



SoNatural FOODS
AUSTRALIA

2003 ANNUAL REPORT



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ANNUAL GENERAL MEETING

Date: 29 October 2003
Time: 11.00 am
Venue: PKF
Level 10, 1 Margaret Street,
Sydney, NSW, 2000

So Natural Foods Australia Limited ABN 41 002 814 235

Financial Highlights and Five Year Summary

	1999	2000	2001	2002	2003
Sales Revenue (\$000's)	19,922	22,060	21,087	21,440	21,957
EBITDA (\$000's) *	2,030	2,384	457	(1,146)	1,599
Net Profit /(Loss) before Tax (\$000's)	1,600	1,814	(244)	(1,760)	745
Net Profit / (Loss) after Tax (\$000's)	1,024	1,127	(234)	(1,165)	564
Basic Earnings per Share (cents)	6	6	(1)	(6)	3
Number of ordinary shares issued (000's)	17,804	18,887	18,887	20,987	26,689
Dividend per Share (cents)	5	5	Nil	Nil	1
Dividend Paid (\$000's)	799	893	Nil	Nil	233
Total Assets (\$000's)	14,200	16,167	17,807	18,088	26,121
Shareholders Equity (\$000's)	8,307	9,689	9,455	9,970	14,109
Net Tangible Asset Backing (cents)	47	51	50	48	45

* Earnings before interest, tax, depreciation and amortisation.

Dear Shareholder,

The past year was one of considerable investment in So Natural Foods. We invested in additional management and staff, we invested in product development, we invested in production efficiencies and we invested in a new functional product area in canned seafood.

Our improved profitability only partly reflects these efforts and both management and your directors are confident that considerably more can be achieved. With the soy milk category producing another year of minimal growth and strong margin pressures, your company has worked effectively to cement its position as a key participant in the sector.

The initiative in extending our Australia's Own range of organic soy and rice drinks is already bearing fruit locally and internationally. We have positioned the business to be the primary source of quality certified organic processed product in and from Australia.

The other major initiative undertaken was our move into the fast growing canned seafood category of functional foods. The common thread of Omega 3 content in fish and soy attracted us to establish an initial entry point in acquiring Paramount Seafoods. We have secured world best product sourcing in our exclusive relationship with US based Bumble Bee Seafoods as part of the purchase and are excited at the opportunities in the sector.

This acquisition reflects our view that consuming functional foods in their whole form is the best way to complement sensible eating habits.

Last year So Natural Foods issued additional equity to fund growth and position ourselves for new opportunities. This deepening of the shareholder base has improved stock market liquidity and was substantially assisted by the Board attracting Stephen Higgs and Perry Gunner as directors. A company of our size and stage of development is extremely fortunate to have directors of their calibre. Larry Case resigned as a director after 13 years with us and we thank him for his long service to the company.

Good corporate governance is an issue for all public companies and I am pleased to report that So Natural Foods already complies with a number of key procedures relating to good governance. In particular the company has an active high quality Board, a separate Audit and Compliance Committee as well as a Remuneration and Nomination Committee together with an Acquisition Committee and an internal code of conduct. Where we do not yet comply in full with the ASX Corporate Governance Council recommendations we shall be working towards compliance with these principles as the year progresses.

Our plans for the current year envisage growth in all areas of our business despite very competitive trading conditions. On behalf of the Board, I wish to thank Geoff Babidge and his team for their considerable efforts in a year of rapid change.



Christopher Grubb, Chairman

8 September, 2003

Chief Executive's Review of Operations

Financial performance

The group produced a consolidated operating profit after tax of \$564,000 for the 12 months ended 30 June 2003 which compares with the operating profit after tax and before significant items in 2002 of \$220,000. A fully franked dividend of 1 cent per share was paid for the year.

The financial results reflected steady performance for the soy business on the previous year given increased proprietary beverage sales and improvement in factory efficiencies. The result would have been higher but for lower contract manufacture activity compared to earlier years given a reduced number of contract customers. The costs of assessing a potential acquisition which did not proceed were fully expensed. The acquisition of Paramount Seafoods Pty Ltd contributed a profit in June.

The year has been one of simultaneously developing the core business, building the management and systems to manage significant growth and undertaking the Company's first acquisition. The company undertook two separate private placements of shares to fund growth in November and June, raising a total of \$3.7m from private and institutional shareholders.

Earnings per share on a weighted average fully diluted basis were 2.4 cents.

Strategic initiatives

Management & Board

As previously advised, the Company has developed a strategy to significantly expand its scale and breadth in both natural and functional foods, both within and beyond its soy product based profile. Senior appointments have been made particularly in the key areas of Sales and Marketing. The Board has been strengthened with the recent appointment of two new highly experienced Directors.



Paramount Seafoods

During the year, a number of growth opportunities were investigated which culminated in the acquisition of Paramount Seafoods Pty Limited in June 2003. Seafood is currently the fastest growing protein of choice in Australia with canned seafood showing strong growth. There is an increasing food health focus across the community which is translating into an increasing general awareness of the benefits of fish.

Paramount Seafoods is primarily a sales and marketing business with the Paramount brand in Australia being long established. It is the number three canned seafood brand by volume in the Australian retail trade and number two proprietary brand in canned salmon and also has a small market position in New Zealand. So Natural Foods has acquired ownership of the brand in Australia and New Zealand and rights to extend the brand throughout Asia.

A key part of the transaction has involved So Natural Foods establishing a strategic alliance with the former owner of Paramount Seafoods, Bumble Bee Seafoods LP. Bumble Bee is the world's largest full line canned seafood group with market leading positions in the US and Canada. The long term exclusive alliance provides for Bumble Bee to facilitate product sourcing on competitive terms, quality assurance and new product development, key attractions of the association for So Natural Foods.

The acquisition of Paramount Seafoods for a multiple of around 6 times recent historical earnings is seen as a prudent entry to a complementary food category with potential for rationalisation and growth over time. Seafood is a core functional food providing the benefits of Omega 3 fatty acids essential in the diet in its natural form. The key fish stocks supplying the Paramount range are considered sustainable due to regulations of fishing practices and catches now in place.



Chief Executive's Review of Operations cont'd

Australia's Own

The Company has developed a new strategy to broaden its activities in organic foods. Our goal is for our brand to be a leader in packaged organic foods and beverages in Australia and selected international markets. During the year we launched new "Australia's Own" packaging for organic soy and rice milks and developed a marketing plan and new packaging to broaden the product range in key segments. Priority products include organic dairy milk, olive oil and other beverages.

A growth market for Australia's Own is Japan where our distributor is expanding the range of products to now include Australia's Own flavoured soy beverages incorporating specific

Japanese pack graphics. Historical sales have been strong albeit off a low base. In addition, we are seeking access to new markets in Asia and the UK.



Review of performance

The core soy milk business performed creditably during the year with overall volumes of proprietary beverages above last year. The UHT soy and rice market, which represents around 78% of the market, was broadly flat whereas the fresh segment continues to grow. Margin pressures increased during the second half so it is pleasing that So Natural Foods' volume share of retail branded UHT beverages marginally increased to 24.8% (moving annual total) in June.

So Natural Foods developed a new brand strategy and packaging for the So Natural range of soy and rice beverages which was progressively introduced during the second half of the year. We recently achieved increased ranging of So Natural fresh soy milk in retail which has resulted in share growth to almost 9% by year end. An upgraded Australia's Own range of organic soy and rice

beverages showed strong growth in health food stores and supermarkets.

So Natural soy yogurt remains market leader although volumes were marginally below last year. Our focus has been on maintaining ranging in an increasingly competitive market through continued improvements in taste, consistency and distribution.

The Company has refocused its export activities with new management, appointment of new distributors, and alignment of activities in certain markets with those of our strategic shareholder, Bega Cheese. Our priority markets for soy beverages are New Zealand, the Middle East, Hong Kong, Singapore, Japan and China.

Following a strategic review of the domestic soy beverage market, the Company has developed a significant new product initiative. The product "Smooth White" represents a new range of best

tasting soy beverages to be marketed to both soy and dairy consumers interested in a healthy lifestyle and is positioned as an addition to our core whole bean soy beverage products. The product has been presented to the retail trade and distribution commenced in August 2003.

As foreshadowed last year, the Company has undertaken capital expenditure totalling \$1.85m during the year to achieve gains in soy plant flexibility and capacity. These projects included a major upgrading of packaging lines, implementation of standard outer carton packaging and an increase in blending facilities. The new projects were progressively commissioned during the second half and together with improved management of key production indicators have significantly lowered our ongoing costs of production. Future capital expenditure is projected at lower levels than for the current year.

Following the significant effort of our production and technical teams, the Company was recently successful in achieving HACCP accreditation for the Taren Point facility. In addition, the factory gained certification for contract manufacture by a major international food company. These initiatives will assist So Natural Foods progress towards our next quality objective, ISO 9002 accreditation.



Outlook

The worldwide trend in food consumption towards more healthy natural and functional foods is continuing which provides a sound base for growth. Governments worldwide are clearly intent on limiting ballooning health costs and functional foods are an important part of a healthy modern diet.

Over the next 12 months, the Company is committed to progressing smart commercial growth initiatives within the functional foods market and in providing attractive returns to shareholders over the medium term.

In identifying and developing opportunities, we will focus on three key characteristics:

- Higher than average industry growth;
- The ability to create value added products and services that differentiate the company in the marketplace and enable us to further enhance our customer relationships; and
- The ability to build into a strong industry leading position.

Further profit growth is expected in the new financial year with several new initiatives likely to contribute in the second half.

Geoff Babidge

Geoff Babidge, CEO
8 September, 2003

Your directors submit the financial report of So Natural Foods Australia Limited (the Company and its Subsidiaries) for the year ended 30 June 2003.

Directors

The names and particulars of the directors of the company during or since the end of the financial year are:

Mr. C.C. Grubb

Chairman (Non-executive), Age 57

B.A., B.Comm. – extensive experience in the securities and investment banking industry in Australia and Asia. Appointed Chairman in November 1997. Also director of JF Japan OTC Fund Inc, Odyssey House McGrath Foundation. Chairman of the Remuneration & Nomination Committee and Acquisition Committee.

Interest in shares and options are 8,003,599 ordinary shares and nil options. The shares held by Australian Food Holdings Pty Ltd, Nepeal Pty Limited, Nepeal Trading Pty Limited and Demeta Pty Ltd are included in the shareholding of Mr Grubb who is a director and shareholder in these companies. Further Messrs Grubb and Reaney intend to vote consistently on issues and thus Mr Reaney's ordinary shares have been included in determining interest in ordinary shares.

Mr. G.H. Babidge

Managing Director (Executive), Age 50

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

Interest in shares and options are 60,883 ordinary shares and 1,225,000 options.

Mr. G. J. Reaney

Director (Non-executive), Age 60

BComm, CPA – was formerly Managing Director National Foods Limited and has over 30 years experience in large Australian and overseas corporations. Also director of The Australian Gas Light Company and St George Bank Limited and Chairman of PMP Limited. Appointed director in February 2001. Chairman of the Audit Committee and member of the Acquisition Committee.

Interest in shares and options are ordinary 8,003,599 shares and nil options. The shares held by Australian Food Holdings Pty Ltd, Nepeal Pty Limited and Nepeal Trading Pty Limited are included in the shareholding of Mr Reaney who is a shareholder of in these companies. Further Messrs Reaney and Grubb intend to vote consistently on issues and thus Mr Grubb's ordinary shares have been included in interest in ordinary shares.

Mr. M. van Ryn

Director (Non-executive), Age 48

AASA, CPA, General Manager of Bega Co-operative Society Ltd. Has financial and accounting background and strong dairy experience. Appointed director in November 1993. Member of the Remuneration & Nomination Committee.

Interest in shares and options are 46,133 ordinary shares and nil options.

Mr. S. F. Higgs

Director (Non-executive), Age 56

B Ec. - was founder and former director of UBS Australia. Also director of Primary Health Care Company Limited, Rural Press Limited, IPAC Securities and Juvenile Diabetes Research

Foundation. Appointed director April 2003.

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

Mr. P. R. Gunner

Director (Non-executive), Age 56

BA (Agriculture) - was former Chairman and CEO of Orlando Wines. Also director of McGuigan Simeon Wines and Ausbult Limited.

Appointed director April 2003.

Interest in shares and options are 24,795 ordinary shares and nil options.

Mr. L.E. Case

Director (Non-executive), Age 57

MBA (Pennsylvania), BSc.(Illinois). Investor with over twenty five years experience in investment and manufacturing industries.

Retired as a director February 2003.

Interest in shares and options are 5,649 ordinary shares and nil options.

Mr. G.N. Hassin

Director (Non-Executive), Age 55

Former General Manager. Appointed director in February 1993. Successfully ran own enterprises since 1974 in property development, investment and food industries. Retired as a director October 2002.

Interest in shares and options are 1,389,896 ordinary shares and nil options. The shares held by Subel Pty Ltd in So Natural Foods Australia Limited are included in the shareholding of Mr Hassin who is a director and shareholder of Subel Pty Ltd. Shares held by Mr Hassin's son have been also included.

In accordance with the company's constitution, Mr van Ryn retires by rotation. Being eligible Mr van Ryn offers himself for re-election.

In accordance with the company's constitution Messrs P. R. Gunner and S. F. Higgs retire as they were appointed by the Board of Directors since the last annual general meeting. Being eligible Messrs Gunner and Higgs offer themselves for re-election.

Principal Activities

The principal activities of the company during the financial year were:

manufacture of long life soy and other beverages; manufacture of soy yoghurt; and contract packer of other beverages.

The following significant change in the nature of the principal activities occurred during the financial year:

with the purchase of Paramount Seafoods Pty Limited, the consolidated entity commenced distributing and marketing canned seafood.

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

Operating Results

The company's profit, after providing for income tax, amounted to \$564,000 (2002 loss: \$1,165,000).

Dividends Paid or Recommended

A one cent fully franked dividend was paid 30 May 2003.

Significant Changes in State of Affairs

During the financial year there were no significant changes in the state of affairs of the company that occurred during the financial year under review, not otherwise disclosed in this report.

Events Subsequent to Balance Date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in subsequent financial years.

Future Developments

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

Environmental Issues

The company'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 company operates under a Dangerous Goods Licence issued by Workcover .

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

Indemnifying Officer or Auditor

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 officer of the company, other than conduct involving a wilful breach of duty in relation to the company. The average premium for each person was \$1,267.

Rounding of the Accounts

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.

Meetings of Directors

During the financial year, 17 meetings of directors (including committees) were held. Attendances were:

	Directors meetings		Audit, risk & compliance committee meetings		Remuneration & nomination committee meetings		Acquisition committee meetings	
	Eligible To Attend	Attended	Eligible To Attend	Attended	Eligible To Attend	Attended	Eligible To Attend	Attended
C.C. Grubb	13	13	-	-	1	1	1	1
G.H. Babidge	13	13	-	-	-	-	1	1
S. Higgs	2	2	-	-	-	-	-	-
P. R. Gunner	2	2	-	-	-	-	-	-
M. Van Ryn	13	12	-	-	1	1	-	-
G. Reaney	13	13	2	2	-	-	1	1
G.N. Hassin	4	3	-	-	-	-	-	-
L.E. Case	8	8	2	2	-	-	-	-

Directors and Executive Officers Emoluments

The emoluments of each director and executive officer are as follows:

Directors	Salary	Directors' Fees	Committee Fees	Superannuation Contributions	Incentives	Termination	Non Cash Benefits (6)	Total
C.C. Grubb	-	40,000	2,000	3,750	-	-	-	45,750
G.H. Babidge	289,480	-	-	10,519	-	-	5,582	305,581
L.E. Case (1)	-	13,333	667	1,260	-	-	-	15,260
M. Van Ryn	-	-	-	21,408	-	-	-	21,408
G. Reaney	-	20,000	2,000	1,980	-	-	-	23,980
G.N. Hassin(2)	-	6,667	-	600	-	-	-	7,267
P.R. Gunner(3)	-	3,333	83	308	-	-	-	3,724
S.F. Higgs(4)	-	3,333	-	300	-	-	-	3,633
Executive Officers								
H.A. Hurwitz	110,818	-	-	9,855	-	-	38,461	159,315
V Lakahminarayana	50,000	-	-	50,000	-	-	1,240	101,240
R Macleod (5)	33,028	-	-	2,972	-	-	5,582	41,582
M E Jenkins	140,000	-	-	15,000	-	-	2,481	157,481
R. McConkey	99,542	-	-	6,185	-	-	34,547	140,274

(1) Retired February 2003

(2) Retired October 2002

(3) Appointed April 2003

(4) Appointed April 2003

(5) Appointed January 2003

(6) Options granted to directors and executive officers during the financial year are detailed below. They have a value of \$17,368 in the emoluments above based on the Black Scholes option pricing model.

No Director has received or become entitled to receive, during or since the financial year, any benefit other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors, shown in the accounts by reason of a contract made by the company with the Director, or with a firm of which the Director is a member or has a substantial interest.

Directors' Report cont'd

Options

Options that were granted over unissued shares or interest during the financial year were to the following for options which vest from 29 January 2005 at an exercise price of \$0.80, with options able to be exercised on or before 29 January 2008

G Babidge	- 225,000
R Macleod	- 225,000
M Jenkins	- 100,000
R McConkey	- 50,000
H Hurwitz	- 50,000
V Lakshminarayana	- 50,000

Options that were granted over unissued shares or interest since the end of the financial year were to the following for options which vest from 3 September 2005 at an exercise

price of \$0.85, with options able to be exercised on or before 3 September 2008

R Macleod - 125,000

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



Christopher C. Grubb Geoff. H. Babidge
Dated at Sydney this 8th day of September 2003.

Corporate Governance Statement

Board of Directors

The Board is comprised of five Non-Executive Directors (including the Chairman) and one Executive Director. Details of their shareholdings are shown in the Directors' Report.

Board Committees

In order for the Board of Directors to meet its objectives, there is an Audit, Risk & Compliance Committee, Remuneration & Nomination Committee and an Acquisition Committee. However, due to the size of the Board, many of the other key areas of responsibility are addressed by the full Board of Directors.

Audit, Risk and Compliance Committee

The membership of this Committee is made up of two Non-Executive Directors and its functions are to review and report to the board that:

- The system of internal control which management has established effectively safeguards So Natural Foods Australia Limited's real and intangible assets.
- Accounting records are properly maintained in accordance with statutory requirements.
- Financial information provided to shareholders and others is reliable.

To fulfil these responsibilities the Committee reviews the work of the external auditors and financial management. The Company's auditors have direct access to the Committee and may discuss with it any matters which arise in connection with audits, the maintenance of So Natural Foods control environment or any other matters relating to the company's financial affairs.

The Audit, Risk & Compliance Committee is responsible for:

- Nomination of external auditors
- Reviewing the adequacy of existing external audit arrangements

Remuneration & Nomination Committee

The membership of this committee is made up of two Non-Executive Directors and its functions are to review and report to the board on:

- Remuneration policy for the entire company (including Executive Officers and Non-Executive Directors).
- Proposals for incentive plans including share and option issues.

- Human resources planning with particular emphasis on planning for senior executive positions.
- Selection and recommendation of potential Directors.

Acquisition Committee

The Acquisition Committee was formed during the year. It is made up of two Non-Executive Directors and the Managing Director and its functions are to review and report to the board on:

- Acquisition opportunities that are consistent with the corporate strategy
- Due diligence activities
- Terms of acquisition

Finance Committee

There is no separate Finance Committee however, the responsibilities in relation to finance are considered by the full Board and include:

- The financial position and affairs of the company.
- Financial assumptions underlying plans and budgets.
- Financial aspects of major proposals for capital expenditure.
- Level of working capital in the company.
- The company's risk management policies.
- Specific projects when requested.

General

Details of Directors in office at the balance date of this report, particulars of their qualifications and experience are set out in the Director's report.

Statement of Financial Performance for the Year Ended 30 June 2003

	Note	Consolidated \$000		Parent \$000	
		2003	2002	2003	2002
Sales revenue	2	21,957	21,440	20,879	21,440
Cost of sales		(12,012)	(12,028)	(11,242)	(12,028)
Gross profit		9,945	9,412	9,637	9,412
Other revenues from ordinary activities	2	660	36	638	36
Production expenses		(2,522)	(3,871)	(2,522)	(3,871)
Marketing expenses		(1,572)	(1,552)	(1,572)	(1,552)
Selling expenses		(3,193)	(3,094)	(3,172)	(3,094)
Administrative expenses		(2,416)	(2,569)	(2,185)	(2,569)
Borrowing costs		(157)	(122)	(157)	(122)
Operating (loss)/ profit from ordinary activities before income tax expense	3	745	(1,760)	667	(1,760)
Income tax (expense) / benefit relating to ordinary activities	4	(181)	595	(181)	595
Net profit / (loss)		564	(1,165)	486	(1,165)
Net profit attributable to outside equity interest		0	0	0	0
Net profit / (loss) attributable to members of the parent entity		564	(1,165)	486	(1,165)
Basic earnings (loss) per share (cents per share)	6	3	(6)		
Diluted earnings (loss) per share (cents per share)	6	2	(6)		

The financial statements should be read in conjunction with the accompanying notes.

Statement of Financial Position as at 30 June 2003

	Note	Consolidated \$000		Parent \$000	
		2003	2002	2003	2002
CURRENT ASSETS					
Cash	7	1,507	1,687	974	1,687
Receivables	8	5,236	4,966	9,887	4,966
Inventories	9	5,728	910	2,438	910
Deferred tax assets	10	696	403	696	403
Other	11	1,364	975	1,303	975
Total Current Assets		14,531	8,941	15,298	8,941
NON-CURRENT ASSETS					
Intangibles	12	2,082	-	-	-
Property, plant and equipment	13	9,263	8,700	9,247	8,700
Deferred tax assets	10	-	447	-	447
Other	11	245	-	245	-
Total Non-Current Assets		11,590	9,147	9,492	9,147
TOTAL ASSETS		26,121	18,088	24,790	18,088
CURRENT LIABILITIES					
Payables	14	6,604	4,595	5,368	4,595
Interest bearing liabilities	15	508	1,143	508	1,143
Current tax liabilities	16	-	48	-	48
Provisions	17	315	217	298	217
Total Current Liabilities		7,427	6,003	6,174	6,003
NON-CURRENT LIABILITIES					
Interest bearing liabilities	15	4,231	1,763	4,231	1,763
Deferred tax liabilities	16	327	308	327	308
Provisions	17	27	44	27	44
Total Non-Current Liabilities		4,585	2,115	4,585	2,115
TOTAL LIABILITIES		12,012	8,118	10,759	8,118
NET ASSETS		14,109	9,970	14,031	9,970
EQUITY					
Contributed equity	18	11,730	7,922	11,730	7,922
Reserves	19	-	-	-	-
Retained profits	20	2,379	2,048	2,301	2,048
TOTAL EQUITY		14,109	9,970	14,031	9,970

The financial statements should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the Year Ended 30 June 2003

	Note	Consolidated \$000		Parent \$000	
		2003 Inflows/(Outflows)	2002	2003 Inflows/(Outflows)	2002
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		26,351	24,300	25,469	24,300
Payments to suppliers and employees		(26,125)	(23,460)	(24,609)	(23,460)
Interest received		40	5	40	5
Borrowing costs		(156)	(122)	(156)	(122)
Tax refund		48	62	48	62
Net cash provided used by operating activities	21(b)	158	785	792	785
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		598	31	598	31
Purchase of property, plant and equipment		(1,848)	(670)	(1,830)	(670)
Payment for subsidiary, net of cash acquired	21(c)	(4,496)	-	-	-
Net cash used in investing activities		(5,746)	(639)	(1,232)	(639)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		3,808	1,680	3,808	1,680
Proceeds from borrowings		2,017	-	2,017	-
Repayment of borrowings		-	(345)	-	(345)
Dividends paid		(233)	-	(233)	-
Loan to subsidiary		-	-	(5,681)	-
Net cash provided by (used in) financing activities		5,592	1,335	(89)	1,335
NET INCREASE / (DECREASE) IN CASH HELD		4	1,481	(529)	1,481
CASH AT BEGINNING OF FINANCIAL YEAR		1,076	(405)	1,076	(405)
CASH AT END OF FINANCIAL YEAR	21(a)	1,080	1,076	547	1,076

The financial statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements for the Year Ended 30 June 2003

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated entity of So Natural Foods Australia Limited and controlled entities, and So Natural Foods Australia Limited as an individual parent entity. So Natural Foods Australia Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair value of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidation

A controlled entity is any entity controlled by So Natural Foods Australia Limited. Control exists where So Natural Foods Australia Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with So Natural Foods Australia Limited to achieve the objectives of So Natural Foods Australia Limited. A list of controlled entities is contained in Note 31 to the financial statements.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date of control was obtained or until the date control ceased.

Outside interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

The consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense shown in the Statement of Financial Performance is based on the profit before from ordinary activities adjusted for permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse

Notes to the Financial Statements for the Year Ended 30 June 2003

changes will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Property

Freehold land and buildings are measured on the fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. It is the policy of the consolidated entity to have an independent valuation every three years, with annual appraisals being made by the directors.

Plant and Equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the

assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets, including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings	4-6%
Plant & equipment	5-20%
Leased plant & equipment	5-10%
Motor vehicles	15-33%

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(f) Investments

Non-current investments are measured on the cost basis. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-listed investments.

So Natural Foods Australia Limited's investment in Australian Natural Foods Holdings Pty Limited is \$2. When rounded to the nearest \$1,000 in accordance with ASIC Class Order 98/100 its value becomes zero and as a result is not shown on the Statement of Financial Position or accompanying notes.

(g) Research and Development Expenditure

Research and development costs are charged to profit from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs.

Deferred research and development expenditure is amortised on a straight line basis over the period during which the related benefits are expected to be realised, once commercial production has commenced.

(h) Intangibles

Goodwill

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on consolidation is amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable is written off.

(i) Foreign Currency Transactions and Balances

Foreign currency transactions during the year are converted to Australian currency at

the rates of exchange applicable at the dates of the transactions. Amounts receivable or payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

(j) Derivative Financial Instruments

So Natural Foods Australia Limited utilises derivative financial instruments to reduce risks arising from changes in foreign exchange rates. Derivative financial instruments are not recognised in the financial statements on inception. However, any gains arising after inception are included in the Statement of Financial Performance at the time the contracts are closed out.

(k) Employee Entitlements

Provision is made for the consolidated entity's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred. The company is under no legal obligation to make up any shortfall in the fund's assets to meet payments due to employees on retirement.

(l) Cash

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts.

Notes to the Financial Statements for the Year Ended 30 June 2003

(m) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

(n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

The net amount of GST recoverable from or payable to the Australian Tax Office, is included as part of receivables or payables in the Statement of Financial Position. Items in the statement of cash flows are included on a gross basis. The GST component of cash flows arising from investing and financing activities that are recoverable from, or payable to, the Australian Tax Office are classified as operating cash flows.

(o) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(p) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/0100 and accordingly, amounts in the financial report have been rounded off to the nearest \$1,000.

(q) Change in Accounting Policies

(i) Product development expenditure

The company changed its accounting policy in the financial year ending 30 June 2003 relating to costs associated with the development of new packaging for existing products that were introduced to market during the financial year. In 2002, these costs were capitalised but in 2003 they have been expensed in the Statement of Financial Performance. The financial effect of this change has been to reduce the operating profit before tax in 2003 by \$137,000 and in 2002, operating profit before tax would have been reduced by \$43,000.

(ii) Employee benefits

The consolidated entity has applied the revised AASB 1028 "Employee Benefits" (issued in June 2001) for the first time from 1 July 2002. The liability for wages and salaries, annual leave and sick leave is now calculated using the remuneration rates the entity expects to pay as at each reporting date, not wage and salary rates current at reporting date.

There was no impact on opening retained earnings or profit or loss for the reporting period to 30 June 2003.

	Consolidated \$000		Parent \$000	
	2003	2002	2003	2002
2 OPERATING REVENUE				
Sales revenue				
- sale of goods	21,957	21,440	20,879	21,440
Other operating revenue				
- interest received	40	5	40	5
- proceeds on sale of non-current assets	598	31	598	31
- realised gains from exchange differences	13	-	-	-
- unrealised gains from exchange differences	9	-	-	-
	660	36	638	36
	22,617	21,476	21,517	21,476
3 PROFIT FROM ORDINARY ACTIVITIES				
Profit/(Loss) from ordinary activities before income tax	has been determined after			
(i) Expenses:				
Interest paid or due and payable to:				
- other persons	127	122	127	122
- finance lease charges	29	-	29	-
Total borrowing costs	156	122	156	122
Rental expense on operating leases	74	82	74	82
Net Loss on disposal of plant & equipment	-	5	-	5
Movements in provisions				
Depreciation of non-current assets				
- buildings	124	104	124	104
- plant & equipment	606	539	604	539
- motor vehicles	8	24	8	24
	738	667	736	667
Other provisions				
- provision for employee entitlements	58	218	58	218
- provision for inventory obsolescence	35	68	35	68
Bad and doubtful debts				
Bad debts written off	56	14	56	14
(ii) Revenue and Net Gains:				
Interest received or receivable from:				
Other persons	40	5	40	5
Profit on sale of non-current assets	51	-	51	-
(iii) Significant Expenses:				
The following significant expense items are relevant in explaining the financial performance:				
Write off of packaging material	137	-	137	-
Restructuring costs - including termination and recruitment costs	-	482	-	482
Decrement on revaluation of land and buildings	-	210	-	210
Write down of plant and equipment to recoverable amount	-	1,383	-	1,383

Notes to the Financial Statements

for the Year Ended 30 June 2003

	Consolidated \$000		Parent \$000	
	2003	2002	2003	2002
4 INCOME TAX EXPENSE				
Prima facie tax on operating profit/(loss) is reconciled to the income tax provided in the accounts as follows :				
Prima facie tax payable on operating profit before income tax at 30% (2002: 30%)	224	(528)	224	(528)
Tax effect of non deductible items:				
Depreciation on revaluation increment	-	(38)	-	(38)
Other non allowables	(70)	(22)	(70)	(22)
Income tax paid	27	-	27	-
Under provision in prior year	-	(7)	-	(7)
Income tax expense attributable to operating profit before income tax	181	(595)	181	(595)
Balance of franking account at year end, adjusted for franking credits arising from payment of income tax payable and payment of dividends	-	169	-	169
5 AUDITORS REMUNERATION				
Remuneration of the auditor of the consolidated entity for:				
- auditing and reviewing the financial report	39	33	39	33
- taxation compliance services	9	6	9	6
- other assurance related services	-	6	-	6
- litigation support services	-	3	-	3
	48	48	48	48
6 EARNINGS PER SHARE				
	Number			
(a) Earnings used in the calculation of basic EPS	564	(1,165)		
(a) Earnings used in the calculation of dilutive EPS	564	(1,165)		
(b) Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	22,035	20,637		
Add weighted average number of options outstanding	1,251			
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	23,286	20,637		
During 2002 the company issued 1,000,000 options over ordinary shares. As the company made a loss for that year these potential ordinary shares have not been treated as dilutive in accordance with AASB 1027.				
(c) The following securities have been classified as potential ordinary shares and are included in determination of dilutive EPS:				
- Options outstanding				

	Consolidated \$000		Parent \$000	
	2003	2002	2003	2002
7 CASH				
Cash at bank	1,507	1,687	974	1,687
8 RECEIVABLES				
Current				
Trade debtors	5,301	4,842	4,252	4,842
Less provision for doubtful trade debtors	(65)	(32)	(46)	(32)
	5,236	4,810	4,206	4,810
Other debtors	-	156	-	156
Due from subsidiaries	-	-	5,681	-
	5,236	4,966	9,887	4,966
9 INVENTORIES				
Current				
Raw materials - at cost	1,536	683	1,521	683
Finished goods - at cost	4,227	295	952	295
	5,763	978	2,473	978
Less provision for obsolescence	(35)	(68)	(35)	(68)
	5,728	910	2,438	910
10 DEFERRED TAX ASSETS				
Current				
Future income tax benefit	696	403	696	403
Non Current				
Future income tax benefit				
- timing differences	-	114	-	114
- tax losses	-	333	-	333
	-	447	-	447
11 OTHER ASSETS				
Current				
Product development expenditure	135	-	135	-
Prepayments	1,229	975	1,168	975
	1,364	975	1,303	975
Non Current				
Deferred research & development costs	245	-	245	-
Accumulated amortisation	-	-	-	-
	245	-	245	-
Beginning of year	-	-	-	-
Add: research & development costs incurred during the year and deferred	245	-	245	-
Accumulated amortisation	-	-	-	-
	245	-	245	-
12 INTANGIBLES				
Goodwill at cost	2082	-	-	-
Accumulated amortisation	-	-	-	-
	2,082	-	-	-

Notes to the Financial Statements

for the Year Ended 30 June 2003

	Consolidated \$000		Parent \$000	
	2003	2002	2003	2002
13 PROPERTY, PLANT AND EQUIPMENT				
Freehold land & buildings				
- at independent valuation 13 August, 2001	2,789	3,321	2,789	3,321
Accumulated depreciation	(121)	(53)	(121)	(53)
Total land & buildings	2,668	3,268	2,668	3,268
Plant and equipment				
- at cost	9,050	6,985	9,024	6,985
- at recoverable amount	208	213	208	213
Accumulated depreciation	(2,750)	(2,193)	(2,740)	(2,193)
	6,508	5,005	6,492	5,005
Capital work in progress	58	354	58	354
Total plant and equipment	6,566	5,359	6,550	5,359
Motor vehicles				
- at cost	37	141	37	141
Accumulated depreciation	(8)	(68)	(8)	(68)
Total motor vehicles	29	73	29	73
TOTAL PROPERTY, PLANT AND EQUIPMENT	9,263	8,700	9,247	8,700

(a) Movement in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year:

	Land & Buildings \$'000	Plant & Equip \$'000	Motor Vehicle \$'000	Total \$'000
Parent				
2003				
Balance at beginning of year	3,268	5,359	73	8,700
Additions	-	1,812	18	1,830
Disposals	(476)	(17)	(54)	(547)
Depreciation expense	(124)	(604)	(8)	(736)
Carrying amount at the end of year	2,668	6,550	29	9,247

PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Land & Buildings \$'000	Plant & Equip \$'000	Motor Vehicle \$'000	Total \$'000
Group				
2003				
Balance as at beginning of year	3,268	5,359	73	8,700
Additions	-	1,814	18	1,832
Acquisition through purchase of entities	-	16	-	16
Disposals	(476)	(17)	(54)	(547)
Depreciation expense	(124)	(606)	(8)	(738)
Carrying amount at the end of year	2,668	6,566	29	9,263
Parent and Group				
2002				
Balance at beginning of the year	2,778	7,439	112	10,329
Decrement	(210)	-	-	(210)
Additions	-	650	20	670
Transfer	804	(804)	-	-
Disposals	-	(4)	(35)	(39)
Depreciation expense	(104)	(539)	(24)	(667)
Recoverable write down	-	(1,383)	-	(1,383)
Carrying amount at the end of year	3,268	5,359	73	8,700

- (b) The independent valuation of freehold land and buildings at 13 August 2001 was carried out by a Registered Valuer A.L.V.E. (Val) of Edward Rushton Pty Ltd based on the current market value and subsequent additional cost.
- (c) During 2002 the directors, as part of a periodic review of the recoverable amount of plant and equipment, wrote down plant and equipment by \$1,383,000 taking into consideration the review of the company's activities.

	Consolidated \$000		Parent \$000	
	2003	2002	2003	2002
14 PAYABLES				
Current				
Trade creditors	5,020	3,312	4,049	3,312
Other creditors and accruals	1,584	1,283	1,319	1,283
	6,604	4,595	5,368	4,595
15 INTEREST BEARING LIABILITIES				
Current				
Bank overdraft - secured	427	611	427	611
Loan payable - secured	-	532	-	532
Finance leases	81	-	81	-
	508	1,143	508	1,143
Non-current				
Loan payable - secured	3,578	1,763	3,578	1,763
Finance leases	653	-	653	-
	4,231	1,763	4,231	1,763

The bank overdraft and loans payable are secured as detailed in note 22.

Notes to the Financial Statements for the Year Ended 30 June 2003

	Consolidated \$000		Parent \$000	
	2003	2002	2003	2002
16 TAX LIABILITIES				
Current				
Income tax	-	48	-	48
Non-current				
Provision for deferred income tax	327	308	327	308
17 PROVISIONS				
Current				
Employee entitlements	310	217	293	217
Other	5	-	5	-
	<u>315</u>	<u>217</u>	<u>298</u>	<u>217</u>
Non-current				
Employee entitlements	27	44	27	44
Aggregate employee entitlements	<u>337</u>	<u>261</u>	<u>320</u>	<u>261</u>
18 CONTRIBUTED EQUITY				
Paid-up capital				
26,688,735 (2002: 20,986,985) ordinary shares fully paid	11,730	7,922	11,730	7,922
Equity issues				
Issue of equity during the year				
Balance at the beginning of the year	7,922	6,242	7,922	6,242
September 2001 - 2,100,000 ordinary shares for 80.0 cents per share	-	1,680	-	1,680
December 2002 - 2,307,692 ordinary shares for 65.0 cents per share	1,500	-	1,500	-
May 2003 - 129,646 ordinary shares for 68.0 cents per share	88	-	88	-
June 2003 - 3,264,412 ordinary shares for 68.0 cents per share	2,220	-	2,220	-
Balance at end of year	<u>11,730</u>	<u>7,922</u>	<u>11,730</u>	<u>7,922</u>
<p>The Dividend Reinvestment Plan provides shareholders with the opportunity to receive ordinary shares, in lieu of cash dividends, at a discount (set by the directors) from the market price at time of issue.</p>				
19 RESERVES				
Asset revaluation	-	-	-	-
Opening balance	-	1,958	-	1,958
Transfer to retained profits	-	(1,958)	-	(1,958)
20 RETAINED PROFITS				
Retained profits at the beginning of the financial year	2,048	1,255	2,048	1,255
Transfer of asset revaluation reserve	-	1,958	-	1,958
Net profit/(loss)	564	(1,165)	486	(1,165)
Dividend paid	(233)	-	(233)	-
Retained profits at the end of the financial year	<u>2,379</u>	<u>2,048</u>	<u>2,301</u>	<u>2,048</u>

	Consolidated \$000		Parent \$000	
	2003	2002	2003	2002
21 CASH FLOW INFORMATION				
(a) Reconciliation of Cash				
For the purposes of the statement of cash flows, cash includes cash on hand, funds held in a cash management account and cheque account. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows :-				
Cash	1,507	1,687	974	1,687
Overdraft	(427)	(611)	(427)	(611)
Net cash	1,080	1,076	547	1,076
(b) Reconciliation of net cash provided by operating activities to operating profit after income tax				
Operating profit / (loss) after income tax	564	(1,165)	486	(1,165)
Depreciation	738	667	736	667
Provision for employee entitlements	81	(258)	64	(258)
(Profit) / Loss on sale of non current asset	(51)	5	(51)	5
Decrement on revaluation of land and buildings	-	210	-	210
Write down of plant and equipment to recoverable amount	-	1,383	-	1,383
Changes in Assets and Liabilities				
Decrease/(Increase) in receivables	(270)	124	760	124
Decrease/(Increase) in inventory	(4,818)	512	(1,528)	512
Increase in other assets	(634)	(214)	(573)	(214)
Decrease / (Increase) in deferred tax assets	154	(652)	276	(652)
Increase in accounts payable	4,423	123	773	123
Decrease / (Increase) in provision for income tax	(71)	48	(71)	48
Increase / (Decrease) in provision for deferred income tax	42	2	(80)	2
	158	785	792	785
Details of credit stand-by arrangements available and unused loan facilities are shown in note 20 to the accounts.				
(c) Acquisition of Entity				
During the year 100% of the controlled entity Paramount Seafoods Pty Limited was acquired. Details of this transaction are:				
Purchase consideration	4,749	-	-	-
Cash consideration	(4,749)	-	-	-
Amount due for incidental costs	253	-	-	-
Cash outflow	(4,496)	-	-	-
Assets and liabilities held at acquisition date				
Cash	8	-	-	-
Receivables	989	-	-	-
Prepayments	59	-	-	-
Inventories	2,570	-	-	-
Property, plant and equipment	17	-	-	-
Creditors	(894)	-	-	-
Accruals	(65)	-	-	-
Provisions	(17)	-	-	-
	2,667	-	-	-
Goodwill on acquisition	2,082	-	-	-
	4,749	-	-	-

22 BANK FACILITIES

The bank facilities of the group are secured by a first registered mortgage over all the consolidated entity's property and a first equitable mortgage over the whole of the consolidated entity's assets and undertakings including uncalled capital. The mortgage is held by the Commonwealth Bank of Australia.

Notes to the Financial Statements for the Year Ended 30 June 2003

	Consolidated \$000		Parent \$000	
	2003	2002	2003	2002
23 STANDBY ARRANGEMENTS AND UNUSED CREDIT FACILITIES				
Credit Facility				
Bank overdraft	1,100	600	1,100	600
Amount utilised	(427)	(453)	(427)	(453)
Unused credit facility	673	147	673	147
Loan Facilities				
Loans facilities	5,100	2,600	5,100	2,600
Amount utilised	(3,578)	(2,295)	(3,578)	(2,295)
	1,522	305	1,522	305
Leasing Facility	1,000	1,000	1,000	1,000
Amount utilised	(734)	-	(734)	-
	266	1,000	266	1,000
Unused loan facilities	1,788	1,305	1,788	1,305
Credit and Loan Facilities				
The bank overdraft, multi-option and leasing facilities are arranged with the Commonwealth Bank of Australia with the general terms and conditions being set and agreed to annually.				
Interest rates are variable and subject to adjustment.				
Facility	Current Interest Rate			
Bank overdraft	6.95%			
Multi-option facility				
Bank Bills	5.1% - 5.55%			
Bank Loan	6.70%			
24 CAPITAL AND LEASING COMMITMENTS				
Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the accounts Payable:				
- not longer than one year	82	-	82	-
- one to five years	124	-	124	-
	206	-	206	-
Capital Expenditure Commitments				
Contracted for:				
Plant and equipment purchases	27	39	27	39
Raw material and packaging purchases	1,225	1,515	1,225	1,515
	1,252	1,554	1,252	1,554

25 SEGMENT NOTE

The company operates solely within the Functional Food Industry in Australia.

	Consolidated Number		Parent Number	
	2003	2002	2003	2002
26 PERSONNEL NOTE				
The company employees casual and full time staff numbering	74	64	72	64
27 RELATED PARTY TRANSACTIONS				
PARENT ENTITY				
Directors				
The names of each person holding the position of director of So Natural Foods Holdings Limited during the financial year are Messrs :				
L. E. Case	C. C. Grubb	G. N. Hassin		
M. van Ryn	G. J. Reaney	G. H. Babidge		
S. F. Higgs	P. R. Gunner			
A director of the company, Mr GJ Reaney, is also a director of Australian Gas Light Company which provides at normal trading terms electricity to the company. A director of the company, Mr GH Babidge, is also a director of Food Service Associates Pty Limited which provided brokerage services for the food services industry to the company to the value of \$41,000. There were no other related party transactions during the financial year.				
Directors and director-related entities hold directly, indirectly or beneficially, as at the reporting date, the following equity interests in the company:			8,530	9,552
Directors and director-related entities hold directly, indirectly or beneficially, as the reporting date, the following options to acquire equity interests in the company.			1,225	1,000

28 FINANCIAL INSTRUMENTS

(a) Derivative Financial Instruments

Derivative financial instruments are used by the consolidated entity to hedge exposure to exchange rate risk associated with foreign currency purchase commitments. The derivative financial instrument used by the entity are not recognised in the financial year.

Forward Exchange Contracts

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

At balance date, the details of outstanding forward exchange contracts are:

	Average exchange rates		Amounts to be paid	
	2003	2002	2003	2002
US Dollars				
3 months or less	0.66	-	1,346	-

At 30 June 2003 trade accounts payable included \$397,043 payable in foreign currencies. The entire amount had been hedged with forward foreign exchange contracts included in the above table.

(b) Credit Risk

The credit risk on financial assets of the group which have been recognised on the balance sheet is the carrying amount less any provision.

The company does not have significant risk exposure to any one debtor, however 84.1% (2002 - 83.6%) of sales and 83.5% (2002 - 85.2%) of year end debtors are concentrated in major supermarkets throughout Australia.

Notes to the Financial Statements for the Year Ended 30 June 2003

(c) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rates on classes of:

Financial Instrument	Floating Rate		Fixed rate maturing in				Non Interest Bearing		Total	
			Less than 1 year		1 to 5 years					
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Financial Assets										
Cash at bank and short term deposits	1,507	1,687	-	-	-	-	-	-	1,507	1,687
Receivables	-	-	-	-	-	-	5,236	4,966	5,236	4,966
Total financial assets	1,507	1,687	-	-	-	-	5,236	4,966	6,743	6,653
Financial Liabilities										
Payables	-	-	-	-	-	-	6,604	4,595	6,604	4,595
Interest bearing liabilities	3,973	2,553	66	46	700	307	-	-	4,739	2,906
Total financial assets	3,973	2,553	66	46	700	307	6,604	4,595	11,343	7,501
Weighted effective interest rate										
Financial assets	3.00%	3.50%								
Financial liabilities	6.45%	7.01%	7.00%	7.30%						

(d) Net Fair Values

The company's financial assets and liabilities are carried at values that approximate net fair values.

29 REMUNERATION AND RETIREMENT BENEFITS

The managing director's remuneration is included both under directors' and executive officers' remuneration.

(a) Directors' Remuneration

	Consolidated		Parent	
	\$000		\$000	
	2003	2002	2003	2002
Aggregate of income paid or payable, or otherwise made available: To all directors of the company, including insurance premiums to indemnify liabilities while acting as director.	434	1,059	434	1,059
Number of Directors whose income was within the following bands:	Number	Number	Number	Number
\$0-\$9,999	3	-	3	-
\$10,000-\$19,999	1	1	1	1
\$20,000-\$29,999	2	3	2	3
\$40,000-\$49,999	1	1	1	1
\$110,000-\$119,999	-	1	-	1
\$300,000-\$309,999	1	-	1	-
\$800,000-\$809,999	-	1	-	1

(b) Executive Officers' Remuneration

Aggregate income received or due and receivable by all executive officers including executive directors (including remuneration from related parties in connection with the management of the affairs of the parent entity or any of its subsidiaries within the group).

	1,009	1,369	1,009	1,369
	Consolidated \$000		Parent \$000	
	2003	2002	2003	2002
Number of executive officers whose income was within the following bands:	Number	Number	Number	Number
\$20,000 - \$29,999	-	1	-	1
\$30,000 - \$39,999	-	1	-	1
\$40,000 - \$49,999	1	-	1	-
\$80,000 - \$89,999	-	1	-	1
\$100,000 - \$109,999	1	-	1	-
\$110,000 - \$119,999	-	1	-	1
\$130,000 - \$139,999	-	1	-	1
\$140,000 - \$149,999	1	-	1	-
\$150,000 - \$159,999	2	1	2	1
\$300,000 - \$309,000	1	-	1	-
\$800,000 - \$809,999	-	1	-	1
(c) Retirement and Superannuation Benefits				
Amounts paid on retirement from office or payable to prescribed superannuation funds for the provision of retirement benefits.	40	128	40	128
30 CONTINGENT LIABILITIES				
Bank guarantee given to a supplier arising out of the normal course of business. No liability is expected to accrue.	20	20	20	20

31 CONTROLLED ENTITIES

Controlled Entity	Country of Incorporation	Percentage of shares held	
		2003	2002
Paramount Seafoods Pty Ltd	Australia	100%	
Australian Natural Foods Holdings Pty Ltd	Australia	100%	100%

On 5 June 2003, Australian Natural Foods Holdings Pty Limited acquired 100% of Paramount Seafoods Pty Limited, with Australian Natural Foods Holdings Pty Limited entitled to all profits earned from this date, for a purchase consideration of \$4,749,000.

Notes to the Financial Statements for the Year Ended 30 June 2003

32 COMPANIES PARTY TO DEED OF CROSS GUARANTEE

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

Members of the closed group are:

- So Natural Foods Australia Limited
- Australian Natural Foods Holdings Pty Limited
- Paramount Seafoods 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 of the group has not been paid in full.

Australian Natural Foods Holdings Pty Limited and Paramount Seafoods Pty Limited were added to the deed by an assumption deed dated on 5 June 2003.

Directors' Declaration for the Year Ended 30 June 2003

In the opinion of the directors of So Natural Foods Australia Limited

1. The financial statements and notes, as set out in this financial report:

(a) comply with Accounting Standards and the Corporations Act 2001; and

(b) give a true and fair view of the financial position as at 30 June 2003 and performance for the year ended on that date.

2. In the Directors' opinion, there are reasonable grounds to believe that the company and consolidated entity's will be able to pay its debts as and when they become due and payable.

The company and its wholly-owned subsidiaries, Australian Natural Foods Holdings Pty Limited and Paramount Seafoods Pty Limited, have entered into a deed of cross guarantee under which the company and its subsidiaries guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

This declaration is made in accordance with a resolution of the Board of Directors



C.C. Grubb
Chairman



G.H. Babidge
Managing Director

Dated this 8th day of September, 2003

Independent Audit Report

TO MEMBERS OF SO NATURAL FOODS AUSTRALIA LIMITED

PKF

Chartered Accountants
& Business Advisers

NSW Partnership
ABN 63 236 985 728

Level 10, 1 Margaret Street
Sydney NSW 2000

DX 10173 Sydney Stock Exchange NSW

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Liability limited by the Accountants
Scheme, approved under the
Professional Standards Act 2004 (NSW)

Scope

The financial report and directors' responsibility.

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both So Natural Foods Australia Limited (the company) and So Natural Foods Australia Limited (the consolidated entity), for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of So Natural Foods Australia Limited is in accordance with:

(a) the Corporations Act 2001, including:

- i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
- ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

PKF

B R Gordon
Partner

Dated 8 September 2003

SHAREHOLDING

Substantial Shareholders

The number of shares held by the substantial shareholders listed in the company's register as at 31 August 2003 are:

Shareholder	Number
Australian Food Holdings Pty Limited	6,291,775
Bega Cooperative Society Limited	2,100,000
MUI Australia Pty Limited	2,028,408

Class of Shares and Voting Rights

At 31 August 2003, there were 752 ordinary shareholders of the company.

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

DISTRIBUTION OF SHAREHOLDERS AS AT 31 August 2003

Category	Ordinary
1 - 1,000	352
1001 - 5,000	194
5001 - 10,000	76
10001 - 100,000	99
100,001 - and over	31
	<hr/> 752

Non marketable securities which are holdings of less than 658 ordinary shares are held by 282 shareholders. This statistic is based on the share register as at 31 August 2003.

Shareholder Statistics

20 LARGEST ORDINARY SHAREHOLDERS AS AT 31 August 2003

Name	Number of Ordinary Shares Held	% Held of Ordinary Capital
1 Australian Food Holdings Pty Limited	6,291,775	23.58%
Bega Cooperative Society Limited	2,100,000	7.87%
2 MUI Australia Pty Ltd	2,028,408	7.60%
3 Gilbert Hassin	1,323,746	4.96%
4 Consolidated Gaming Pty Limited	1,300,000	4.87%
5 Sandhurst Trustees Limited	1,128,560	4.23%
6 Permanent Trustee Australia	882,353	3.31%
7 Invia Custodian Pty Limited - WAM Capital Limited Account	870,000	3.26%
8 Christopher Colin Grubb	801,095	3.00%
9 Demeta Pty Ltd	647,032	2.42%
10 UBS Private clients Australia Nominees Pty Limited	646,706	2.42%
11 Citicorp Nominees Pty Limited	579,571	2.17%
12 Stoddarts (1985) Pty Ltd	458,501	1.72%
13 S F Higgs Superannuation Fund Account	384,615	1.44%
14 Sago Pty Ltd	280,534	1.05%
15 Nepeal Pty Limited	259,692	0.97%
16 Guardian Trust Australia Limited	250,000	0.94%
17 Philip Hartley Green	230,000	0.86%
18 Argo Investments Ltd	216,177	0.81%
19 Charles Thomas Howe Cropper	200,362	0.75%
20 RTR Pty Limited	200,000	0.75%
	21,079,127	78.98%

The proportion of ordinary shares held by the 20 largest shareholders is 78.98%

Stock exchanges that have granted quotation to the securities of the company quoted in Australia:
All Member Exchanges.

Company Secretary

Michael Jenkins

Principal Registered Office

80 Box Road

Taren Point, NSW 2229

Tel: (02) 9526 2555

Fax:(02) 9525 5406

Share Registry

Registries Limited

Level 2,

28 Margaret Street,

Sydney NSW 2000

Tel: (02) 9279 0677

Fax: (02) 9279 0664

Management

Geoff Babidge - Managing Director

Rory Macleod - Strategic Development Director

Greg Hughes - General Manager Sales

Howard Hurwitz - Marketing Manager

Steven Strong - Marketing Development Manager

Vishweshwaraiah Lakshminarayana - Technical Manager

Robin McConkey - Operations Manager

Demeter Papoutsis - Head of Supply Chain

Michael Jenkins - Chief Financial Officer & Company Secretary

Solicitors

Coudert Brothers

Solicitors & International Attorneys

Level 8, 1 Macquarie Place

Sydney NSW 2000

Tel: (02) 9930 7500

Fax: (02) 9930 7600

Banker

Commonwealth Bank of Australia

GyMEA Bay Road

GyMEA NSW 2227

Insurance Brokers

Jardine Lloyd Thompson

Level 8, 66 Clarence Street,

Sydney NSW 2000

Tel: (02) 9290 8000

Fax: 02) 9299 7280

Auditor

PKF

Chartered Accountants

Level 10, 1 Margaret Street

Sydney NSW 2000

Tel: (02) 9251 4100

Fax: (02) 9240 9821

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