-	-	-	13,722	-	13,722
Recognition of share-based payments	20	-	-	-	352	-	-	352	-	352
Dividends paid	22	-	-	(2,419)	-	-	-	(2,419)	-	(2,419)
<b>Balance as at 30 June 2013</b>		58,008	4,970	22,966	991	(5,013)	473	82,395	-	82,395
Issue of ordinary shares under employee share option plan	19	1,239	-	-	-	-	-	1,239	-	1,239
Issue of ordinary shares from unlisted options exercised	19	992	-	-	-	-	-	992	-	992
Issue of ordinary shares from the conversion of convertible redeemable preference shares	19	5,120	(5,120)	-	-	-	-	-	-	-
Issue of ordinary shares in accordance with the dividend replacement plan	19	462	-	-	-	-	-	462	-	462
Issue of ordinary shares from a capital raising allotment (including an entitlement offer)	19	29,998	-	-	-	-	-	29,998	-	29,998
Share issue costs	19	(2,059)	191	-	-	-	-	(1,868)	-	(1,868)
Related income tax	19	618	-	-	-	-	-	618	-	618
Acquisition of subsidiary under common control	20	-	-	-	-	(451)	-	(451)	-	(451)
Profit for the year	21	-	-	12,132	-	-	-	12,132	-	12,132
Foreign exchange translation	20	-	-	-	-	4	-	4	-	4
Total comprehensive income for the year		-	-	12,132	-	(447)	-	11,685	-	12,136
Recognition of share-based payments	20	-	-	-	360	-	-	360	-	360
Dividend paid	22	-	-	(3,648)	-	-	-	(3,648)	-	(3,648)
<b>Balance as at 30 June 2014</b>		94,378	41	31,450	1,351	(5,460)	473	122,233	-	122,233

Notes to the financial statements are included on pages 33 to 75.

## ■ Notes to the Financial Statements

### For the financial year ended 30 June 2014

#### 1. General Information

The financial report of Freedom Foods Group Limited ("Group" or "Company") for the year ended 30 June 2014 was authorised for issue in accordance with resolution of Directors on 26 September 2014.

Freedom Foods Group 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 (and/or prior periods)

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the 'AASB') that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2013. The following amendments to Australian Accounting Standards have been adopted during the period but do not have a material impact on the Group. Where there has been a significant change in accounting policy, an explanation of the change has been provided below:

- AASB 10 'Consolidated Financial Statements';  
AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee, b) it is exposed, or has rights to variable returns from its involvement with the investee, and c) had the ability to use its power to affect its returns. All three criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.
- AASB 11 'Joint Arrangements';  
AASB 11 has revised the definition types of joint arrangements, focusing on the rights and obligations of the arrangement, rather than its legal form. The definition types have been consolidated into joint ventures (previously referred to as jointly controlled entities) and joint operations (previously referred to as jointly controlled assets and jointly controlled operations). Joint operations give the parties a right to the underlying assets and obligations of the arrangement and are accounted for by recognising the Group's share of those assets and obligations. Joint ventures give the parties a right to the net assets of the arrangement and are accounted for using the equity method.
- AASB 12 'Disclosure of Interests in Other Entities';  
AASB 12 is a new standard on disclosure requirements for all forms of interests in investments, including subsidiaries, associates, joint arrangements and consolidated and unconsolidated structured entities. There are no measurement impacts from the adoption of this standard.
- AASB 13 'Fair Value Measurement';  
AASB 13 is a new standard providing a single source of guidance for all fair value measurements and a precise definition of fair value. AASB 13 replaces all fair value measurement guidance in Australian Accounting Standards and Interpretations (excluding share based payments under AASB 2 'Share-based Payment' and leasing transactions within the scope of AASB 117 'Lease') but does not replace existing standard requirements on when fair values should be used. The adoption of this standard did not result in a change to how the Group measures fair value.
- AASB 119 'Employee Benefits';  
The revised standard has changed the accounting for the Group's annual leave obligations. As the Group do not expect all annual leave to be taken within 12 months of the respective service being provided, a portion of



## 2. Adoption of New and Revised Accounting Standards

(continued...)

annual leave obligations is now classified as long term employee benefits and needs to be measured on a discounted basis. The Group have assessed the financial effect of discounting the long term annual leave balances to be immaterial to the financial results.

- AASB 2012-2 'Disclosures - Offsetting Financial Assets and Financial Liabilities';  
The Group has applied the amendments to AASB 7 'Disclosures - Offsetting Financial Assets and Financial Liabilities' for the first time in the current year. The amendments to AASB 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.
- AASB 127 'Separate Financial Statements (2011)'
- AASB 128 'Investments in Associates and Joint Ventures (2011)'
- AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'

### 2.2 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. Their adoption is not expected to have any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 135 'Recoverable Amount Disclosure for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-4 'Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015
INT 21 'Levies'	1 January 2014	30 June 2015
Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014	30 June 2015
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014	30 June 2015
AASB 9 'Financial Instruments' (December 2010), AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)', AASB 2012-6 'Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 8 and Transition Disclosure' AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments'	1 January 2018	30 June 2019

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017	30 June 2018
IFRS 9 'Financial Instruments'	1 January 2018	20 June 2019

### 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

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company 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 26 June 2014. The Parent is an entity to which the class order applies.

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

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty:

#### Impairment of goodwill and other intangible assets

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 \$5,214,000, with no impairment loss charged against 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 15.

#### (d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Freedom Foods Group Limited and its subsidiaries as at 30 June each year ('the Group'). Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

### 3. Significant Accounting Policies

(continued...)

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) Interests in joint ventures

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.

#### Pactum Dairy Group (PDG) Joint Venture

PDG was established in 2013 to operate UHT dairy milk operations for supply into both domestic and export markets. PDG is a joint venture between Pactum Australia Pty Limited, a wholly owned subsidiary of the Company and Australian

Consolidated Milk Pty Limited (ACM), a major Australian dairy milk supply group. The facility was established in the northern Victorian city of Shepparton, for a total investment of approximately \$45 million, with initial capacity for 100 million litres of dairy milk production, with capability to be increased up to 300 million litres in the longer term. The facility was completed over a construction period of approximately 9 months, with the project largely on budget. With the commencement of operations and significant resourcing to meet the expected ramp up in volumes, the business recorded a loss in FY 2014. FNP equity accounted 1% of the loss in line with the current ownership structure. The Company has the capacity to obtain a 50% interest in PDG by converting convertible notes issued to it as part of its original investment.

#### (g) Foreign currency translation

Both the functional and presentation currency of Freedom Foods Group Limited and its Australian subsidiaries is Australian dollars (AUD). Transactions in foreign currencies are recorded initially 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 profit or loss 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. 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

### 3. Significant Accounting Policies

(continued...)

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 profit or loss 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 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	4-20%
Leased plant and equipment	4-20%
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 costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

#### (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.



### 3. Significant Accounting Policies

(continued...)

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 group 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 post-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.

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

### 3. Significant Accounting Policies

(continued...)

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) 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.

#### (r) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of 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.

#### (s) Share-based payments

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

Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 31.

### 3. Significant Accounting Policies

(continued...)

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

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

#### (t) Leased Assets

##### Group as 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.

#### (u) Revenue

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

##### Sale of goods

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### 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.

#### (v) Government grants

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

### 3. Significant Accounting Policies

(continued...)

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.

#### (w) Income tax

##### Current tax

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

##### Deferred tax

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

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

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

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

Current and deferred tax is recognised as an expense or income in profit or loss, 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



### 3. Significant Accounting Policies

(continued...)

for a business combination, in which case it is taken into account in the determination of goodwill or excess.

#### (x) Goods and services tax

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

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

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

#### (y) Financial instruments

##### Recognition of investments

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

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

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term if so designated by management and within the requirements of AASB 139 Financial Instruments: Recognition and Measurement. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in 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'.

##### 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

### 3. Significant Accounting Policies (continued...)

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.

#### (z) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 27 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 four segments which is the basis on which the Group reports. The principal products and services of these segments are as follows:

**Freedom Foods:** A range of products for consumers requiring a solution to specific dietary or medical conditions including allergen free, (ie gluten free, wheat free, nut free) low sugar or salt or highly fortified. The product range covers breakfast cereals, biscuits, snack bars, soy, almond and rice beverages and other complimentary products. These products are manufactured and sold in Australia and overseas.

**Freedom Foods North America:** A range of products for consumers requiring a solution to specific dietary or medical conditions including allergen free, (ie gluten free, wheat free, nut free) low sugar or salt or highly fortified. The product range covers breakfast cereals and other complimentary products. These products are manufactured in Australia and sold in North America.

**Seafood:** A range of canned seafood covering sardines, salmon and specialty seafood. These products are manufactured overseas and sold in Australia and overseas.

**Pactum Australia:** A range of UHT (long life) food and beverage products including liquid stocks, soy, rice, almond and dairy milk beverages. These products are manufactured and sold in Australia and overseas.

Operating segments are 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 group in order to allocate resources to the segments and assess their performance.

#### 4. Operating Segments

(continued...)

Information regarding these segments is presented below. The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

	External sales		Total	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
<b>Segment revenue</b>				
<i>Continuing operations</i>				
Freedom Foods	44,243	40,070	44,243	40,070
Freedom Foods North America	696	-	696	-
Seafood	13,239	15,787	13,239	15,787
Pactum	46,438	42,829	46,438	42,829
Thorpedo Foods	-	31	-	31
Net Sales Revenue	104,616	98,717	104,616	98,717
Intercompany Sales Elimination	(16,760)	(9,886)	(16,760)	(9,886)
Other	-	-	1,972	199
Total revenue of the consolidated group	87,856	88,831	89,828	89,030

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 share of post acquisition profits or losses and other changes in net assets of the joint venture/minority interest.

96% of total external sales of the consolidated group and equity accounted associates are generated in Australia (2013: 96%) and 63% of total external sales (2013: 72%) are through major Australian retailers.

	2014 \$000	2013 \$000
<b>Segment result</b>		
<i>Continuing operations</i>		
Freedom Foods	7,131	6,124
Freedom Foods North America	(684)	-
Seafood	2,431	2,717
Pactum	9,748	6,427
Thorpedo Foods	-	(12)
	18,626	15,256
FFGL share of equity accounted associates	(26)	819
Shared services	(2,375)	(3,917)
Finance costs	(809)	(2,356)
Depreciation	(2,743)	(2,628)
Profit on sale of The a2 Milk Company shares	-	11,843
Write off of non recurring legal expense and unrecoverable amounts	-	(493)
Income tax expense	(541)	(4,802)
Profit for the year from continuing operations	12,132	13,722

Total profit/(loss) from equity accounted associates for the period totalled \$(2,600,000) (2013: \$3,482,000). The consolidated entities share of these profits/(losses) was \$(26,000) (2013: \$819,000).

#### 4. Operating Segments

(continued...)

	2014 \$000	2013 \$000
<b>Segment assets</b>		
Freedom Foods (includes capital works in progress)	61,679	48,858
Freedom Foods North America	1,219	-
Seafood	20,184	19,905
Pactum (includes capital works in progress)	33,908	33,236
Thorpedo Foods	19	885
	117,009	102,884
Unallocated (Shared Services)	34,220	23,955
Total assets of the Group	151,229	126,839
<b>Segment liabilities</b>		
Freedom Foods	7,637	13,462
Freedom Foods North America	1,095	-
Seafood	1,956	4,463
Pactum	13,258	24,780
Thorpedo Foods	7	4
	23,953	42,709
Unallocated (Shared Services)	5,043	1,735
Total liabilities of the Group	28,996	44,444

#### Other segment information

	Depreciation and Amortisation		Additions to non-current assets	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Freedom Foods	1,639	1,793	8,655	1,522
Pactum	1,045	829	3,394	10,538
	2,684	2,622	12,049	12,060
Unallocated (Shared Services)	59	6	129	105
	2,743	2,628	12,178	12,165

#### Information about major customers

Included in revenues arising from external sales of \$87.9 million (2013: \$88.8 million) (see segment revenue above) are revenues of approximately \$69.8 million (2013: \$69.1 million) which arose from sales to the Group's two largest customers. No other single customers contributed 10% or more to the Group's revenue for both 2014 and 2013.

## 5. Revenue

	Consolidated \$'000	
	2014	2013
<b>Segment revenue</b>		
<i>Continuing operations</i>		
Sale of goods	87,856	88,831
Interest received		
• Cash and Cash equivalents	42	91
• Loans and receivables	1,265	-
	89,163	88,922
Other income		
• Government/State grants - refer below	143	33
• Payroll Tax Rebate	72	75
• Commitment Fee Income	450	-
	665	108
<b>Total Revenue</b>	<b>89,828</b>	<b>89,030</b>

The above grants are the Export Market Development Grant received or receivable for 2014 and 2013 (2014: \$131,645, 2013: \$23,000), State Training Grant (2014: \$3,150, 2013: \$5,000) and Department of Education, Employment and Workplace Relations Grant (2014: \$8,000, 2013: \$5,000).

## 6. Profit for the year before tax

	Consolidated \$'000	
	2014	2013
Profit for the year was arrived at after charging the following expenses:		
<b>Finance costs</b>		
• Interest on bank overdrafts and loans	340	1,485
• Interest on related party loan	-	360
• Interest capitalised as addition to the cost of qualifying assets	(244)	-
• Interest on obligations under finance leases	713	511
Total borrowing costs	809	2,356
Depreciation on property, motor vehicles, plant and equipment	2,743	2,628
Rental expense on operating leases (equipment)	392	329
Rental expense on operating leases (property)	816	623
Research and development costs expensed	500	375
Impairment of trade receivables	30	29
<b>Employee benefit expense</b>		
Post employment benefits - defined contribution plans	974	1,029
Share-based payments - equity settled share based payments	360	352
Other employee benefits	7,226	8,162
<b>Total employee benefit costs</b>	<b>8,560</b>	<b>9,543</b>



## 6. Profit for the year before tax

(continued...)

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. Refer to Note 27.

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 capital equipment. The foreign exchange contracts were denominated in USD, CAD and EUR. As at 30 June 2014 the Group held foreign exchange contracts totalling USD 3,282,620, CAD 624,201 and EUR 2,745,500.

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 (Spreads and Almond paste) and authorised capital project expenditure for the Leeton site 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.

As the Group does not adopt 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 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.

## 7. Income Taxes

	Consolidated \$'000	
	2014	2013
<b>Income tax recognised in profit or loss</b>		
<b>Tax expense comprises:</b>		
Current tax expense in respect of the current year	3,996	4,384
Adjustments recognised in the current year in relation to the current tax of prior years	(3,455)	(858)
Tax on sale of shares in investment	-	387
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	889
Total income tax expense recognised in the current year relating to continuing operations	541	4,802
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit before tax from continuing operations	12,673	18,524
Income tax expense calculated at 30%	3,802	5,557
Effect of revenue/expenses that are not deductible in determining taxable profit	245	253
Effect of tax concessions (research and development)	(50)	(150)
Adjustments recognised in the current year in relation to the current tax of prior years:		
Prior year loss	(9)	-
a2MC adjustment	(3,100)	-
Prior year R&D claim	(347)	(858)
	541	4,802

## 7. Income Taxes

(continued...)

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

### Income tax recognised directly in equity

An amount of \$618,000 was credited to equity in relation to share issue costs during the year (2013: \$308,000).

### Income tax recognised in other comprehensive income

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

	Consolidated \$000	
	2014	2013
<b>Current tax assets/(liabilities)</b>		
<b>Income tax receivable/payable attributable to:</b>		
Entities in the tax-consolidated group	(4,155)	(4,375)
	(4,155)	(4,375)

### Deferred tax balances

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

Consolidated 2014	Opening Balance \$000	Charged to income \$000	Closing balance \$000
<b>Temporary differences:</b>			
Provisions	443	80	523
Doubtful debts	9	9	18
Property plant & equipment	(398)	(619)	(1,017)
Other	58	(231)	(173)
	112	(761)	(649)
<b>Unused tax losses and credits:</b>			
Tax losses (i)	996	-	996
Withholding tax paid	38	-	38
	1,034	-	1,034
<b>Net deferred tax asset</b>	1,146	(761)	385

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

## 7. Income Taxes

(continued...)

Consolidated 2013	Opening Balance \$000	Charged to income \$000	Closing balance \$000
<b>Temporary differences:</b>			
Provisions	348	95	443
Doubtful debts	-	9	9
Property plant & equipment	(347)	(51)	(398)
Other	(10)	68	58
	(9)	121	112
<b>Unused tax losses and credits:</b>			
Tax losses	2,006	(1,010)	996
Withholding tax paid	38	-	38
	2,044	(1,010)	1,034
<b>Net deferred tax asset</b>	2,035	(889)	1,146

The company and its wholly-owned Australian subsidiaries have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Freedom Foods Group Limited. 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 taxpayer 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).

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 Foods Group 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.

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 \$000	
	2014	2013
<b>Current year</b>		
Remuneration of the auditors of the Group for:		
• audit or review of the financial report	246,500	219,810
• taxation advice and preparation of tax returns	165,500	125,429
• research and development advice and preparation of the return	60,000	59,872
	472,000	405,111

The auditor of the consolidated entity is Deloitte Touche Tohmatsu.

## 9. Earnings per share

	Consolidated Cents per share	
	2014	2013
Basic earnings per share from continuing operations	8.65	14.73
Diluted earnings per share from continuing operations	8.21	11.96
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	12,132	13,722
(b) Earnings used in the calculation of diluted EPS	12,492	14,074
	Number 000	
(c) Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	140,246	93,155
Shares deemed to be issued for no consideration in respect of:		
- CRPS	4,721	18,741
- ESOP	7,281	4,345
- unlisted options	-	1,433
(d) Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS including CRPS	152,248	117,674

At 30 June 2014 there were 150,645,371 Ordinary shares (2013: 113,754,106) in issue and 152,127 Convertible Redeemable Preference shares (2013: 17,219,015).

At 30 June 2014 there were no unlisted ordinary share options (2013: 2,492,384) and 5,558,335 (2013: 8,450,000) employee share options were outstanding (3,766,667 exercisable at 40 cents per share and 1,791,668 exercisable at 60 cents per share).

## 10. Trade and other receivables

	Consolidated \$000	
	2014	2013
<b>Current</b>		
Trade receivables	17,497	18,750
Allowance for doubtful debts	(59)	(29)
	17,438	18,721
Other receivables	3,217	355
	20,655	19,076

The average credit period on sales of goods is 36 days (2013: 32 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 \$30,000 (2013: \$29,000) in the Group. The allowance for doubtful debts/impaired trade receivables as at 30 June 2014 is \$59,000 (2013: \$29,000). The Group does not hold any collateral over these balances.

	Consolidated \$000	
	2014	2013
Current (i)	17,829	17,853
Past due but not impaired (ii)	892	868

## 10. Trade and other receivables

(continued...)

- (i) The current receivables for the Group are with a weighted average of 31 days (2013: 26 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 56 days (2013: 69 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 63% (2013: 72%) of sales and 64% (2013: 63%) of year end receivables are concentrated in major supermarkets throughout Australia.

### Movement in the allowance for doubtful debts

	Consolidated \$000	
	2014	2013
Balance at the beginning of the year	29	-
Impairment losses recognised on receivables	30	322
Amounts written off as uncollectable	-	(293)
Balance at the end of the year	59	29

### 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	
	2014	2013
<b>Current</b>		
Receivables from related parties - refer Note 30 Related party transactions	689	148
<b>Non-current</b>		
Investment in associates - refer Note 36 Related party transactions	15,061	9,909

## 12. Inventories

	Consolidated \$000	
	2014	2013
<b>Current</b>		
Raw materials	6,095	5,662
Finished goods	12,988	9,361
Provision for stock obsolescence	(116)	(137)
	18,967	14,886

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

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$53,960,000 (2013: \$60,522,000).



### 13. Property, plant and equipment

	Consolidated \$000	
	2014	2013
<b>Non current</b>		
Freehold land (at fair value)	254	254
Total Land	254	254
Buildings (at fair value)	4,850	4,850
Accumulated depreciation	(748)	(626)
Total Buildings	4,102	4,224
Total Land and Buildings	4,356	4,478
	Consolidated \$000	
	2014	2013
Plant and Equipment (at cost)	47,086	45,644
Accumulated depreciation	(13,438)	(13,204)
	33,648	32,440
Capital work in progress at cost	16,584	8,235
Total Owned Plant and Equipment	50,232	40,675
Motor Vehicles (under finance leases)	21	21
Accumulated depreciation	(12)	(12)
Total Motor Vehicles	9	9
<b>Total property, plant and equipment</b>	<b>54,597</b>	<b>45,162</b>

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 & Equipment	Motor Vehicles	Total
	\$000	\$000	\$000	\$000	\$000
<b>Group 2014</b>					
Balance at 1 July 2013	254	4,224	40,675	9	45,162
Additions	-	-	12,178	-	12,178
Disposals	-	-	-	-	-
Depreciation expense	-	(122)	(2,621)	-	(2,743)
Balance at 30 June 2014	254	4,102	50,232	9	54,597
<b>Group 2013</b>					
Balance at 1 July 2012	254	4,345	31,011	9	35,619
Additions	-	-	12,165	-	12,165
Disposals	-	-	-	6	6
Depreciation expense	-	(121)	(2,501)	(6)	(2,628)
Balance at 30 June 2013	254	4,224	40,675	9	45,162

### 13. Property, plant and equipment

(continued...)

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

	Consolidated \$000	
	2014	2013
Freehold land and buildings	122	121
Plant and equipment	2,621	2,501
Motor vehicles	-	6
	2,743	2,628

### 14. Loans due from associated entities

	Consolidated \$000	
	2014	2013
Loan to Pactum Dairy Group	12,823	-
Loan to Freedom Foods North America	480	-
	13,303	-

The loan to Pactum Dairy Group attracts interest at 8%.

No interest is charged on the loan to Freedom Foods North America.

### 15. Intangibles

	Goodwill \$000	Brand Names \$000	Total \$000
<b>2014</b>			
Balance at 1 July 2013	5,214	16,274	21,488
Balance at 30 June 2014	5,214	16,274	21,488
<b>2013</b>			
Balance at 1 July 2012	5,214	16,274	21,488
Balance at 30 June 2013	5,214	16,274	21,488

#### Allocation of goodwill to cash-generating units

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

- Seafood
- Freedom 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. There wasn't any goodwill associated to the Group's acquisition of Pactum Australia Pty Limited.

## 15. Intangibles

(continued...)

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

	Consolidated \$000	
	2014	2013
Seafood	1,982	1,982
Freedom Foods	3,232	3,232
	5,214	5,214

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 range between 7.0% and 10.0% pa post tax and between 9.1% and 13.0% pa pre tax (2013: 10.1% pa post tax and 13.1% pa pre tax). 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.

## 16. Trade and other payables

	Consolidated \$000	
	2014	2013
<b>Current</b>		
Trade payables (i)	10,442	9,238
Other payables and accruals	2,626	6,609
	13,068	15,847
Payables to related parties - refer Note 30 Related party transactions	287	472
<b>Non-current</b>		
Other payables and accruals	53	63
	53	63

(i) Trade payables are paid on average within 60 days of invoice date. No interest is charged on trade payables.

## 17. Borrowings

Borrowings	Consolidated \$'000	
	2014	2013
<b>Secured - at amortised cost</b>		
<b>Current</b>		
Loan payable (i)	228	1,741
Finance leases (ii) (iii)	3,001	4,079
Finance Facility (i)	670	8,462
<b>Non-current</b>		
Finance leases (ii) (iii)	5,927	8,066
	9,826	22,348
Disclosed in the financial statements as:		
Current borrowings	3,899	14,282
Non-current borrowings	5,927	8,066
	9,826	22,348

(i) Secured by assets as detailed in note 37.

(ii) Secured by leased assets as detailed in note 25.

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

## 18. Provisions

	Consolidated \$'000	
	2014	2013
<b>Current</b>		
Employee benefits (i)	1,438	1,217
<b>Non-current</b>		
Employee benefits	169	122
	1,607	1,339
<b>Employee benefits movement</b>		
Balance at 1 July 2013	1,339	1,066
Additional provision recognised	929	821
Amounts used	(661)	(548)
Balance at 30 June 2014	1,607	1,339

(i) The current Group provision for employee benefits includes \$169,000 of annual leave and vested long service leave entitlements accrued but not expected to be taken within 12 months (2013: \$122,000).

## 19. Issued capital

	Consolidated			
	2014		2013	
	No. of Shares	Value \$000	No. of Shares	Value \$000
<b>Fully paid ordinary shares</b>				
Balance at 1 July 2013	113,754,106	58,008	77,995,731	33,875
Employee Share Options Exercised (i)	2,891,665	1,239	-	-
Unlisted Options Exercised at \$0.40	2,478,533	992	16,730,407	6,692
CRPS conversions at \$0.30	17,066,888	5,120	2,195,785	659
DRP (Dividend Replacement Plan) shares (ii)	169,360	462	86,923	82
Capital Raising Allotment (including Entitlement Offer) at \$2.10 (2013: \$1.04)	14,284,819	29,998	16,788,190	17,460
Buy Back of Unmarketable Parcels at \$0.95	-	-	(42,930)	(41)
Costs incurred		(1,441)		(719)
Balance at 30 June 2014	150,645,371	94,378	113,754,106	58,008

(i) During the year a total of 408,322 employee share options were exercised at \$0.60 and 2,483,333 at \$0.40. In the prior year there were no employee share options exercised.

(ii) During the year there were a total of 20,126 ordinary shares issued in accordance with the Dividend Reinvestment Plan at \$2.4564 and 149,234 at \$2.7635. In the prior year a total of 59,749 ordinary shares were issued at \$0.72 and 27,174 at \$1.42.

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 the time of issue.

### Convertible Redeemable Preference Shares

The CRPS are perpetual with no maturity, but redeemable after 3 years at the option of the Company. The CRPS are transferable and are convertible at the option of the CRPS holder. The dividend rate is 9.0% p.a. on the issue price of \$0.30. It is a preferred, discretionary and non cumulative dividend and CRPS holders have no claim or entitlement in respect of a non payment.

Dividends are to be payable half-yearly in arrears. CRPS holders who convert their CRPS prior to a dividend payment date will not be entitled to any dividend for that part period in respect of that CRPS. However upon conversion to ordinary shares a holder who is on the register on the record date for a dividend payable in respect of ordinary shares will be entitled to the full ordinary dividend for that period. Dividends on the CRPS will be payable in April and October each year until converted or redeemed. CRPS holders are entitled to receive dividends in priority to holders of ordinary shares and equally with the holders of other CRPS that may be issued by Company on these terms.

CRPS are convertible into fully paid ordinary shares in the Company on the basis that each CRPS is convertible at the election of the CRPS holder into one ordinary share, subject to any restrictions imposed by the Corporations Act and ASX Listing Rules. There is no time limit within which CRPS must be converted. No additional consideration is payable on conversion.

Notwithstanding the right of holders of CRPS to convert at any time, all CRPS will convert into ordinary shares automatically on the occurrence of certain trigger events including certain transactions involving a change in control of Company, such as a takeover of Company or a scheme or merger between Company and another body.

The Company may redeem the CRPS, 3 years from the date of issue of the CRPS, being 16 December 2013, at its option for the payment per CRPS of the higher of:

- the issue price of \$0.30; and
- an amount determined by the Board of the Company with reference to the value of a CRPS as determined by an independent expert appointed by the Board.



## 19. Issued capital

(continued...)

The Company at this time has no plans to redeem the remaining CRPS still on issue due to the expense of the process of redemption being significantly more than the current value of the CRPS on issue.

	Consolidated			
	2014		2013	
	No. of Shares	Value \$000	No. of Shares	Value \$000
<b>Convertible Redeemable Preference Shares</b>				
Balance at 1 July 2013	17,219,015	4,970	19,414,800	5,633
Conversion to ordinary shares at \$0.30	(17,066,888)	(5,120)	(2,195,785)	(659)
Costs reallocated to fully paid ordinary shares		191		(4)
Balance at 30 June 2014	152,127	41	17,219,015	4,970

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

For information relating to the Freedom Foods Group 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 to note 31.

## 20. Reserves

	Consolidated \$000	
	2014	2013
Equity-settled employee benefits	1,351	991
Asset revaluation	473	473
Other reserves	(5,460)	(5,013)
	(3,636)	(3,549)
<b>Equity-settled employee benefits</b>		
Balance at 1 July 2013	991	639
Share based payment	360	352
Balance at 30 June 2014	1,351	991

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 31 to the financial statements.

	Consolidated \$000	
	2014	2013
<b>Asset revaluation</b>		
Balance at 1 July 2013	473	473
Revaluation increment	-	-
Balance at 30 June 2014	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. Reserves

(continued...)

	Consolidated \$000	
Other reserve	2014	2013
Balance at 1 July 2013	(5,013)	-
Acquisition of subsidiary under common control	(451)	(5,013)
Foreign exchange translation	4	-
Balance at 30 June 2014	(5,460)	(5,013)

As described in Note 3(e), the acquisition of Pactum by the Company is accounted for as a common control transaction. As a consequence, the difference between the fair value of the consideration paid and the existing book values of assets & liabilities of Pactum has been debited to a common control reserve (\$5,464,000). Upon disposal of all interests in Pactum by the Group this reserve would be transferred to retained earnings.

## 21. Retained Profits

	Consolidated \$000	
	2014	2013
Balance at 1 July 2013	22,966	11,663
Profit attributable to owners of the company	12,132	13,722
Dividends paid	(3,648)	(2,419)
Balance at 30 June 2014	31,450	22,966

## 22. Dividends

	2014		2013	
	Cents per share	Total \$000	Cents per share	Total \$000
<b>Recognised amounts</b>				
<u>Fully paid ordinary shares</u>				
Final dividend: fully franked at 30% tax rate	1.00	1,101	1.00	898
Dividends reinvested: fully franked at 30% tax rate	245.64	49	72.00	43
Interim dividend: fully franked at 30% tax rate	1.50	1,842	1.00	931
Dividends reinvested: fully franked at 30% tax rate	277.48	413	142.00	39
<u>Convertible Redeemable Preference Shares</u>				
Final dividend: fully franked at 30% tax rate	1.40	241	1.40	272
Interim dividend: fully franked at 30% tax rate	1.35	2	1.35	236
		3,648		2,419

On 28 August 2014, the directors declared a fully franked final dividend of 1.50 cents per share to the holders of fully paid ordinary shares in respect of the financial year ending 30 June 2014 to be paid to shareholders (registered as at 3rd October 2014) on 3rd November 2014 and dividends for the converting preference shareholders (registered on 3rd October 2014) on 15th October 2014. The total estimated dividend to be paid is \$2,260k for ordinary dividend and \$2k for the CRPS dividend.

	Parent \$000	
	2014	2013
Adjusted franking account balance	-	373
Impact on franking account balance of dividends not recognised	(969)	(592)

## 23. 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	
	2014	2013
Cash	4,873	14,106
	4,873	14,106

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

Profit for the year	12,132	13,722
Depreciation of non current assets	2,743	2,628
Movement in provision for employee entitlements	(305)	(273)
Profit on Sale of a2MC shares	-	(11,843)
Interest recognised regarding Leeton facility using amortised cost method	-	288
Share based payments	360	352
Interest received	(42)	(91)
Interest on associates loan	(1,265)	-
Interest capitalised	(244)	-
Share of loss/(profit) of associates	26	(819)

#### Movements in Working Capital

Increase in trade and other receivables	(2,120)	(1,474)
Increase in inventory	(4,081)	(3,429)
(Increase)/Decrease in other assets	(290)	1,412
Decrease in deferred tax assets	761	5,525
Decrease in trade and other payables	(556)	(1,352)
(Decrease)/Increase in provision for income tax	(220)	(988)
Net cash from operating activities	6,899	3,658

Details of credit stand-by arrangements available and unused loan facilities are shown in note 24 to the financial statements.

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

	Consolidated \$000	
	2014	2013
Dividends Reinvested	462	82

In accordance with the Company's Dividend Reinvestment Plan \$462,000 was reinvested in the year to 30 June 2014 (2013: \$82,000)

## 24. Standby arrangements and unused credit facilities

	Consolidated \$000	
	2014	2013
<b>Financing Facility</b>		
Secured loan facilities		
- amount used	228	1,741
- amount unused	9,472	7,959
	9,700	9,700
Secured finance facilities		
- amount used	9,598	20,607
- amount unused	23,557	5,238
	33,155	25,845
Unused financing facilities	33,029	13,197

The bank facilities are arranged with HSBC Bank Australia Limited with general terms and conditions and certain facility components that are subject to annual review. The bank facilities of the Group are secured by a first equitable mortgage over the whole of the Group's assets and undertakings (including uncalled capital), (except items specifically discharged under the Freedom Foods and Pactum Australia equipment finance arrangements), and a first registered mortgage over the Group's Leeton property.

The equipment finance facilities relate to specific equipment operating at the Freedom Foods Leeton facility and Pactum Taren Point facility, arranged with National Australia Bank and Westpac. These facilities are 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. The leases are over a period of 3 to 7 years and the final residual on the current leases will be due in 2018.

Interest rates are variable and subject to adjustment.

## 25. 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	Total \$000	Consolidated \$000	Total \$000
	2014	2013	2014	2013
<b>Finance lease liabilities</b>				
Payable:				
- No later than 1 year	3,445	4,700	3,001	4,079
- Later than 1 year but not later than 5 years	6,482	9,142	5,927	8,066
Minimum future lease payments (i)	9,927	13,842	8,928	12,145
Less future finance charges	(999)	(1,697)	-	-
Present value of minimum lease payments	8,928	12,145	8,928	12,145
Included in the financial statements as: (note 17)				
Current borrowings			3,001	4,079
Non-current borrowings			5,927	8,066
			8,928	12,145

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

## 25. Capital and leasing commitments

(continued...)

### 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.

	Consolidated \$000	
	2014	2013
<b>Non-cancellable operating lease commitments</b>		
- Not longer than 1 year (i)	576	526
- Longer than 1 year but not longer than 5 years	-	16
	576	542

(i) Operating leases not longer than 1 year include rental payments to Leppington Pastoral Company (a related party) as a result of the acquisition of Pactum Australia Pty Limited.

## 26. Personnel note

	Consolidated \$000	
	2014	2013
The entity employs casual and full time staff numbering	208	178

## 27. 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 2013. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in notes 19, 20 and 21 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 financial management team reviews the capital structure on a regular basis. As a part of this review management considers the cost of capital and the risks associated with each class of capital.

	Consolidated \$000	
	2014	2013
<b>Financial liabilities</b>		
Debt (i)	9,826	22,348
Cash and cash equivalents	(4,873)	(14,106)
Net debt	4,953	8,242
Equity (ii)	122,233	82,395
Net debt to equity ratio	4%	10%



## 27. Financial instruments

(continued...)

- (i) Debt is defined as long and short-term borrowings, as detailed in note 17.
- (ii) Equity includes all capital and reserves.

### (b) Financial risk management objectives

The Group's financial management team provides services to each of the group businesses, 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 analyse exposures by degree and 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	
	2014	2013	2014	2013
<b>Consolidated</b>				
US dollars (USD)	1,649	481	2,540	228
Canadian dollars (CAD)	526	389	708	272
New Zealand dollars (NZD)	-	-	101	388
Euro (EUR)	-	-	105	-
Chinese Yuan (CNH/RMB)	2,497	-	-	-

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.

## 27. 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 and equipment from Europe. 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 (Spreads and Almond paste) 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 USD 3,282,620, CAD 624,201 and EUR 2,745,500 outstanding foreign exchange contracts as at 30 June 2014.

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	
	2014	2013	2014	2013	2014	2013	2014	2013
			FC000		\$000		\$000	
<b>Outstanding contracts</b>								
<b>Consolidated</b>								
Buy US Dollars								
Less than 3 months	0.932	1.024	3,283	168	3,524	165	(24)	17
<b>Consolidated</b>								
Buy CA Dollars								
Less than 3 months	1.012	0.982	624	678	617	690	5	10
<b>Consolidated</b>								
Buy NZ Dollars								
Less than 3 months	-	1.190	-	967	-	813	-	2
<b>Consolidated</b>								
Buy EUR Euros								
Less than 3 months	0.643	-	2,746	-	4,273	-	(261)	-

### 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 10% (USD), 5% (CAD), 7% (NZD), 6% (EUR) and 4% (CNH/RMB) have been used as these represent management's 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.

## 27. Financial instruments

(continued...)

	Profit or loss \$000	
	2014	2013
<b>Consolidated</b>		
<b>US dollars (USD) impact</b>		
AUD appreciates by 10%	87	(33)
AUD depreciates by 10%	(105)	44
<b>Canadian dollars (CAD) impact</b>		
AUD appreciates by 5%	9	(20)
AUD depreciates by 5%	(10)	28
<b>New Zealand dollars (NZD) impact</b>		
AUD appreciates by 7%	6	44
AUD depreciates by 7%	(7)	(60)
<b>Euro (EUR) impact</b>		
AUD appreciates by 6%	29	-
AUD depreciates by 6%	(33)	-
<b>Chinese Yuan (CNH/RMB) impact</b>		
AUD appreciates by 4%	(18)	-
AUD depreciates by 4%	20	-

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 it borrows 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				
Financial Instrument	Note	Weighted average effective interest rate	Amount	
			2014	2013
		%	\$000	\$000
<b>Financial Assets</b>				
Cash and cash equivalents	23	0%	4,873	14,106
Loans due from related parties	14	8%	13,303	-
Total Financial Assets			18,176	14,106
<b>Financial Liabilities</b>				
Finance leases	17	7%	8,928	12,145
Finance facilities	17	5%	670	8,462
Loan payable	17	6%	228	1,741
Total Financial Liabilities			9,826	22,348

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.

## 27. Financial instruments

(continued...)

### Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the impact of 150 basis point increase in interest rates on the exposure to interest rates as detailed in the above table.

The impact of a 150 basis point interest rate movement during the year with all other variables being held constant will be:

- an increase on the consolidated entity's net profit of \$30,000 (2013: increase of \$29,000).

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

A 150 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 24 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 based on the earliest date on which the consolidated entity can be required to pay. The table includes both interest and principal cash flows.

## 27. Financial instruments

(continued...)

	Weighted average effective interest rate	Less than 1 year		1 to 5 years		More than 5 years	
		2014	2013	2014	2013	2014	2013
		\$000	\$000	\$000	\$000	\$000	\$000
<b>Consolidated</b>	%						
<b>Financial Liabilities</b>							
Trade payables	-	10,442	9,238	-	-	-	-
Other payables and accruals	-	2,626	6,609	53	63	-	-
Other payables	0%	-	288	-	-	-	-
Finance leases	8%	3,445	4,700	6,482	9,142	-	-
Finance facilities	5%	670	8,462	-	-	-	-
Loan payable	6%	228	1,741	-	-	-	-
<b>Total Financial Liabilities</b>		17,411	31,038	6,535	9,205	-	-

### (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.

## 28. Subsequent Events

The following subsequent events occurred post 30 June 2014.

- A further 2,200,000 employee share options granted in September 2014.
- The Company also entered into an agreement on 21 August 2014 to acquire land for a new integrated Aseptic (UHT) production and logistics facility in south west Sydney. It will acquire approximately 66,000 sq. metres of land at Ingleburn in South West Sydney. The acquisition price subject to final adjustments is approximately \$16.6 million. Settlement is expected on or around February 2015, once final sub divisions and other approvals have been obtained.
- The Company increased their shareholding in The a2 Milk Company to 17.9% on 3 September 2014. A total of 942,500 shares were acquired for a total consideration of NZ\$ 589,000. This transaction took our shareholding to 117,878,629 ordinary shares.

## 29. Key management personnel compensation

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

	Consolidated \$000	
	2014	2013
Short-term employee benefits	1,294,450	1,153,967
Post-employment benefits	64,679	71,217
Share-based payment	267,367	382,372
Bonus payment (related to FY 2012 performance)	-	62,000
	1,626,496	1,669,556



### 30. 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 33 to the financial statements.

##### (ii) Equity interest in associates

Details of interests in associates is disclosed in note 36 to the financial statements.

#### (b) Transactions with key management personnel

##### (i) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 29 to the financial statements.

##### (ii) Key management personnel equity holdings

Fully paid ordinary shares of the Group

	Balance at 1 July 2013	Granted as compensation	Received on exercise of options	Net other change (2)	Balance at 30 June 2014
	No.	No.	No.	No.	No.
<b>2014</b>					
P. R. Gunner	526,009	-	159,604	167,544	853,157
R.J.F Macleod	195,076	-	1,306,666	(74,952)	1,426,790
A. M. Perich (1)	69,225,122	-	-	16,774,878	86,000,000
R. Perich (1)	69,225,122	-	-	16,774,878	86,000,000
M. Miles	222,413	-	64,584	44,896	331,893
T.J. Allen	-	-	-	41,178	41,178
M. Perich (1)	69,225,122	-	-	16,774,878	86,000,000
M. Bracka	458,081	-	733,333	(274,143)	917,271
A. Haddad	84,011	-	583,333	(129,256)	538,088

	Balance at 1 July 2012	Granted as compensation	Received on exercise of options	Net other change (2)	Balance at 30 June 2013
	No.	No.	No.	No.	No.
<b>2013</b>					
P. R. Gunner	510,732	-	-	15,277	526,009
R.J.F Macleod	182,775	-	-	12,301	195,076
A. M. Perich (1)	51,620,094	-	15,995,142	1,609,886	69,225,122
R. Perich (1)	51,620,094	-	15,995,142	1,609,886	69,225,122
M. Miles	212,812	-	-	9,601	222,413
G.H. Babidge	98,057	-	-	2,334	100,391
M. Perich (1)	51,620,094	-	15,995,142	1,609,886	69,225,122
M. Bracka	327,602	-	50,391	80,088	458,081
A. Haddad	80,384	-	-	3,627	84,011

- (1) Mr A.M. Perich, Mr R. Perich and Mr M. Perich (as their alternate) are Joint Managing Directors of Arrovest Pty Limited, the entity holding a direct interest in the Group.
- (2) Subscribed to during the year, by conversion of Convertible Redeemable Preference Shares, Dividend Reinvestment Plan allotments, Entitlement Offer acquisitions and Market Trades.

**30. Related party transactions**

(continued...)

*Convertible Redeemable Preference shares of the Group (Issued in FY 2011)*

	Balance at 1 July 2013	Granted as compensation	Received on exercise of options	Net other change (2)	Balance at 30 June 2014
	No.	No.	No.	No.	No.
<b>2014</b>					
P. R. Gunner	159,604	-	-	(159,604)	-
R.J.F Macleod	-	-	-	-	-
A. M. Perich (1)	15,995,142	-	-	(15,995,142)	-
R. Perich (1)	15,995,142	-	-	(15,995,142)	-
M. Miles	64,584	-	-	(64,584)	-
T.J. Allen	-	-	-	-	-
M. Perich (1)	15,995,142	-	-	(15,995,142)	-
M. Bracka	50,391	-	-	(50,391)	-
A. Haddad	-	-	-	-	-

(1) Mr A.M. Perich, Mr R. Perich and Mr M. Perich (as their alternate) are Joint Managing Directors of Arrovest Pty Limited, the entity holding a direct interest in the Group.

(2) Converted to Ordinary shares during the year.

*Option over ordinary shares of the Group (exercisable at \$0.40 cents ) (Issued in February 2011, expired in February 2014)*

	Balance at 1 July 2013	Granted as compensation	Received on exercise of options	Net other change	Balance at 30 June 2014
	No.	No.	No.	No.	No.
<b>2014</b>					
P. R. Gunner	159,604	-	-	(159,604)	-
R.J.F Macleod	6,666	-	-	(6,666)	-
A. M. Perich (1)	-	-	-	-	-
R. Perich (1)	-	-	-	-	-
M. Miles	64,584	-	-	(64,584)	-
T.J. Allen	-	-	-	-	-
M. Perich (1)	-	-	-	-	-
M. Bracka	-	-	-	-	-
A. Haddad	-	-	-	-	-

(1) Mr A.M Perich, Mr R. Perich and Mr M. Perich (as their alternate) are Joint Managing Directors of Arrovest Pty Limited, the entity holding a direct interest in the Group.

(2) Options exercised during the year

**30. Related party transactions**

(continued...)

**Employee Share Options in the Group**

	Balance at 1 July	Lapsed	Granted as compensation	Exercised	Net other change	Balance at 30 June	Balance vested at 30 June	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.
<b>2014</b>										
R.J.F. Macleod	2,700,000	-	-	(1,300,000)	-	1,400,000	1,733,333	-	1,733,333	1,300,000
M. Bracka	2,200,000	-	-	(733,333)	-	1,466,667	1,400,000	-	1,400,000	733,333
A. Haddad	1,950,000	-	-	(583,333)	-	1,366,667	1,233,334	-	1,233,334	583,333
Senior Employees	1,600,000	-	-	(274,999)	-	1,325,001	533,333	-	533,333	274,999
	8,450,000	-	-	(2,891,665)	-	5,558,335	4,900,000	-	4,900,000	2,891,665
<b>2013</b>										
R.J.F. Macleod	2,500,000	-	200,000	-	-	2,700,000	833,333	-	833,333	-
M. Bracka	2,000,000	-	200,000	-	-	2,200,000	666,666	-	666,666	-
A. Haddad	1,750,000	-	200,000	-	-	1,950,000	583,333	-	583,333	-
Senior Employees	-	-	1,600,000	-	-	1,600,000	-	-	-	-
	6,250,000	-	2,200,000	-	-	8,450,000	2,083,332	-	2,083,332	-

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

Further details of the Employee Share Option Plan are contained in note 31 to the financial statements.

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

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

Other related parties include:

- entities with joint control or significant influence over the Group
- joint ventures in which the entity was 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:

- Pactum Australia Pty Limited is a 100% owned subsidiary and as such has related party transactions with the Group. In the 12 months to 30 June 2014 goods totalling \$15,932,000 (2013: \$9,886,000) were sold to a Group company at cost and have been excluded from revenues.
- Freedom Foods Pty Limited is a 100% owned subsidiary and as such has related party transactions with the Group. In the 12 months to 30 June 2014 goods totalling \$828,000 (2013: Nil) were sold to a Group company at cost and have been excluded from revenues.
- The Group entered into a lease commitment with Leppington Pastoral Company on 1 April 2012. The Group made payments of \$358,000 in the current financial year (2013: \$340,000).
- In the prior year the Group was reimbursed by The a2 Milk Company (Australia) Pty Limited (formerly A2 Dairy Products Australia Pty Limited) \$19,000 for labour and other administrative services provided.

### 30. Related party transactions

(continued...)

- The Group provided management services to the new associated entity, Pactum Dairy Group Pty Limited for \$660,000.

These services are provided under normal terms and conditions.

#### (ii) Transactions between other related parties of the Group

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

- Leppington Pastoral Company sold goods and services totalling \$3,425,000 in the current financial year (2013: \$6,071,000) to Pactum at cost.
- Australian Consolidated Milk Pty Limited sold goods totalling \$2,102,000 in the current financial year (2013: \$3,639,000) to Pactum at cost.
- The a2 Milk Company (Australia) Pty Limited (formerly A2 Dairy Products Australia Pty Limited) bought goods totalling \$1,423,000 in the current financial year (2013: \$409,000) from Pactum.

These services are provided under normal terms and conditions.

#### (d) Parent entities

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

### 31. 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 2014, the options vest in three equal tranches over a period of 3 years.

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

	Number	Grant date	Expiry date	Exercise price	Fair value at grant
<b>Option series</b>				\$	\$
Senior Executive Grant	6,250,000	1/02/12	1/02/17	0.40	0.122
Senior Executive and Management Grant	2,200,000	30/08/12	30/08/17	0.60	0.066

The weighted average fair value of the share options granted during the prior financial year is \$0.066. 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.

### 31. Share based payments - Employee Share Option Plan

(continued...)

Inputs into the model	Executive Options	Executive and Management Options
	<b>2 February 2012</b>	<b>30 August 2012</b>
Grant date share price	0.46	0.65
Exercise price	0.40	0.60
Expected volatility	20%	5%
Option life	5 years	5 years
Dividend yield	2.5%	2.5%
Risk-free interest rate	5%	5%

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

	2014		2013	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	8,450,000	0.45	6,250,000	0.40
Granted during financial year	-	-	2,200,000	0.60
Exercised during financial year	(2,891,665)	0.43	-	-
Lapsed during financial year	-	-	-	-
Cancelled during financial year	-	-	-	-
	5,558,335	0.46	8,450,000	0.45
Exercisable at end of financial year	4,900,000	0.43	2,083,332	0.40

#### Balance at end of the financial year

The share options outstanding at the end of the financial year had an average exercise price of \$0.46 (2013: \$0.45), and a weighted average remaining contractual life of 1,157 days (2013: 1,522 days). During the year 2,483,333 options were exercised at \$0.40 and 408,332 at \$0.60.

### 32. Contingent liabilities

	Consolidated \$'000	
	2014	2013
Bank guarantee arising from rental of office premises. No liability is expected to accrue.	-	14

### 33. Controlled entities

Controlled Entity	Country of Incorporation	Ownership interest	
		2014	2013
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%
Pactum Australia Pty Limited (i)	Australia	100%	100%
Pactum Dairy Group Pty Limited (ii)	Australia	1%	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%	75%
Thorpedo Seafoods Pty Limited	Australia	75%	75%
Freedom Foods North America Inc (iii)	North America	80%	-



### 33. Controlled entities

(continued...)

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 2014 financial report.

- (i) These companies are members of the tax consolidated group.
- (ii) Pactum Dairy Group Pty Limited was registered on 4 May 2012 as a 100% subsidiary of Pactum Australia Pty Limited. In October 2013 the share structure changed to a 1% equity interest. Refer to note 3(f) and note 36.
- (iii) Freedom Foods North America Inc was incorporated on 17 July 2013.

### 34. 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 Foods Group 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
- Pactum Australia 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. The main difference is the Freedom Foods North America result which is disclosed in Note 4.

### 35. Parent entity disclosures

#### (a) Financial position

	Parent \$000	
	2014	2013
<b>Assets</b>		
Current assets	239	15
Non-current assets	113,204	85,360
<b>Total assets</b>	113,443	85,375
<b>Liabilities</b>		
Current liabilities	4,003	3,027
Non-current liabilities	635	669
<b>Total liabilities</b>	4,638	3,696
<b>Net Assets</b>	108,805	81,679
<b>Equity</b>		
Issued capital	94,419	63,022
Reserves	1,325	965
Retained earnings	13,061	17,692
<b>Total equity</b>	108,805	81,679

**35. Parent entity disclosures**

(continued...)

**(b) Financial performance**

	Parent \$000	
	2014	2013
Profit/(loss) for the year	(992)	8,387
Other comprehensive income	-	-
<b>Total comprehensive income</b>	(992)	8,387

**(c) Contingent liabilities of the parent entity**

	\$000	
	2014	2013
Bank guarantee	-	14

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

	\$000	
	2014	2013
<b>Plant and equipment, PV of minimum future lease payments</b>		
Not longer than 1 year	3	26
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-

**36. Equity accounted investments**

Name of associate/joint venture	Country of incorporation	Principal activity	Output interest (fully diluted) %	
			2014	2013
The a2 Milk Company (a2MC)	New Zealand	Sale of a2 milk in Australia	17.7	18.0
Pactum Dairy Group Pty Limited (PDG) (i)	Australia	Sale of UHT beverages in Australia and Asia	1.0	-

(i) Refer to Note 3(f)

**The a2 Milk Company**

The group holds 116,936,129 ordinary shares in a2MC at 30 June 2014. There are two common directors on the a2MC board, Mr Melvyn Miles and Mr Perry Gunner.

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

	a2MC \$000	
	2014	2013
Balance at 1 July	9,909	12,357
Share of profits for the year (i)	-	819
	9,909	13,176
Costs of shares sold	-	(3,303)
Equity investment	678	20
Costs associated with investment	-	16
Balance at 30 June	10,587	9,909

(i) Included in the share of profits for the prior year is \$245,000 that related to a post year end adjustment for 2012.

### 36. Equity accounted investments

(continued...)

Summarised financial information in respect of Freedom Foods Group Limited's share in the associate is set out below:

	a2MC \$000	
	2014	2013
<b>Assets</b>		
Current assets	8,504	7,273
Non-current assets	4,321	3,766
<b>Total assets</b>	12,825	11,039
<b>Liabilities</b>		
Current liabilities	2,973	1,890
Non-current liabilities	100	12
<b>Total Liabilities</b>	3,072	1,901
<b>Net assets</b>	9,753	9,138
<b>Equity</b>		
Shareholder funds	9,753	9,138
Revenue	18,396	14,378
Profit / (loss) after income tax	2	628

#### Pactum Dairy Group Pty Limited

The Group entered into a Joint Venture agreement between Pactum Australia Pty Limited (Pactum) and Australian Consolidated Milk Pty Limited (ACM) to form the company Pactum Dairy Group Pty Limited for the purpose of supplying high speed low cost liquid products to the Domestic and International market, at a new site in Shepparton, Victoria. Pactum holds 1% of the equity.

	PDG \$000	
	2014	2013
Balance at 1 July	-	-
Share of profits / (losses) for the year	(26)	-
	(26)	-
Dividends	-	-
Costs of shares sold	-	-
Equity investment	4,500	-
Costs associated with investment	-	-
Balance at 30 June	4,474	-

The investment of \$4,500,000 includes 100 Ordinary Shares at \$1; 999,900 Convertible Notes at \$1; and 3,500,000 Loan Notes at \$1. Equity accounted loss for the year to 30 June 2014 was \$26,000.

### 37. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 17 to the financial statements, all non-current assets of the Group, 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.

Freedom Foods Pty Limited has equipment leases in place 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 \$12 million with lease terms of up to 5 years and residuals in the range of 20% to 55%. The facility is secured by the financed equipment and Freedom Foods obligations under the leases are guaranteed by Freedom Foods Group Limited. In June 2013, Pactum Australia Pty Limited entered into an equipment lease with National Australia Bank to assist in financing equipment requirements for its 3rd line at the Taren Point site. The lease term is 5 years with a 35% residual. The facility is secured by the financed equipment and Pactum Australia's obligations under the lease are guaranteed by Freedom Foods Group Limited.

The Group also holds equipment leases with Westpac relating to its acquisition of Pactum Australia Pty Limited. These leases have a maximum lease term of 5 years with residual payments of between 20% and 50%. The facility is secured by the financed equipment at our Taren Point site.

■ Directors' Declaration

**FREEDOM FOODS GROUP LIMITED**  
**DIRECTORS' DECLARATION**  
**FOR THE YEAR ENDED 30 JUNE 2014**

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 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.

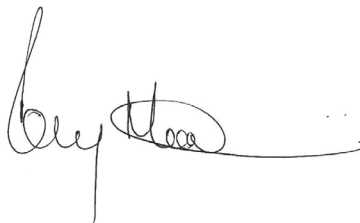
In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in note 34 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by 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



**Rory J F Macleod**  
Managing Director

Sydney, 26 September 2014



## ■ Independent Audit Report

# Deloitte.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

Eclipse Tower  
Level 18  
60 Station Street  
Parramatta NSW 2150  
PO Box 38  
Parramatta NSW 2124 Australia

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

## Independent Auditor's Report to the Members of Freedom Foods Group Limited

### Report on the Financial Report

We have audited the accompanying financial report of Freedom Foods Group Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of cash flows and the consolidated 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 29 to 76.

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

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 3 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply 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 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 company'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 company'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.

Liability limited by a scheme approved under Professional Standards Legislation.  
A member of Deloitte Touche Tohmatsu Limited.



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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Freedom Foods Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

In our opinion:

- (a) the financial report of Freedom Foods Group 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 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3 (a).

#### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 15 to 19 of the directors' report for the year ended 30 June 2014. 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 Foods Group Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

Catherine Hill  
Partner  
Chartered Accountants  
Sydney, 26 September 2014

■ Shareholding

Class of shares and voting rights

At 31 August 2014, there were: 150,720,371 ordinary shares of the Parent on issue.  
152,127 convertible redeemable preference shares of the Parent on issue.

Substantial shareholders

The number of shares held by substantial shareholders as listed in the Parent’s register as at 31 August 2014 are:

	Number
<b>Ordinary Shares</b>	
Arrovest Pty Ltd	86,000,000
RBC Investor Services Australia Nominees Pty Limited	11,922,268
National Nominees Limited	11,022,366
Citicorp Nominees Pty Limited	9,477,204

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 ordinary shareholders as at 31 August 2014

	Ordinary
1-1,000	513
1,001-5,000	769
5,001-10,000	209
10,001-100,000	251
100,001 and over	45
	1,787

Non marketable securities which are holdings of less than 500 ordinary shares are held by 253 shareholders. This statistic is based on the share register as at 31 August 2014.

**20 largest ordinary shareholders as at 31 August 2014**

	<b>Name</b>	<b>Number of Ordinary Shares Held</b>	<b>% Held of Ordinary Capital</b>
1	Arrovest Pty Ltd	86,000,000	57.06%
2	RBC Investor Services Australia Nominees Pty Limited	11,922,268	7.91%
3	National Nominees Limited	11,022,366	7.31%
4	Citicorp Nominees Pty Limited	9,477,204	6.29%
5	HSBC Custody Nominees (Australia) Limited	4,519,661	3.00%
6	J P Morgan Nominees Australia Limited	2,786,447	1.85%
7	UBS Wealth Management Australia Nominees Pty Ltd	2,155,894	1.43%
8	Mirrabooka Investments Limited	1,809,731	1.20%
9	BNP Paribas Noms Pty Ltd	1,410,235	0.94%
10	HSBC Custody Nominees (Australia) Limited	958,208	0.64%
11	Mr Perry Richard Gunner & Mrs Felicity Jane Gunner	853,157	0.57%
12	Mr Michael Andris Bracka	688,298	0.46%
13	East Coast Rural Holdings Pty Limited	360,000	0.24%
14	AMBK Trust Pty Ltd	352,333	0.23%
15	Citicorp Nominees Pty Limited	351,651	0.23%
16	Mr Lawrence Lip & Mrs Sabina Lip	331,938	0.22%
17	Mr Melvyn Miles & Mrs Joanna Miles	331,893	0.22%
18	Mr Lawrence Lip	309,081	0.21%
19	Connaught Consultants (Finance) Pty Ltd	306,224	0.20%
20	Moorebank Property Management Pty Ltd	290,000	0.19%
		136,236,589	90.39%

The proportion of ordinary shares held by the 20 largest shareholders is 90.39%

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

All Member Exchanges.

**Distribution of convertible redeemable preference shareholders as at 31 August 2014**

	<b>Ordinary</b>
1-1,000	11
1,001-5,000	7
5,001-10,000	1
10,001-100,000	5
100,001 and over	-
	24

**20 largest convertible redeemable preference shareholders as at 31 August 2014**

	<b>Name</b>	<b>Number of Ordinary Shares Held</b>	<b>% Held of Ordinary Capital</b>
1	Mr Mathew John	34,720	22.82%
2	R & M Gugliotta Pty Ltd	30,000	19.72%
3	Lewis Little River Pty Ltd	23,438	15.41%
4	Mr Hugh Middendorp & Mr Peter Charles Nicholas Middendorp	16,664	10.95%
5	Firefield Pty Ltd	15,100	9.93%
6	Alan Ong Enterprises Pty Limited	8,000	5.26%
7	Mr John William Hartigan & Mrs Enid May Hartigan	5,000	3.29%
8	Mr Craig Sargent	3,394	2.23%
9	GWG Investments Pty Ltd	3,125	2.05%
10	Lokit Investments Pty Ltd	2,214	1.46%
11	Mr Robert William Russell	1,924	1.26%
12	Mr Robert David Napier Nicholls	1,736	1.14%
13	Palatine Holdings Pty Ltd	1,697	1.12%
14	Mr Gerald Millman	1,000	0.66%
15	Mr Tjeerd Veenstra & Mrs Susan Lesley Veenstra	963	0.63%
16	Mr Brendan Andrew Hislop	680	0.45%
17	Mrs Michelle Louise Farrell	640	0.42%
18	Mr Andrew Jonathon Achilles	500	0.33%
19	Mr Stuart William McDonald	497	0.33%
20	Mr Neville Thiele	273	0.18%
		151,565	99.63%

The proportion of convertible redeemable preference shares held by the 20 largest shareholders is 99.63%

■ Corporate Directory

**Company Secretary**

Rory J F Macleod

**Assistant Company Secretary**

Sharon Maguire

**Principal Registered Office**

Freedom Foods Group Limited  
80 Box Road  
Taren Point NSW 2229  
Tel: (02) 9526 2555  
Fax: (02) 9525 5406

**Bankers**

HSBC Australia Limited  
Level 32, 580 George Street  
Sydney NSW 2000  
Tel: 1300 308 188 (toll free)  
Fax: (02) 9255 2647

**Insurance Brokers**

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

**Solicitors**

Gilbert + Tobin  
2 Park Street  
Sydney NSW 2000  
Tel: (02) 9263 4000  
Fax: (02) 9263 4111

**Management**

Rory J F Macleod	Managing Director
Amine Haddad	CEO Pactum Australia
Michael Bracka	CEO Freedom Foods North America

**Share Registry**

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Tel: (02) 8280 7111  
Fax: (02) 9287 0303

National Australia Bank Limited  
Level 3, 255 George Street  
Sydney NSW 2000  
Tel: (02) 9237 1171  
Fax: (02) 9237 1400

**Auditor**

Deloitte Touche Tohmatsu Chartered Accountants  
Eclipse Tower, 60 Station Street  
Parramatta NSW 2150  
Tel: (02) 9840 7000  
Fax: (02) 9840 7001

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

DLA Piper  
Level 22, 1 Martin Place  
Sydney NSW 2000  
Tel: (02) 9286 8000  
Fax: (02) 9286 8007



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**Freedom Foods Group Limited**

ABN 41 002 814 235 | Ph: 02 9526 2555 | Fax: 02 9525 5406

80 Box Road Taren Point NSW 2229 | PO Box 2531 Taren Point NSW 2229

