

# **Freedom Foods Group Limited**

**ABN 41 002 814 235**

## **Half Yearly Report Appendix 4D - 31 December 2016**

## 1. Company details

Name of entity:	Freedom Foods Group Limited
ABN:	41 002 814 235
Reporting period:	For the half year ended 31 December 2016
Previous period:	For the half year ended 31 December 2015

## 2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	128.9% to	123,852
Profit from ordinary activities after tax attributable to the owners of Freedom Foods Group Limited	down	81.0% to	4,450
Profit for the half year attributable to the owners of Freedom Foods Group Limited	down	81.0% to	4,450

\* Profit for the prior period ended 31 December 2015 includes a gain from the disposal of the investment in The a2 Milk Company (a2MC) of \$25 million.

### Dividends

	Amount per security Cents	Franked amount per security Cents
Interim dividend for the half year ended 31 December 2016 for ordinary shares payable on 30 April 2017	2.00	2.00
Interim dividend for the half year ended 31 December 2016 for convertible redeemable preference shares payable on 30 April 2017	1.35	1.35
Final dividend for the year ended 30 June 2016 for ordinary shares paid on 30 November 2016	2.25	2.25
Final dividend for the year ended 30 June 2016 for convertible redeemable preference shares paid on 30 November 2016	1.35	1.35

### Comments

For further details, refer to the "Results for announcement to the market"

## 3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	143.12	127.24

## 4. Control gained over entities

Not applicable.

## 5. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

The Dividend Reinvestment Plan 'DRP' is current and remains unchanged from prior years. All Shareholders when initially registered, receive a copy of the DRP and details concerning participation in the DRP. The DRP 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. The last date for lodgement of election notices to the share registry for the interim dividend to be paid on 28 April 2017 is Monday 4 April 2017.

## 6. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
Pactum Dairy Group Limited (PDG)*	-	1.00%	N/A	(28)
Australian Fresh Milk Holdings Pty Limited (AFMH)	10.00%	10.00%	260	220
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			260	192
Income tax on operating activities			-	(82)

\* As at 31 December 2015, FNP equity accounted 1% of the loss in line with the ownership structure at that time. The Group converted its investment of convertible notes in January 2016 obtaining a 50% interest in PDG. Under the guidance of AASB 10 Consolidated Financial Statements, a conclusion was reached that control was deemed to be gained on 1 January 2016 by the Group over PDG. Subsequently, PDG formed part of that consolidated Group. Also refer to Note 9 Business Combinations and Note 10 for Events after the reporting period.

## 7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Half Yearly Report Appendix 4D.

## 8. Signed



Signed \_\_\_\_\_

Date: 28 February 2017

Rory J F Macleod  
Managing Director and Chief Executive Officer  
Sydney

The directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Group') consisting of Freedom Foods Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half year ended 31 December 2016.

#### Directors

The following persons were directors of Freedom Foods Group Limited during the whole of the financial half year and up to the date of this report, unless otherwise stated:

Perry R. Gunner - Chairman (Independent Non-Executive)  
Rory J.F. Macleod - Managing Director and Chief Executive Officer (Executive)  
Anthony M. Perich - Deputy Chairman and Director (Non-Executive)  
Ronald Perich - Director (Non-Executive)  
Trevor J. Allen - Director (Independent Non-Executive)  
Michael R. Perich - Alternate Director for Anthony M. Perich and Ronald Perich (Non-Executive)

#### Rounding of amounts

The Group is of a kind referred to in Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016 and in accordance with that Corporations Instrument amounts in the Directors' Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

#### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 23.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



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Rory J F Macleod  
Managing Director and Chief Executive Officer

28 February 2017  
Sydney

**Freedom Foods Group Limited**
**Condensed consolidated statement of profit or loss and other comprehensive income  
For the half year ended 31 December 2016**

	Note	Consolidated 31 Dec 2016 \$'000	31 Dec 2015 \$'000
<b>Revenue</b>			
Revenue from sale of goods	2	123,852	54,117
Cost of sales		(93,013)	(36,953)
Gross profit		30,839	17,164
Other income		-	157
Gain from disposal of A2MC Investment		-	25,035
Other gains and losses		(194)	-
<b>Expenses</b>			
Marketing expenses		(876)	(3,056)
Selling and distribution expenses		(13,328)	(5,821)
Administrative expenses		(4,189)	(2,600)
Depreciation and amortisation		(4,610)	(2,105)
Acquisition costs		(31)	(1,089)
Net finance costs		(1,107)	(522)
Share of profits of associates accounted for using the equity method		240	192
<b>Profit before income tax expense</b>		6,744	27,355
Income tax expense		(2,269)	(3,933)
<b>Profit after income tax expense for the half year</b>		4,475	23,422
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		354	(495)
Fair value movement in a2MC investment, net of tax		-	16,383
Reclassification to profit or loss on disposal of a2MC investment		-	(22,122)
Other comprehensive income for the half year, net of tax		354	(6,234)
<b>Total comprehensive income for the half year</b>		<b>4,829</b>	<b>17,188</b>
Profit for the half year is attributable to:			
Non-controlling interest		25	-
Owners of Freedom Foods Group Limited		4,450	23,422
		<b>4,475</b>	<b>23,422</b>
Total comprehensive income for the half year is attributable to:			
Non-controlling interest		25	-
Owners of Freedom Foods Group Limited		4,804	17,188
		<b>4,829</b>	<b>17,188</b>

*The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Freedom Foods Group Limited**

**Condensed consolidated statement of profit or loss and other comprehensive income**

**For the half year ended 31 December 2016**

	Note	Consolidated	
		31 Dec 2016	31 Dec 2015
		\$'000	\$'000
		Cents	Cents
Basic earnings per share		2.43	14.40
Diluted earnings per share		2.51	14.13

*The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Freedom Foods Group Limited**  
**Condensed consolidated statement of financial position**  
**As at 31 December 2016**

	Note	Consolidated 31 Dec 2016 \$'000	30 Jun 2016 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		72,724	63,908
Trade and other receivables		48,547	45,548
Inventories		54,606	45,834
Other assets		2,413	1,053
Prepayments		5,306	2,834
Derivative financial instruments		302	92
Total current assets		183,898	159,269
<b>Non-current assets</b>			
Investments accounted for using the equity method	3	6,423	6,163
Property, plant and equipment		278,508	224,317
Intangibles		71,153	71,128
Deferred tax		3,473	3,720
Loans due from associated entities		-	61
Total non-current assets		359,557	305,389
<b>Total assets</b>		543,455	464,658
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		56,805	50,790
Borrowings	5	56,617	32,437
Income tax		13,929	11,568
Provisions		3,330	3,148
Other liabilities		5,900	938
Derivative financial instruments		234	381
Total current liabilities		136,815	99,262
<b>Non-current liabilities</b>			
Payables		52	52
Borrowings	6	48,531	71,393
Provisions		714	591
Other liabilities		4,619	6,235
Total non-current liabilities		53,916	78,271
<b>Total liabilities</b>		190,731	177,533
<b>Net assets</b>		352,724	287,125
<b>Equity</b>			
Issued capital	7	233,747	169,106
Reserves		(1,695)	(2,274)
Retained profits		128,881	128,527
Non-controlling interest		(8,209)	(8,234)
<b>Total equity</b>		352,724	287,125

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

**Freedom Foods Group Limited**  
**Condensed consolidated statement of changes in equity**  
**For the half year ended 31 December 2016**

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Retained Profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2015	99,028	3,398	83,503	185,929
Profit after income tax expense for the half year	-	-	23,422	23,422
Other comprehensive income for the half year, net of tax	-	(6,234)	-	(6,234)
Total comprehensive income for the half year	-	(6,234)	23,422	17,188
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	180	-	180
Issue of ordinary shares under employee share option plan	578	-	-	578
Issue of ordinary shares from entitlement offer	65,466	-	-	65,466
Issue of ordinary shares in accordance with the dividend reinvestment plan	1,808	-	-	1,808
Share issue costs	(1,612)	-	-	(1,612)
Related income tax	115	-	-	115
Dividends paid (note 8)	-	-	(2,324)	(2,324)
Balance at 31 December 2015	<u>165,383</u>	<u>(2,656)</u>	<u>104,601</u>	<u>267,328</u>

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Reserves \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Retained profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2016	169,106	(2,274)	(8,234)	128,527	286,725
Profit after income tax expense for the half year	-	-	25	4,450	4,475
Other comprehensive income for the half year, net of tax	-	354	-	-	354
Total comprehensive income for the half year	-	354	25	4,450	4,829
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments	-	225	-	-	225
Issue of ordinary shares under employee share option plan	699	-	-	-	699
Issue of ordinary shares from entitlement offer	61,970	-	-	-	61,970
Issue of ordinary shares in accordance with the dividend reinvestment plan	3,047	-	-	-	3,047
Share issue costs	(1,536)	-	-	-	(1,536)
Related income tax	461	-	-	-	461
Dividends paid (note 8)	-	-	-	(4,096)	(4,096)
Balance at 31 December 2016	<u>233,747</u>	<u>(1,695)</u>	<u>(8,209)</u>	<u>128,881</u>	<u>352,324</u>

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



**Freedom Foods Group Limited**  
**Condensed consolidated statement of cash flows**  
**For the half year ended 31 December 2016**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		119,243	51,930
Payments to suppliers and employees (inclusive of GST)		(110,144)	(50,480)
Cash generated from operations		9,099	1,450
Interest received		288	182
Interest and other finance costs paid		(2,827)	(2,274)
Income taxes paid		-	(2,675)
Net cash from/(used in) operating activities		6,560	(3,317)
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	9	-	(39,422)
Payments for property, plant and equipment		(58,190)	(17,150)
Advances to associates		-	(441)
Repayment of loan by associate		-	100
Proceeds from disposal of associate shares		-	90,229
Investment in equity interest		-	(5,733)
Net cash from/(used in) investing activities		(58,190)	27,583
<b>Cash flows from financing activities</b>			
Proceeds from issue of equity instruments of the Company		62,667	65,962
Payment of share issue costs		(1,536)	(1,613)
Dividends paid		(1,038)	(560)
Proceeds of borrowings		1,319	18,974
Payment of related party balances		(966)	(3)
Net cash from financing activities		60,446	82,760
Net increase in cash and cash equivalents		8,816	107,026
Cash and cash equivalents at the beginning of the financial half year		63,908	2,329
Cash and cash equivalents at the end of the financial half year		72,724	109,355

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

## Note 1. Significant accounting policies

Freedom Foods Group Limited ('Group' or 'Company') is a for profit company incorporated and domiciled in Australia. The Half Year Financial Report compiles the Company and its subsidiaries (together the 'Group' or 'Consolidated entity').

The financial report for the half year ended 31 December 2016 (Half Year Financial Report) has been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The Half Year Financial Report does not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

### **New, revised or amended Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new, revised or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

## Note 2. Operating segments

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

Freedom Foods - Cereal, Snacks and Branded Plant Based Beverages	A range of products for consumers including allergen free (ie. gluten free, wheat free, nut free), nutritional oat based, low sugar or salt, highly fortified or functional. The product range covers breakfast cereals, snack bars, soy, almond, rice beverages and other complimentary products. These products are manufactured and sold in Australia and overseas.
Pactum - Plant Based Beverages	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.
Pactum Dairy Group - Dairy Beverages	A range of UHT (long life) dairy milk beverage products. These products are manufactured and sold in Australia.
Paramount - Specialty Seafood	A range of canned seafood covering sardines, salmon and specialty seafood. These products are manufactured overseas and sold in Australia and overseas.
Freedom Foods North America - Cereal and Snacks	A range of products for consumers including allergen free (ie. gluten free, wheat free, nut free), low sugar or salt, or highly fortified or functional. These products are manufactured in Australia and sold in North America.

The 'Unallocated Shared Services' group consists of the Group's other operating segments that are not separately reportable as well as various shared service functions.

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 makers of the Group in order to allocate resources to the segments and assess their performance.

Intercompany sales are eliminated in the Group's statutory results, however are included in the segment analysis as this is how the Group conducts its business operations.

**Note 2. Operating segments (continued)**

*Intersegment receivables, payables and loans*

For the year ending 30 June 2018 and consistent with upgrades to the Company's information technology platform, the Company will change its segmented reporting to reflect its core business categories:

- Cereal and Snacks (including branded and non branded);
- Plant Based Beverages (including branded and non branded);
- Dairy Beverages;
- Specialty Seafood; and
- Other.

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

Note 2. Operating segments (continued)

Consolidated - 31 Dec 2016	Freedom Foods \$'000	Pactum \$'000	Pactum Dairy Group \$'000	Specialty Seafood \$'000	Freedom Foods North America \$'000	Unallocated Shared Services \$'000	Total \$'000
<b>Revenue</b>							
Sales to external customers	57,396	18,478	40,362	6,480	1,136	-	123,852
Intercompany sales elimination	1,276	13,621	399	-	-	(15,296)	-
Total revenue	58,672	32,099	40,761	6,480	1,136	(15,296)	123,852
<b>EBITDA (before unallocated expenses)</b>	6,911	6,134	2,539	791	(465)	-	15,910
Share of associates profit	-	-	-	-	-	240	240
Shared services including ESOP	-	-	-	-	-	(3,464)	(3,464)
Other gains & losses	-	-	-	-	-	(194)	(194)
Depreciation and amortisation	(1,903)	(767)	(911)	-	-	(1,029)	(4,610)
Net finance costs	-	-	-	-	-	(1,107)	(1,107)
Acquisition costs	-	-	-	-	-	(31)	(31)
<b>Profit/(loss) before income tax expense</b>	5,008	5,367	1,628	791	(465)	(5,585)	6,744
Income tax expense	-	-	-	-	-	-	(2,269)
<b>Profit after income tax expense</b>	-	-	-	-	-	-	4,475
<b>Assets</b>	171,772	205,373	59,143	19,801	940	-	457,029
<i>Unallocated assets:</i>							
Shared services	-	-	-	-	-	80,003	80,003
Investment in associate	-	-	-	-	-	6,423	6,423
<b>Total assets</b>	171,772	205,373	59,143	19,801	940	86,426	543,455
Acquisition of businesses	-	-	-	-	-	-	-
<b>Segment assets</b>	171,772	205,373	59,143	19,801	940	86,426	543,455
<b>Liabilities</b>	42,633	51,623	70,447	1,752	160	-	166,615
<i>Unallocated liabilities:</i>							
Shared services	-	-	-	-	-	24,116	24,116
<b>Total liabilities</b>	42,633	51,623	70,447	1,752	160	24,116	190,731
<b>Segment liabilities</b>	42,633	51,623	70,447	1,752	160	24,116	190,731

Note 2. Operating segments (continued)

Consolidated - 31 Dec 2015	Freedom Foods \$'000	Freedom Foods North America \$'000	Specialty Seafood \$'000	Pactum \$'000	Unallocated Shared Services \$'000	Total \$'000
<b>Revenue</b>						
Sales to external customers	30,446	764	6,625	16,282	-	54,117
Intercompany sales elimination	943	-	-	10,174	(11,117)	-
Total sales revenue	31,389	764	6,625	26,456	(11,117)	54,117
<b>Total revenue</b>	31,389	764	6,625	26,456	(11,117)	54,117
<b>EBITDA (before unallocated expenses)</b>	3,159	(505)	1,050	4,764	-	8,468
Depreciation and amortisation	(900)	-	-	(839)	(366)	(2,105)
Shared services	-	-	-	-	(1,455)	(1,455)
Net finance costs	-	-	-	-	(522)	(522)
Net gain on a2MC investment	-	-	-	-	25,035	25,035
Acquisition costs re Popina (Vic) Pty Limited	-	-	-	-	(717)	(717)
Acquisition costs re Darlington Point Mill	-	-	-	-	(372)	(372)
Other	-	-	-	-	(1,326)	(1,326)
Convertible and loan note interest	-	-	-	-	157	157
Share of associates profit	-	-	-	-	192	192
<b>Profit/(loss) before income tax expense</b>	2,259	(505)	1,050	3,925	20,626	27,355
Income tax expense						(3,933)
<b>Profit after income tax expense</b>						23,422
<b>Consolidated - 30 Jun 2016</b>						
<b>Assets</b>						
Segment assets	126,040	1,736	18,805	80,153	-	226,734
<i>Unallocated assets:</i>						
Shared services					104,786	104,786
Investment in associates	-	-	-	-	10,360	10,360
<b>Total assets</b>	126,040	1,736	18,805	80,153	115,146	341,880
Acquisition of businesses	-	-	-	-	41,414	41,414
<b>Segment assets</b>	126,040	1,736	18,805	80,153	156,560	383,294
<b>Liabilities</b>						
Segment liabilities	31,055	139	121	10,707	-	42,022
<i>Unallocated liabilities:</i>						
Shared services					73,944	73,944
<b>Total liabilities</b>	31,055	139	121	10,707	73,944	115,966
<b>Segment liabilities</b>	31,055	139	121	10,707	73,944	115,966

**Note 3. Non-current assets - investments accounted for using the equity method**

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Investment in Australian Fresh Milk Holdings Pty Limited (AFMH)	6,423	6,163

**Australian Fresh Milk Holdings Pty Limited (AFMH)**

The Group acquired 10% of the consortium Australian Fresh Milk Holdings Pty Limited (AFMH) on 17 June 2015, with 25% voting rights along with the two other shareholders, resulting in significant influence over AFMH. The consortium acquired Moxey Farms on 3 August 2015. Moxey Farms is one of Australia's largest single-site dairy operations. The consortium comprises Leppington Pastoral Company Pty Limited (LPC), New Hope Dairy Holdings Co Ltd (New Hope Dairy) and Freedom Foods Group Limited. The Group acquired its 10% of the consortium for \$5.7 million.

The completion of the acquisition ensures AFMH has in place a scalable operating platform to invest in additional greenfield dairy sites, enabling the consortium to become a significant player in the Australian dairy industry.

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
Equity investment	6,163	5,730
Share of profit after income tax	260	433
Closing balance	6,423	6,163

**Note 4. Non-current assets - Investment in a2MC**

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current and previous financial half year are set out below:		
Opening fair value	-	72,618
Revaluation increments	-	17,611
Net proceeds on sale	-	(90,229)
Closing fair value	-	-

The Group reclassified the investment to an available for sale on 18 November 2014 following the resignation of Mr P R Gunner from the board of The a2 Milk Company (a2MC) at the conclusion of their AGM.

Significant influence was deemed to be lost at the conclusion of the a2MC AGM and therefore on this date the Group reclassified the investment to an Available for Sale investment (AFS) under the requirements of AASB 139 Financial Instruments: Recognition and Measurement.

The Group sold its remaining shareholding in a2MC in October and November 2015. The shares were sold at a price of \$AU0.68 and \$AU0.85 respectively, realising a gain after transaction costs of \$25,035k.

**Note 5. Current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Loan payable	21,045	18,082
Bank bill facilities	30,261	9,100
Equipment financing liabilities	5,311	5,255
	<u>56,617</u>	<u>32,437</u>

Refer to note 6 for further information on assets pledged as security and financing arrangements.

**Note 6. Non-current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank bill facilities	20,300	40,552
Equipment financing liabilities	28,231	30,841
	<u>48,531</u>	<u>71,393</u>

*Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Loan payable	21,045	18,082
Bank bill facilities	50,561	49,652
Equipment financing liabilities	33,542	36,096
	<u>105,148</u>	<u>103,830</u>

**Note 6. Non-current liabilities - borrowings (continued)**

*Assets pledged as security*

The Company's primary bank facilities are arranged with HSBC Bank Australia Limited with general terms and conditions. The facilities include debtor finance, trade finance and other term facilities. The bank facilities with HSBC 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 equipment finance arrangements for assets held at Leeton, Dandenong and Taren Point facilities), and a first registered mortgage over the Group's Leeton and Ingleburn properties.

The equipment finance facilities relate to:

1. specific equipment operating at the Company's Leeton, Dandenong and Taren Point facilities, arranged with both 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 the entire Group's property. The leases are over a period of 2 to 6 years and the final residual on the current leases will be due in 2020; and
2. specific equipment operating at the Pactum Dairy Group Shepparton facility, arranged with National Australia Bank. These facilities are secured over the assets financed under the facility, which have been specifically discharged from the first registered mortgage held over the entire Group's property. The leases are over a period of 5 years and the final residual on the current leases will be due in 2019;

Pactum Dairy Group has term facilities from National Australia Bank relating to trade finance and working capital requirements. These facilities are secured by a first equitable mortgage over the whole of Pactum Dairy Groups assets and undertakings (including uncalled capital), with guarantees provided by the shareholders of Pactum Dairy Group.

Amounts used represented by

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
- Current	56,617	32,437
- Non-current	48,531	71,393
	<u>105,148</u>	<u>103,830</u>



**Note 6. Non-current liabilities - borrowings (continued)**

*Financing arrangements*

Unrestricted access was available at the reporting date to the following lines of credit:

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Loan Facilities	31,700	32,477
Finance facilities	19,000	19,000
Bank bill facilities	51,329	50,423
Equipment financing liability	41,082	41,003
	<u>143,111</u>	<u>142,903</u>
Used at the reporting date		
Loan Facilities	21,045	18,082
Finance facilities	-	-
Bank bill facilities	50,561	49,652
Equipment financing liability	33,542	36,096
	<u>105,148</u>	<u>103,830</u>
Unused at the reporting date		
Loan Facilities	10,655	14,395
Finance facilities	19,000	19,000
Bank bill facilities	768	771
Equipment financing liability	7,540	4,907
	<u>37,963</u>	<u>39,073</u>

**Note 7. Equity - issued capital**

	<b>Consolidated</b>			
	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>	<b>31 Dec 2016</b>	<b>30 Jun 2016</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	196,737,290	181,527,335	233,731	169,090
Convertible redeemable preference shares - fully paid	101,627	101,627	16	16
	<u>196,838,917</u>	<u>181,628,962</u>	<u>233,747</u>	<u>169,106</u>

**Note 7. Equity - issued capital (continued)**

*Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2015	154,624,900		98,995
Employee share options exercised		1,416,667	\$0.40	567
Employee share options exercised		1,025,002	\$0.60	615
Employee share options exercised		144,333	\$1.65	238
Convertible redeemable preference shares ('CRPS') conversions		35,400	\$0.30	11
Dividend reinvestment plan ('DRP') shares		645,194	\$2.80	1,807
Dividend reinvestment plan ('DRP') shares		665,298	\$3.69	2,455
Shares issued under the entitlement offer		22,970,541	\$2.85	65,466
Transaction costs net of income tax		-	\$0.00	(1,064)
Balance	30 June 2016	<u>181,527,335</u>		<u>169,090</u>

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2016	181,527,335		169,090
Employee share options exercised		283,333	\$0.60	170
Employee share options exercised		320,667	\$1.65	529
Dividend reinvestment plan ('DRP') shares		680,139	\$4.48	3,047
Shares issued under the entitlement offer		13,925,816	\$4.45	61,970
Transaction costs net of income tax		-	\$0.00	(1,075)
Balance	31 December 2016	<u>196,737,290</u>		<u>233,731</u>

*Ordinary shares*

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

**Note 8. Equity - dividends**

Dividends paid during the financial half year were as follows:

	Consolidated	
	31 Dec 2016	31 Dec 2015
	\$'000	\$'000
Final fully franked dividend for the year ended 30 June 2016 (2015: 30 June 2015) of 2.25 cents (2015: 1.50 cents) per ordinary share	1,048	515
Dividends reinvested: fully franked at 30% tax rate	3,047	1,807
Final fully franked dividend for the year ended 30 June 2016 (2015: 30 June 2015) of 1.35 cents (2015: 1.35 cents) per convertible redeemable preference share	1	2
	<u>4,096</u>	<u>2,324</u>

**Note 8. Equity - dividends (continued)**

On 28 February 2017, the directors declared a fully franked interim dividend of 2.00 cents per share to the holders of fully paid ordinary shares in respect of the 6 months period July 2016 to December 2016, which is to be paid to shareholders on 28 April 2017. The record date for determining the entitlements to the final dividend is 3 April 2017. The dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$3,997,000.

On 28 February 2017, the directors declared a fully franked interim dividend of 1.35 cents per share to the holders of converting redeemable preference shares in respect of the 6 months period July 2016 to December 2016, which is to be paid to shareholders on 28 April 2017. The record date for determining the entitlements to the final dividend is 3 April 2017. The dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$1,400.

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.

**Note 9. Business combinations**

On 1 January 2016, the Group elected to convert its convertible notes held in PDG into ordinary shares which resulted in the Group's interest in PDG increasing to 50%. The increase in equity holding along with additional factors led to the reassessment of the accounting treatment of the Group's investment in PDG with the conclusion being reached that control was deemed to be gained on 1 January 2016. Under AASB 10, from the date that control is obtained, the transaction is seen as a stepped acquisition without the transfer of consideration.

The fair values of the PDG assets and liabilities as at 31 December 2015 were provisionally determined in the 30 June 2016 financial statements. During the current period, the Group recognised the following increases/(decreases) to the provisional PDG asset and liability fair values disclosed in the 30 June 2016 financial statements as part of the finalisation of this business combination during the measurement period.

Details of the acquisition at control date are as follows:

	Provisional Fair value \$'000	Adjustments to Provisional Fair value \$'000	Restated Fair value \$'000
Cash and cash equivalents	670	-	670
Trade and other receivables	9,307	(113)	9,194
Inventories	5,983	(379)	5,604
Property, Plant and equipment	34,554	(34)	34,520
Other assets	3,564	(447)	3,117
Other liabilities	(69,437)	(413)	(69,850)
Net liabilities acquired	(15,359)	(1,386)	(16,745)
Non-controlling interests share of net liabilities	7,679	693	8,372
Previously held equity	(456)	-	(456)
Goodwill	30,937	693	31,630
Consideration fair value	22,801	-	22,801

#### Note 9. Business combinations (continued)

As a result of the adjustments to the provisional fair values recognised during the current period, the 30 June 2016 comparative balance sheet amounts have been restated as follows:

	Provisional Fair value \$'000	Adjustments to Provisional Fair value \$'000	Restated Fair value \$'000
<b>Assets</b>			
Trade and other receivables	12,338	(560)	11,778
Inventories	11,557	(379)	11,178
Property, Plant and Equipment	40,371	(34)	40,337
<b>Liabilities</b>			
Trade and other payables	(15,737)	(413)	(16,150)

#### Note 10. Events after the reporting period

On 31 January 2017, the Company acquired the remaining 50% of the ordinary shares in PDG from its joint venture partner, Australian Consolidated Milk (ACM), to increase its equity holding to 100% for cash consideration of \$47.2 million. In addition, outstanding loans and convertible notes of \$4.7 million were repaid to ACM. In accordance with AASB 10 Consolidated Financial Statements, as the Company has a controlling interest in PDG, the transaction will be treated as a transaction between shareholders. As a result, any difference between the consideration paid by the Company to purchase the remaining 50% of PDG and the non-controlling interest will be recorded in equity. The Company will continue to recognise 100% of the net profit after tax of PDG.

On 28 February 2017, the Company entered into an agreement to purchase the Power Foods business and assets from Power Foods International Pty Ltd, an Australian based manufacturer and brand owner in the sports and adult nutrition category. The purchase is subject to a number of customary conditions precedent to the satisfaction of the Company. The cash purchase price is for approximately \$20 million.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

The directors declare that:

- 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; and
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half year ended on that date; and
- 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.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors



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Rory J F Macleod  
Managing Director and Chief Executive Officer

28 February 2017  
Sydney

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

We have reviewed the accompanying half-year financial report of Freedom Foods Group Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 4 to 20.

### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Freedom Foods Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



*Auditor's Independence Declaration*

In conducting our review, 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 review report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Freedom Foods Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU.

DELOITTE TOUCHE TOHMATSU

A. COLEMAN.

Andrew J Coleman  
Partner  
Chartered Accountants  
Sydney, 28 February 2017

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

28 February 2017

Dear Board Members

## **Auditor's Independence Declaration to 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 review of the financial statements of Freedom Foods Group Limited for the half-year ended 31 December 2016, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

*DELOITTE TOUCHE TOHMATSU.*

DELOITTE TOUCHE TOHMATSU

*A. COLEMAN.*

Andrew J Coleman  
Partner  
Chartered Accountants