

a passion for  
**natural health**

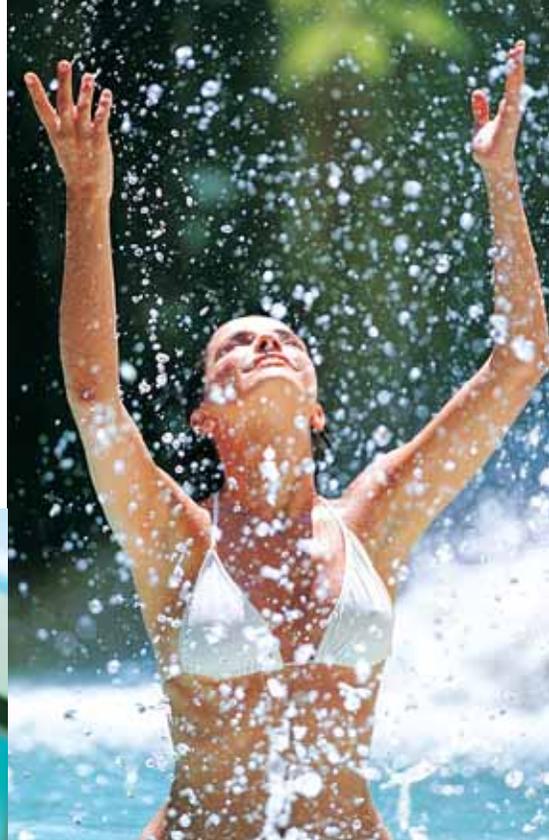
BLACKMORES LIMITED ANNUAL REPORT 2007



**BLACKMORES®**  
THE BEST OF HEALTH  
[www.blackmores.com.au](http://www.blackmores.com.au)

## Annual General Meeting

The 45th annual general meeting of the Company will be held at the Company's premises, 23 Roseberry Street, Balgowlah NSW 2093, on 24 October 2007 at 11.30am.



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# Our Values

## **Blackmores' 'PIRLS'**

Blackmores improves people's lives by delivering the world's best natural health solutions that become people's first choice in healthcare. We achieve this by translating our unrivalled heritage and knowledge into innovative, quality, branded healthcare solutions that work.

## **Passion for Natural Health**

Our enthusiasm and belief in a natural, holistic approach to health inspires us to excellence in everything we do.

## **Integrity**

We are honest, trustworthy and committed to the highest standards of personal, professional and business behaviour.

## **Respect**

We treat each other with fairness, dignity and compassion and we embrace diversity.

## **Leadership**

As a company, in teams and as individuals, we use our wisdom, experience and knowledge to inspire and influence everyone to be their best.

## **Social Responsibility**

Our actions demonstrate our care, respect and compassion for our people, the broader community and the environment.

# A more natural approach to health

Blackmores is passionate about natural health and inspires people to take control of, and invest in, their health and wellbeing. We are leaders in developing and marketing products and services that deliver a more natural approach to health, based on our expertise in vitamins, minerals, herbs and nutrients.

The Company operates in Australia, New Zealand and Asia and currently employs more than 400 people in the region. Our head office is based in Balgowlah, on Sydney's northern beaches. Blackmores became a publicly listed company in May 1985.



Blackmores has been an industry leader in Australia for more than 70 years. The Company had its beginnings in the 1930s, thanks to the vision and passion of one man – Maurice Blackmore (1906-1977) – an English immigrant who had ideas about health way ahead of his time.

Maurice Blackmore's belief in the health-giving properties of herbs and minerals led him to develop a whole system of healthcare based on naturopathic principles. His views on natural health, preventive medicine, the environment and recycling were nothing short of radical in the 1930s, and his work opened the doors to new ways of treating illness and maximising health.

Maurice Blackmore was also responsible for starting one of Australia's first health food stores in Brisbane in 1938 and worked with colleagues and friends to establish the first naturopathic colleges and associations in the country. His beliefs are still valid today and his teachings are incorporated in the training programs of many natural health practitioners.

Blackmores' products are developed using a combination of scientific evidence and hundreds of years of traditional knowledge. Our products are made to exacting requirements under the international PIC/S standards of Good Manufacturing Practice, using ingredients sourced from around the world. Our product formulations are approved by regulatory bodies wherever they are sold, and are required to meet both our own and various governments' stringent standards of safety, quality and efficacy.

Blackmores' heritage and values are coupled with a commitment to superior business performance. Our strategic direction is focused on delivering growth and continuous improvement to maintain and enhance Blackmores' industry leadership position and achieve ongoing success for our company and our shareholders.

# Another record profit

During the financial year Blackmores achieved several milestones that set a solid foundation for 2008. This included another record profit result, significant market share gains, and continued growth in Asia.

Group sales increased 16.0 per cent to \$171.7 million, with Australian sales up 14.8 per cent to \$145.1 million. Blackmores' international business grew 22.8 per cent.

Blackmores now holds the greatest market share in the Australian vitamin, mineral and herbal supplements (VMHS) market with 21.8 per cent share<sup>1</sup>. Our business is growing significantly ahead of market growth of 4.3 per cent.

For the second consecutive year *Business Review Weekly* included Blackmores as the 15th best-performing company in Australia based on average annual return on shareholders' funds.

Blackmores received the 2006 Sustainable Small Company of the Year Award. The award recognises our outstanding achievement and excellence in corporate sustainability in the areas of environment, social responsibility and corporate governance.

In presenting the award, Sampford and Staff CEO, Professor Charles Sampford, said: "Millions of consumers see what's in the bottle but if they peel back the label to look inside at the staff development, community support and environmental programs, they'll find a commitment to excellence that's unrivalled amongst smaller companies and one that many large companies are still working toward."

Our Executive Chairman, Marcus Blackmore, received an Honorary Doctorate from Southern Cross University in September 2006, acknowledging his distinguished career in the natural and complementary medicine industry and his commitment to education.

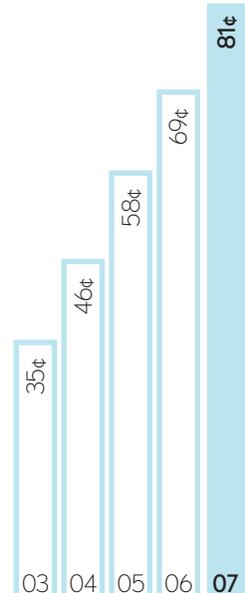
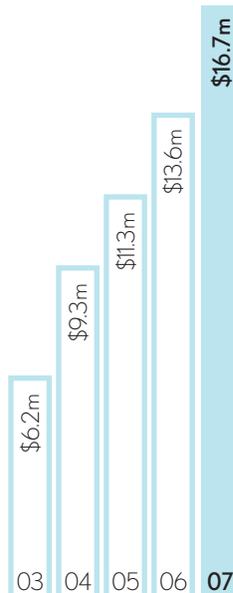
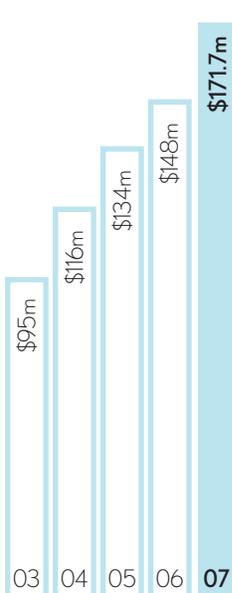
In the same month, Blackmores received a number of other awards. Blackmores Vitamin D<sub>3</sub> was given the *Australian Journal of Pharmacy* award for best complementary healthcare product and a high commendation for best PR campaign.

Additionally, Blackmores won the award for best promotion of an existing product in the complementary category for Joint Formula at the Australian Self-Medication Industry Awards, and the National Pharmacies' Supplier of the Year award in September.

The development of our new premises at Warriewood has been delayed by higher than average rainfall in recent months, though we are on track to relocate by mid calendar year 2008.



<sup>1</sup> Source: Aztec national combined MAT data to 8/7/07



### SALES

Group revenue from sale of goods for the year of \$171.7 million represented growth of 16.0% over last year's sales result. This growth was driven by maintaining our brand leadership position in Australia, the continued success of our new product pipeline, improvements to our existing range and a significant contribution from our Asian business.

**16.0%**  
increase

### NET PROFIT AFTER TAX

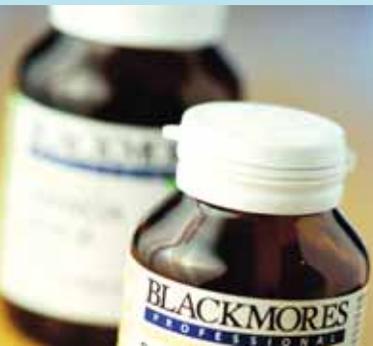
Group Net Profit after Tax (NPAT) was \$16.7 million for the year, representing growth of 15.4% on last year's reported profit and a 22.4% increase over last year's underlying profit which excludes the non-recurring profit on sale of the Balgowlah premises.

**15.4%**  
increase

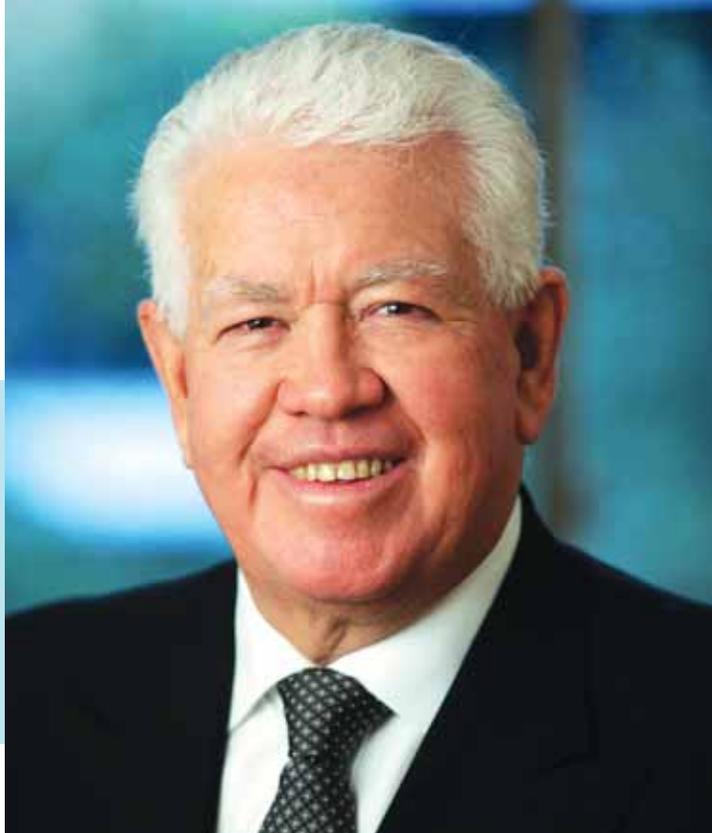
### ORDINARY DIVIDENDS

Including this year's final dividend of 46 cents per share, total ordinary dividends for the year were 81 cents per share (fully franked). This represents a 17.4% increase over last year's total ordinary dividends of 69 cents per share.

**17.4%**  
increase



## Chairman's Introduction



Our industry has received a welcome level of government support in recent months, with the announcement of nearly \$10 million in public funding for complementary medicine (CM) research.

Last November the Commonwealth Government dedicated \$5 million in funding through the National Health and Medical Research Council to add to the growing body of CM research.

This was followed by an additional \$4 million Federal contribution and \$0.6 million of State funding to establish a National Institute of Complementary Medicine (NICM). The national institute will be housed at the University of Western Sydney but will draw together leading researchers in this field across Australia, as well as help to establish national research priorities and consolidate key research initiatives and outcomes.

The institute will help investigate the important role of CM in the national healthcare system.

It will build on the quality, relevance and extent of local research in order to improve consumer choice, access to and understanding of complementary medicine.

The announcement of the most recent funding was made at the Blackmores Research Symposium, a two-day conference in Sydney that attracted over 160 delegates from Australia and abroad.

The symposium explored the topic: *Solving the 21st Century Lifestyle Dilemma*, and featured a number of leading researchers from a variety of Australian, British, and American universities, research institutes and hospitals.

Researchers presented advances in the treatment and prevention of 'modern' diseases in areas such as cardiovascular disease, obesity and mental health, and the integration of these new strategies into clinical practice. Topics included the role of coenzyme Q10 in blood pressure management, omega-3 fatty acids with depression, CM and the impact in Alzheimer's

disease, vitamin E in cancer treatment, and vitamin D and iodine deficiencies and the health of Australians.

Our continued focus on research is at long last being shared by many others in government, industry and the health profession and we are currently planning future events.

It was recently announced that the establishment of an Australia New Zealand Therapeutic Products Authority (ANZTPA) will be postponed until further notice after the legislation failed to gain support in the New Zealand parliament.

Blackmores has consistently supported the concept of harmonisation of the rules and regulations that apply to the sale of complementary medicines in New Zealand, Australia and Asia – though we never believed that simply imposing another version of the current Australian system on our New Zealand counterparts was appropriate.

Throughout the consultation process, the Therapeutic Goods Administration (TGA) encouraged much discussion and debate that has affected our industry, in most part, for the better. A number of issues were addressed as a result of the consultation process, and these gains will not be lost despite the harmonisation initiative not proceeding at this time. The recommendations have resulted in improved processes and potential access to new ingredients for Australian industry and the public.

There were also some frustrations throughout the consultation period, including areas such as advertising where we would have preferred a different outcome, and a significant amount of detail that industry never had full visibility over, or was lacking.

We take heart in the assurances of the Parliamentary Secretary for Health and Ageing, Senator Brett Mason, that the work of the last few years will not be wasted. Senator Mason is new to the role and has shown interest in the commercial impact of government regulations on our business.

In the attempt to create a joint agency many millions of dollars have been spent on both sides of the Tasman, and much good work has been done both by industry and by the respective regulators. We can only hope that a much simpler, less costly regulatory system can ultimately be created.

Our Board, executive team and staff have worked hard throughout the year to maintain the momentum and continue to raise the bar in developing and marketing the best products we can, continuing to serve our customers well and running a seamless operation, and I'd like to take this opportunity to thank them for yet another record year for Blackmores.

## Outlook

Consumer demand for natural health solutions continues to grow, we are enjoying long-awaited government investment in our industry and have made significant inroads in creating a better regulatory environment. Closer to home, we are building an innovative new Blackmores Campus and have a highly motivated and engaged team. We have reason to be optimistic about the coming year.



Marcus C. Blackmore AM  
Executive Chairman

# Launch of innovative new products

Seven new products were launched during the financial year, contributing more than \$7 million to total sales.

The lack of market innovation in the immune and cold and flu categories in recent years has provided an opportunity for Blackmores to launch two new products for the relief of cold and flu symptoms and to enhance general immunity, Olive Leaf Extract and Immunodefence™.

## Olive Leaf Extract

Blackmores Olive Leaf Extract has many traditional uses, including relief of symptoms of colds and flu such as coughs and sore throats. The key ingredient is olive leaf extract, which contains high levels of the beneficial antioxidant oleuropein. It also helps maintain a healthy heart, cardiovascular system and normal healthy blood pressure.

Blackmores Olive Leaf Extract has been embraced by consumers and is already the second biggest selling olive leaf extract on the market.



## Immunodefence™

Blackmores Immunodefence™ enhances and supports immune cell activity. It contains lactoferrin, which is produced naturally in the body by immune cells when the body is under the threat of infection. The lactoferrin in Blackmores Immunodefence™ is extracted from whey protein, which is found in cow's milk, and is particularly suitable for those who are lactose intolerant.

## Weight-Loss Accelerate™

Blackmores recognises the long-term potential of the weight management category, with more than half of Australian men and forty-five per cent of Australian women overweight. Blackmores launched an innovative weight management product, using a unique and clinically proven ingredient.

Weight-Loss Accelerate™ is designed to maximise the weight-loss results achieved in conjunction with a diet and exercise program. Clinical trials showed up to three times greater weight-loss results than with diet and exercise alone. It contains hydroxycitrate complex, an ingredient derived from the rind of a South-East Asian fruit.

The launch included an internal program with staff involving an eight-week Blackmores Health Challenge, supporting our commitment to the health and wellbeing of our staff.





### Omega range

The 'fish oil' market in Australia continues to gain momentum as one of the most popular areas of need for consumers. Consumer demand for fish oil supplements with high concentrations of omega-3s has been on the increase after mounting research and media reports have indicated how important fish oil is for general health.

In recognition of these changing consumer trends, Blackmores launched the Omega range of four highly concentrated omega-3 fatty acid products, Omega Brain, Omega Heart, Omega Joint and Omega Daily.

Blackmores demonstrated strong leadership as the first major consumer brand to enter the concentrated fish oil category, providing consumers with products that deliver greater value and convenience.

The Omega range contains tailored concentrations of EPA and DHA, targeting brain, heart and joint health, as well as addressing general health. Research conducted by the Fisheries Research

and Development Corporation has concluded that only 24 per cent of Australians consume the recommended amount of fish per week. With a greater potency over standard fish oils, the Omega range conveniently delivers highly concentrated marine omega-3 fatty acids with less capsules per dose.

These products were supported with highly visible marketing activity through a major advertising, promotional and online campaign ([blackmoresomega.com.au](http://blackmoresomega.com.au)).

### Blackmores Professional

The appointment of a national distributor for our healthcare practitioner accounts marked an exciting new era for Blackmores Professional.

Blackmores Professional, a range of formulations available only through registered healthcare practitioners, selected pharmacies and health food stores, expanded to feature a number of unique new products; MarinE Q10, E Complete, Serenoa Urtica Plus and Digestive Enzyme Plus. The new products have been supported with an education program for healthcare practitioners, including information seminars.



## International

Blackmores now operates in New Zealand, Malaysia, Thailand, Taiwan, Singapore, Hong Kong and the United Kingdom.

New Zealand had a strong sales result, increasing 43.8 per cent over last year. This can be attributed to prominent television advertising of Blackmores Joint Formula, Fish Oil and Sustained Release Multi.

In Malaysia, sales were up 27.7 per cent on last year. Blackmores' brand awareness is growing as a result of focused consumer marketing campaigns and excellent retail relationships.

Our business in Thailand has maintained a good sales contribution throughout the year, a noteworthy achievement given the economic and political uncertainty in that country.

On Australia Day 2007, Blackmores launched a range of 15 products into more than 400 Watson's personal care stores in Taiwan, making the Company's first new market entry in a decade.

With growing sales in nutritional products, Taiwan presents a significant opportunity for Blackmores. Our market research revealed a consumer need for high quality, premium natural health solutions. The Blackmores Taiwan range was developed specifically for these consumers.

Initial sales have been pleasing. After only six months of sales, Blackmores received two 'Health, Wellness and Beauty' awards from Watson's Taiwan for Best New Products.

Our international business now delivers 15.5 per cent of total external sales for the group. Our focus in the coming year will be to grow our existing markets while investigating the potential of new markets.



## Strengthened shelf presence of Blackmores consumer range

Blackmores continued to use innovative marketing initiatives and campaigns to increase brand awareness, educate customers and drive sales.

One of Blackmores' key competitive strengths has always been our wide distribution and strong in-store presence. With a growing number of competitors, the category has become increasingly confusing for the shopper. By redesigning our product labels with new images, new coloured segmentation and, importantly, product claims

which clearly explain product benefits, the appeal and shelf presence of our Blackmores consumer range has been strengthened. The end result is reduced shopper confusion at shelf and greater potential for maximising conversion to sales for Blackmores.

**B Your Best**, a new advertising creative campaign, was launched in the second half of the financial year.





### Live it Up

Blackmores launched the first issue of *Live it Up* in summer 2007. This is an exciting customer relationship initiative for members of our existing online subscriber database. The full-colour quarterly mini-magazine features celebrity interviews, ideas on living a well-balanced life, fitness advice, recipes and new products.

### Blackmores Sydney Running Festival

The Blackmores Sydney Running Festival was held on 17 September 2006 and attracted a record number of competitors. More than 17,600 participants registered in the Blackmores Sydney Marathon, Half Marathon, Bridge Run and Family Fun Run and ran across the iconic Sydney Harbour Bridge, with all four races finishing at the Sydney Opera House.

The fully integrated advertising, PR and promotional campaign was successful in increasing brand awareness, and boosting sales in the arthritis category where we are now the number one brand in this growing segment.



## Quality

Blackmores has an ongoing commitment to our quality assurance program which includes:

- Regular audits of new and existing suppliers both in Australia and overseas
- Extensive product testing to substantiate our quality claims and expiry date
- Regulatory evaluation and compliance
- Ongoing training and development of staff in quality principles and Good Manufacturing Practice (GMP)

## blackmores.com.au

Blackmores' website was honoured in February with a Hitwise Online Performance Award: No. 1 Australian Website – Health and Medical Products Category for 2006 at a ceremony in Sydney. The award, which recognised outstanding online business achievement, is measured by consumer popularity and website visitation achieved throughout the year. There were 1.3 million individual visits to blackmores.com.au in 2006.

The fortnightly e-newsletter is now received by more than 200,000 active subscribers. Additionally, more than 4,000 healthcare professionals subscribe to receive newsletters through Blackmores' Professional website.

## Education

Our Naturopathic Advisory Service (freecall 1800 803 760) gives callers the opportunity to talk to a qualified healthcare advisor, or email queries through our website (blackmores.com.au/askanaturopath). This service has responded to more than 63,000 enquiries this year from consumers, health professionals and pharmacy and health food store staff.

The Education Department, under the direction of Blackmores Naturopath, Director of Education Pam Stone, supports the training and education needs of pharmacy assistants and health food store staff with both face-to-face and correspondence learning options. Our international business is also supported, with training and education seminars in Asia and the UK.



This year, our Education Department presented health information seminars and training to more than 6,400 people.

Blackmores' Education Department has continued our commitment to professional education and training, and has formed strong relationships with the Pharmacy Guild of Australia, the Pharmaceutical Society of Australia, the National Pharmacy Students Association and other professional bodies to further the understanding and use of complementary medicine.

The Senior Consultant Training Program is recognised by the Pharmacy Guild of Australia, with credit points interchangeable between Blackmores' training program and the Guild's National Training Course.

In recognition of the growing use of the internet as a source of education and information, Blackmores launched an e-learning program. It gives healthcare professionals, pharmacy and health food store retail assistants and Blackmores staff an innovative and effective way to build on their product knowledge.



# Maintaining a culture of trust, openness and mutual respect

## Investing in our People

Blackmores is often recognised for nurturing a unique relationship with staff which is founded on trust, respect for the individual and a passion for natural health. The Company's overwhelming desire is to maintain a culture of trust, openness and mutual respect. The Collective Agreement is a statement of how we will work together.

Blackmores introduced a new Collective Agreement in September 2006 which was supported by an unprecedented 97.5 per cent of staff.

The annual employee Climate Survey revealed an engagement score of 88 per cent (an increase on our 2005 score of 83 per cent and 2004 score of 79 per cent). Engagement is a measure that includes employee job satisfaction, commitment to the organisation and intention to stay. There is a high correlation between employee engagement and bottom line results.

Blackmores was recognised as a finalist in the Equal Opportunity for Women in the Workplace Agency (EOWA) Awards for 2006 as a leading organisation for the advancement of women.



We have continued to develop a company-wide performance appraisal system to grow and develop our staff.

Blackmores partnered with international human resources consultancy Hewitt Associates to develop a program to increase leadership capability using leading performance enhancing tools, classroom based facilitation, individual development planning and ongoing training and learning opportunities.

A company-funded Employee Assistance Program was introduced to provide support and assistance to employees experiencing personal problems. This is the most recent addition to our employee benefits program.

Other employee benefits include the Profit Share program, in which 10% of the Company's Australian net profit after tax is shared between all permanent Australian staff in June and December each year, a staff share acquisition plan, an on-site gym and health food café.

## New site

Plans are progressing well to relocate our operations from Balgowlah and Brookvale to a 25,000 square metre site at Warriewood, on Sydney's northern beaches.

Despite Sydney's drought conditions, rain has delayed the move until the middle of 2008.

The Warriewood site will encompass office space, distribution, storage, production and staff facilities and will be known as the Blackmores Campus.

The Blackmores Campus will offer a new generation workplace that demonstrates the company's leadership in its balanced approach to health, life and the environment. Watermark Architecture and Interiors has designed the office building to be a 5-Star ABGR building.

The building's Australian setting reinstates native vegetation and revisits the ecology of the site, minimising the need for irrigation. Roof water is captured for rainwater harvesting, and a revitalised wetlands environment forms the entry experience. The buildings are carefully sited to

## Building our Future *continued*

maximise solar access.

The two-storey design has a narrow building section, allowing superior cross-ventilation and use of natural light. The northern side of the building incorporates a shared-use winter garden space for informal meetings and an alternative work environment.

The quality of the indoor environment was the focus for the original design concept, and has generated the building form. The design has maximised access to natural ventilation and we have harnessed the sun to offer warmth in winter and utilise natural temperature control where possible. Recycled and healthy low emission materials have been incorporated into the building to maintain a high indoor air quality.

The low-rise campus atmosphere and internal streets create a social, interactive environment. About 200 staff will be accommodated in the office, manufacturing and distribution components, co-located for the first time in 15 years. The facilities will include open-plan office spaces and winter gardens, a concierge, a flexible conference facility for up to 200 people, staff lounge for up to 100 people, a café and staff shop.

The staff “wellness centre” is at the heart of the building and represents Blackmores’ commitment to the wellbeing of its staff. The centre incorporates treatment rooms for massage and naturopathy, a yoga and pilates area, gym, changing facilities and a lap pool.

## Research and Development

The last twelve months or so have seen some major changes in complementary medicine (CM) research in Australia. First was the announcement of \$5 million in dedicated CM research funding by the National Health and Medical Research Council. Over 141 proposals by 37 research groups were received, showing clear evidence of a vibrant CM research sector. This was followed up by a federal government initiative, with support from the New South Wales Office of Science and Medical Research, to set up a National Institute of Complementary Medicine (NICM).

Certainly the field of CM has moved heavily into the evidence-based medicine paradigm, with less reliance on traditional use. There has been an explosion in the amount of research into clinical nutrition and herbal medicines, alongside investigation into modes of action and pharmacokinetics.

Blackmores has been involved in CM research for thirty years, establishing the Blackmores Research Centre at Southern Cross University in 1998 as a virtual centre from where the Company’s research is coordinated.



Blackmores' involvement in CM research occurs at many levels. Blackmores is a major contributor of product to clinicians for clinical trials in Australia and is now also receiving requests from overseas. In addition, Blackmores has its own research agenda, commissioning studies at universities, hospitals and research institutes, last year also completing a study in Thailand.

Our challenge in coming years will be to align our research to complement what is occurring in the public domain relevant to Blackmores' longer term commercial needs.

Blackmores has also recently established dedicated lines of funding to three CM centres based at three universities in NSW – NatMed at Southern Cross University, the Herbal Medicines Research and Education Centre at University of Sydney and CompleMed at University of Western Sydney.

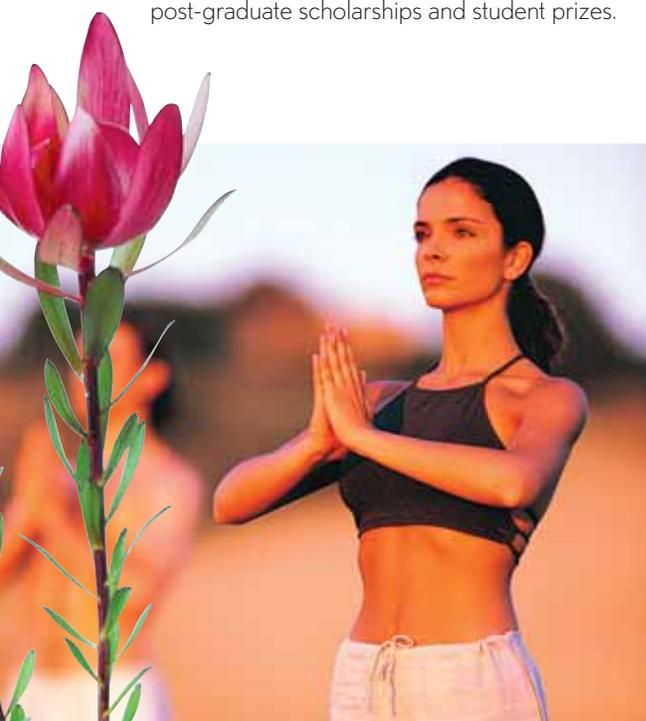
Blackmores research extends from supporting large studies such as the VITATOPS investigation of the effects of vitamins to prevent strokes by modifying homocysteine metabolism, to supporting post-graduate scholarships and student prizes.

Short-term studies have investigated the effects of herbs and vitamins on cognitive function and stress. Current studies include the investigation of a herb combination (in both oral and topical presentations) on pain, vitamin D and metabolic syndrome, and of course our ongoing support for the Baker Institute's investigations into coenzyme Q10 and cardiovascular disease.

In July 2007, Blackmores' Research Symposium was held in Sydney, bringing local and international speakers together in an outstanding event that was of benefit to CM researchers and practising health professionals alike. Many collaborations and research ideas were generated over the two days of the symposium, with enthusiastic calls for another event next year.

Another new initiative in the last year was the production of the Blackmores Research Bulletin, a bi-annual newsletter aimed at disseminating information about CM research in Australia to health professionals and retailers.

We are proud to acknowledge the stewardship of our Executive Chairman Marcus Blackmore who has been a tireless lobbyist to all facets of government regarding the need for more public funding of CM research. This was recognised by the federal Minister for Health and Ageing Tony Abbott at the launch of NICM.



# Making a difference

As a company and as individuals, Blackmores strives to make a difference – by taking the initiative, investing back into the community and creating our own future. Blackmores remains committed to supporting causes, organisations and individuals that share our values.

Blackmores has contributed over \$1.5 million to the Macular Degeneration (MD) Foundation since October 2003, with a percentage of sales from Blackmores Macu-Vision® and Lutein-Vision™ donated towards research and education to support macular health initiatives. Research undertaken by the Foundation with Blackmores' support has helped identify the main needs of the MD community and reduce the incidence and impact of this debilitating condition.

Blackmores' support of the Heart Research Institute (HRI) is a tradition we are proud to continue, as we took on the principal sponsorship of the HRI Awards for Excellence. Prime Minister John Howard

joined Marcus Blackmore, in his role as Chairman of the HRI, to present the Blackmores Young Achiever Award and acknowledge the significant contribution that young Australian researchers make each year to research into cardiovascular disease. Over the past decade, as sponsor of the annual dinner, Blackmores has helped to raise in excess of \$1 million for vital heart research.

The Blackmores Three Island Yacht Race, an annual Pittwater sailing event, raised more than \$100,000 in June for groundbreaking research into cancer. This record amount takes the total money raised for Cure Cancer Australia during the event's 18 year history well past the \$1 million mark.

Other worthy causes to receive sponsorship from Blackmores throughout the year included the Yalari Foundation, Quest for Life, the MINDD Foundation, Arthritis Australia, the Young Endeavour Youth Scheme, the Gawler Foundation and the Australian Thyroid Foundation.



All staff are encouraged to participate in a charitable scheme whereby half a percent of their taxable pay is deducted each payday and placed in an interest bearing trust account designated Blackmores Employees Community Chest. The Company matches this and twice yearly each participating employee nominates a registered charity to receive the donation. Additionally, more than 200 local community groups were supported during the year with Blackmores' gift baskets and financial contributions to assist with fundraising efforts.

## Environmental Sustainability

We believe strongly that as a responsible corporate citizen, we must address the issues of environmentally sustainable practices relating to all aspects of our business, as environmental factors are critical contributors to human health. New efficiencies in environmental practices bring benefits to our employees, stakeholders and indeed the broader community.

Blackmores embraces the need for sustainable and environmentally sound business practices. Blackmores' Brookvale warehouse is operated using state-of-the-art technology and software, with the objective of achieving a paperless system. A continuous, waste-free flow of packaging occurs between our Balgowlah plant and Brookvale warehouse for around 90 per cent of our shipments,

the remainder being packed in stretch-wrap for which recycling procedures have been implemented.

Our continued participation in the strengthened National Packaging Covenant (NPC) marks five years of continuous improvement in the environmental performance of Blackmores' packaging. As a signatory to the Covenant since 2001, we are committed to reduce the environmental impact of our packaging, close the recycling loop and develop economically viable and sustainable recycling systems. The Covenant also allows us to continue to build on the momentum created by previous actions and is something that we as an organisation are excited by.

A major revision of the Blackmores environmental policy has been achieved, reflecting the goals of the strengthened National Packaging Covenant and the Environmental Code of Practice for Packaging, challenging us to reach new levels of environmental excellence and leadership.

Our efforts were recognised in September 2006 when we received the inaugural Pharmaceutical Packaging Action Evolution Award.

Changes to Blackmores' new product development procedures and an internal education program have resulted in the reconsideration of packaging for a key new product. The inclusion of NPC training into the list of official courses, with compulsory attendance for all staff and the development of standard training content, has led to the redesign of our packaging shippers, incorporating the recycling logo.

The design of the new site at Warriewood incorporates a number of features that will minimise our impact on the environment and take advantage of the latest concepts in environmental sustainability.

"If man persists in ignoring or defying the recycling laws of Nature, he will not avoid pollution, malnutrition or starvation."

*Maurice Blackmore, 1967.*

## Management Profiles



### Jennifer Tait [1]

BSc (Chem), FAICD

#### Chief Operating Officer and Executive Director

Jennifer was appointed to the position of Chief Operating Officer and Executive Director in 2003. She joined Blackmores in 1995 as Director of Operations, where she led a number of major change strategies.

A leader with more than 25 years experience in both the pharmaceutical and natural health industries, Jennifer has worked extensively in both Australia and internationally. She has completed a number of executive development programs at the Australian Graduate School of Management (UNSW) and Harvard Business School.

Jennifer is a Fellow of the Australian Institute of Company Directors, Associate Trustee of CEDA (Committee for the Economic Development of Australia), a mentor in the Lucy Mentoring Program sponsored by the NSW Office for Women and is on the board of the Complementary Healthcare Council of Australia.

### Peter Barraket [2]

B Bus, M Comm, CPA

#### Chief Financial Officer

Peter was appointed to the position of Chief Financial Officer in November 2006. He joined Blackmores in 2004 as the Corporate Development and Analysis Manager and has been responsible for leading a number of development and improvement initiatives across the business.

During his 15 year career he has developed a broad range of knowledge and skill in the area of financial and business strategy. Prior to joining Blackmores, Peter spent four years with Goodman Fielder in roles which included Business Development Manager, where he focused on driving a series of business improvement programs. Peter's career also includes six years in the banking industry where he gained proficiency in financial markets knowledge.

He is responsible for leading Blackmores' Finance Department, including the company secretariat.

### Cecilia Howard [3]

BA Communications, Media, Education, Dip Ed.

#### Marketing Director

Cecilia joined Blackmores as Marketing Director in November 2004. Cecilia's career has spanned 23 years, during which time she has obtained a wealth of marketing and business experience in major global multinationals, working both in Australia and abroad. Prior to joining Blackmores, Cecilia spent nine years with Bristol Myers Squibb as Marketing Director Consumer/Nutritionals and seven years with Reckitt Benckiser, including several years working in the United Kingdom.

Cecilia leads the Blackmores Marketing Department which, in addition to the traditional consumer marketing functions, includes responsibility for new product development, public relations, online, and our education department, which covers training and advisory, and she oversees key international marketing and communications initiatives.



## **Reg Weine [4]**

B Bus, CPM

### **Director of Sales**

Reg joined Blackmores in May 2004 and has over 15 years experience in sales, marketing and general management.

Prior to joining Blackmores, Reg held a number of senior management positions including; Sales Director Foodservice Sara Lee Bakery, National Sales and Marketing Manager BCB beverages, General Manager Choice Brands, and National Business Development Manager Pepsi Cola Bottlers Australia.

As Sales Director, Reg sets the strategic direction for the sales function across all markets and trade channels. He is responsible for Blackmores' customer service, trade marketing and the international and national sales teams as well as Blackmores' international operations.

## **Liz Burrows [5]**

B Pharm, MBA (Tech Mgt)

### **Director of Operations**

Liz has over 20 years quality assurance experience in the medical device and pharmaceutical manufacturing industries in Australia and South-East Asia.

She joined Blackmores in 1997 and held the roles of Quality Assurance Manager and Logistics Manager prior to her current role. Her career has included conducting manufacturing process improvement and quality audits in many different countries.

She is responsible for manufacturing, engineering, inventory management, distribution, quality assurance and regulatory affairs at Blackmores.

## **Philip Daffy [6]**

B Sc (Hons)

### **Director of Research and Development and Corporate Affairs**

Philip has more than 25 years experience in the natural health industry – 21 of them at Blackmores.

Philip's team manages Blackmores' increased investment in new product development and clinical research, capitalising on strategic alliances to ensure that Blackmores remains at the forefront of research and development.

Key accountabilities also include protecting Blackmores' corporate responsibilities, including ingredient policies, environmental practices, and government and industry relations.

## **Lee Richards [7]**

### **Chief Technology Officer**

Lee has more than 30 years experience in IT, spanning a variety of industries from distribution and manufacturing through to corporate banking.

Joining the Company in 2000 as part of the team assembled to manage the design and rollout of Blackmores' new business system, Lee brought a significant level of technical, management and business expertise with him.

He was appointed Chief Technology Officer in February 2001, heading up Blackmores' IT team, and resumed his place on the Executive Committee in January 2007.

The Company's current Corporate Governance Principles are available on the Company's website at [blackmores.com.au](http://blackmores.com.au) (go to 'Investors', then click on 'Corporate Governance'). Should you not have access to a computer, a copy of the principles can be obtained by contacting the Company Secretary. A summary of the content covered by each of Blackmores' 10 Corporate Governance Principles follows:

### **Principle 1: Lay solid foundations for management and oversight**

Principle 1 covers the key governance responsibilities of the Directors, which include:

- the overall corporate governance of the Company including its strategic direction, financial objectives, and overseeing (or supervision) of control and accountability systems;
- approving the nominations of Directors to the Board;
- ensuring management maintains a sound system of internal controls to safeguard the assets of the Group; and
- monitoring the performance of the Group.

### **Principle 2: Structure the Board to add value**

This principle addresses protocols which are in place to ensure that the Board reviews its composition from time to time in an effort to ensure the Board benefits from an appropriate balance of skills and experience.

### **Principle 3: Promote ethical and responsible decision-making**

This Principle sets out a 'Directors' Code of Conduct' which aims to ensure that Directors act honestly, in good faith and in the best interests of the Company. This Principle also sets out Blackmores' policy with respect to trading in Blackmores' shares by Directors, management and staff.

### **Principle 4: Safeguard integrity in financial reporting**

The Company is committed to a transparent system for auditing and reporting of the Company's financial performance. Blackmores' Audit Committee performs a central function in achieving this goal. Principle 4 sets out the key responsibilities and duties of the Audit Committee and Blackmores' policy on the appointment of external auditors.

### **Principle 5: Make timely and balanced disclosure**

The Company is concerned to ensure that disclosure of all material matters concerning the Company occurs in a timely, honest and balanced manner. Principle 5 relates to the disclosure of such material matters.

### **Principle 6: Respect the rights of shareholders**

Principle 6 outlines key components of Blackmores' efforts to ensure that shareholders and the investing public have access to pertinent information concerning the Company. Key communications include:

- the annual financial report;
- disclosures to the ASX;
- notices and explanatory memoranda of annual general meetings;
- half yearly reports and shareholders' newsletters; and
- Blackmores' website at [blackmores.com.au](http://blackmores.com.au).

### **Principle 7: Recognise and manage risk**

Principle 7 addresses how the Board ensures that an appropriate framework of controls has been established and maintained to ensure that areas of significant business risk are being managed and monitored.

**Principle 8:  
Encourage enhanced performance**

Principle 8 outlines how Board effectiveness is ensured and maintained.

**Principle 9:  
Remunerate fairly and responsibly**

Principle 9 addresses Blackmores' remuneration policy and the charter of its Remuneration Committee.

**Principle 10:  
Recognise the legitimate interests of stakeholders**

The Company has a Code of Conduct to provide employees with guidance on what is acceptable behaviour. Specifically, the Company requires that all Directors, managers and employees maintain the highest standards of integrity and honesty.

Principle 10 outlines key aspects of this Code which is designed to ensure that the interests of all legitimate stakeholders are recognised and respected.

**Adoption of Corporate Governance Principles**

In accordance with the recommendations of the Australian Stock Exchange Corporate Governance Council announcement of March 2003, Directors formally adopted the Principles as set out on our website on 27 May 2004.

**Recommendations Not Accepted by Directors**

The following identifies and explains why certain best practice recommendations have not been adopted.

**Principle 2:  
Structure the Board to add value**

**Recommendation:** The guidelines recommend that the Chairperson be an independent Director.

**Comment:** Currently, Mr Marcus C Blackmore holds the position of Executive Chairman. Mr Blackmore is also the major shareholder in the Company. Given the depth of his company experience and industry standing, he is considered to be excellently placed to serve as Chairman notwithstanding that pursuant to ASX guidelines he is not considered 'independent'. For these reasons, the recommendation has not been adopted.

**Recommendation:** The guidelines state that a Director is not 'independent' if he or she has served on the Board for a period of time which could 'reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the Company'.

**Comment:** The Company does not consider length of tenure as a relevant disqualifying criteria for independence.

**Principle 8:  
Encourage enhanced performance**

**Recommendation:** The Company should report 'whether a performance evaluation for the board and its members has taken place in the reporting period and how it was conducted'.

**Comment:** Directors believe that evaluation is a continuous matter and is not performed as an extraordinary item once yearly. For this reason, the recommendation has not been adopted.

## Five Year History

\$'000	2007	2006 <sup>(2)</sup>	2005	2004	2003
Sales	171,653	147,988	134,449	115,724	94,740
Operating profit	24,488	19,719	16,522	13,236	8,920
Income taxes	(7,817)	(6,103)	(5,193)	(3,929)	(2,719)
Profit attributable to shareholders	16,671	13,616	11,329	9,307	6,201
Net (cash) / debt	5,268	3,503	5,138	6,020	8,210
Shareholders' equity	43,486	36,786	30,601	27,552	22,695
Total assets	83,164	68,284	59,235	50,892	57,527
Current assets	56,959	48,687	42,779	35,260	40,908
Current liabilities	22,628	20,419	27,753	22,503	33,422
Net tangible assets	41,125	34,768	28,657	25,991	21,349
Profit before interest and taxes (EBIT)	24,242	20,009	16,959	13,762	9,801
Depreciation	1,572	1,855	1,881	2,127	1,829
Amortisation of intangibles	–	–	–	56	39
Net interest <sup>(1)</sup>	665	1,057	437	526	881
Profit before interest, depreciation, amortisation and taxes	25,814	21,864	18,840	15,945	11,669
Net operating cashflows	16,795	14,557	11,831	7,352	7,721
Number of shares on issue ('000s)	16,035	15,914	15,870	15,850	15,138
Earnings per share - basic (cents)	104.3	85.7	71.4	59.5	41.1
Ordinary dividends per share (cents)	81.0	69.0	58.0	46.0	35.0
Special dividends per share (cents)	–	–	–	14.0	–
Share price at 30 June	\$20.56	\$13.90	\$12.95	\$10.00	\$6.32
Net tangible assets (NTA) per share	\$2.56	\$2.18	\$1.81	\$1.64	\$1.41

\$'000	2007	2006 <sup>(2)</sup>	2005	2004	2003
Return on shareholders' equity	38.3%	37.0%	37.0%	33.8%	27.3%
Return on assets	32.0%	31.4%	30.8%	25.4%	19.0%
Dividend payout ratio	77.7%	80.5%	81.2%	100.8%	85.2%
Net debt/(Net debt + shareholders' equity)	10.8%	8.7%	14.4%	17.9%	26.6%
EBIT to sales	14.1%	13.5%	12.6%	11.9%	10.4%
Effective tax rate	<b>31.9%</b>	30.9%	31.4%	29.7%	30.5%
Current assets to current liabilities (times)	<b>2.52</b>	2.38	1.54	1.57	1.22
Net interest cover (times)	<b>36.5</b>	18.9	38.8	26.2	11.1
Gross interest cover (times)	<b>24.4</b>	16.4	33.3	21.0	9.8
<b>% Change on prior year</b>					
Sales	<b>16.0%</b>	10.1%	16.2%	22.1%	16.2%
EBIT	<b>21.2%</b>	18.0%	23.2%	40.4%	19.1%
Profit before interest, depreciation, amortisation and taxes	<b>18.1%</b>	16.1%	18.2%	36.6%	19.3%
Profit attributable to shareholders	<b>22.4%</b>	20.2%	21.7%	50.1%	21.5%
Ordinary dividends per share	<b>17.4%</b>	19.0%	26.1%	31.4%	6.1%

(1) Net interest includes \$910,797 (2006: \$767,000) of capitalised interest.

(2) 2006 results exclude impact of the sale of Balgowlah, including one-off net profit after tax of \$835,000.



The Directors of Blackmores Limited submit herewith the Annual Financial Report for the financial year ended 30 June 2007.

In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

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

### **Marcus C Blackmore** [1]

AM, ND, MAICD

#### **Executive Chairman**

Mr Blackmore has served on the Board since 1973 and is the Chairman of the Company. He is also an Honorary Doctor of Southern Cross University, Chairman of the Southern Cross University Foundation, Chairman of the Heart Research Institute, a Director of the Young Endeavour Youth Scheme, Member of the NSW Maritime Council, and an honorary trustee of the Committee for the Economic Development of Australia (CEDA).

### **Stephen J Chapman** [2]

B Comm, MBA, ACA

Mr Chapman is an investment banker and joined the Board in September 1993.

He was a founder and is the Executive Chairman of Baron Partners Limited, an Australian investment bank. He is also a Director of Hostworks Group Limited and Macquarie Radio Network Limited.

### **Verilyn C Fitzgerald** [3]

MAICD

Ms Fitzgerald joined the Board in 1997. She has over 25 years in international corporate management, including 11 years experience as a Director of public companies in the Health and IT industries in Australia. She is also a Director of Independent Practitioner Network Limited.

### **Naseema Sparks** [4]

B Pharm, M Pharm (Pharmacol), MBA, GAICD

Ms Sparks joined the Board in October 2005. She graduated as a Bachelor of Pharmacy followed by a Master of Pharmacology. She also holds an MBA from Melbourne Business School.

With a background in pharmaceutical and strategic consulting, Naseema joined the advertising business in 1998 and has worked in Australia and the UK for major companies including J Walter Thompson, McCann Erickson, Fleishman Hilliard and M&C Saatchi.

Naseema is currently a Director of Mitchell Communications Group Pty Ltd, Monash IVF Pty Ltd, the Deputy Chair of Osteoporosis Australia, Vice President of the Melbourne International Arts Festival, Director of Australian Print Workshop and a member of Chief Executive Women (CEW).

### **Robert L Stovold** [5]

Mr Stovold is a qualified accountant with over 35 years experience in corporate management, mergers and acquisitions and the property industry. He joined the Board in 1996. He is also a Non-executive Director of Canberra Investment Corporation Limited.

### **Brent W Wallace** [6]

B Comm (Marketing)

Mr Wallace joined the Board in October 2005. Brent is the CEO of Galileo Kaleidoscope, a company known for its strategic marketing, brand and consumer research solutions.



Brent holds a Bachelor of Commerce and has over 25 years experience in marketing, advertising and brand development across a wide variety of consumer categories. He has held senior positions in London and Sydney advertising agencies and was until 1996 Managing Director of Ogilvy & Mather in Australia.

In 1997 he co-founded what is now known as Galileo Kaleidoscope.

Mr Wallace is also a Director of the Worldwide Fund for Nature and an advisory council member of the AGSM's Centre for Applied Marketing.

### Jennifer A Tait [7]

B Sc (Chem), FAICD

#### Chief Operating Officer

Jennifer joined the Board in October 2004. Jennifer was appointed to the position of Chief Operating Officer and Executive Director in 2003. She joined Blackmores in 1995 as Director of Operations where she led a number of major change strategies.

A leader with more than 25 years experience in both the pharmaceutical and natural health industries, Jennifer has extensive experience working both in Australia and internationally. She has completed

a number of executive development programs at the Australian Graduate School of Management (UNSW) and at Harvard Business School.

Jennifer is a Fellow of the Australian Institute of Company Directors, and an Associate Trustee of CEDA (Committee for the Economic Development of Australia). She is also a mentor in the Lucy Mentoring Program sponsored by the NSW Office for Women and is a Non-executive Director on the board of the Complementary Healthcare Council of Australia.

### Anthony W Pascoe

B Comm, ACA, F Fin, GAICD

#### Chief Financial Officer (resigned)

Mr Pascoe joined Blackmores as Chief Financial Officer in November 2003 and was appointed to the Board in October 2005.

Mr Pascoe resigned as a Director on 22 December 2006.

All of the above Directors held office during and since the end of financial year except for:

- Anthony Pascoe – resigned on 22 December 2006

## Key Management Personnel

In addition to the Directors listed above, the Key Management Personnel of Blackmores Limited (as defined pursuant to Accounting Standard AASB 124) during the year were as follows:

- Peter Barraket, Chief Financial Officer – appointed 20 November 2006
- Liz Burrows, Director of Operations
- Philip Daffy, Director of Research & Development and Corporate Affairs
- Cecilia Howard, Marketing Director
- Lee Richards, Chief Technical Officer – appointed 4 January 2007
- Reg Weine, Director of Sales

### Board Members' Directorships

Listed below are details of other listed public company directorships held by Board Members over the last three years.

Director	Directorship of	Date Appointed	Date Resigned
Stephen Chapman	Macquarie Radio Network Ltd	1-Nov-02	current
	Hostworks Group Ltd	17-Feb-97	current
	Perpetual Ltd	12-May-95	29-Oct-04
Verilyn Fitzgerald	Independent Practitioner Network Ltd	7-Aug-03	current
Robert Stovold	Canberra Investment Corporation Ltd	15-Aug-03	current
	Somnomed Ltd	1-May-95	29-Nov-06
	Port Douglas Reef Resorts Ltd	4-Jun-97	30-Aug-06
	York Group Ltd	1-Apr-95	31-Jan-05
	Independent Practitioner Network Ltd	21-Mar-03	31-Aug-04
Marcus Blackmore	No other listed public company directorships		
Brent Wallace	No other listed public company directorships		
Jennifer Tait	No other listed public company directorships		
Anthony Pascoe	No other listed public company directorships		
Naseema Sparks	No other listed public company directorships		

### Committee Memberships

As at the date of this Report, the Company had an Audit Committee, a Nominations Committee and a Remuneration Committee. Members of the Board acting on the Committees during the year were:

**Audit:** Robert Stovold, Chair  
Stephen Chapman  
Verilyn Fitzgerald  
Brent Wallace

**Nominations:** Verilyn Fitzgerald, Chair  
Marcus C Blackmore  
Stephen Chapman  
Naseema Sparks  
Robert Stovold  
Brent Wallace  
Jennifer Tait

**Remuneration:** Verilyn Fitzgerald, Chair  
Marcus C Blackmore  
Stephen Chapman  
Naseema Sparks

### Principal Activities

The consolidated entity's principal activity in the course of the financial year was the development and marketing of health products including vitamins, herbal and mineral nutritional supplements in Australia. The Company also has operations in Malaysia, Thailand and Taiwan and sells through independent distributors in other parts of Asia and in New Zealand.

### Review of Operations

The net amount of profit attributable to the shareholders of the consolidated entity for the financial year was \$16.7 million (2006: \$14.5 million) which represents a 15% increase over the prior year. Prior year included a net profit after costs, provisions and tax effect on the sale of the Company's premises at Balgowlah of \$835,000. Excluding this non-recurring profit, net profit attributable to shareholders of the consolidated entity increased from \$13.6 million (an increase of 22%).

Sales for the year were \$171.7 million (2006: \$148.0 million), an increase of 16% compared to the prior year. Basic earnings per share increased from 90.9 cents to 104.3 cents per share (an increase of 15%). Excluding the prior year non-recurring profit on sale

of Balgowlah, basic earnings per share increased from 85.7 cents per share (an increase of 22%). Net tangible assets per share increased from \$2.18 last year to \$2.56 this year.

Net debt increased from \$3.5 million last year to \$5.3 million this year and Net debt/(Net debt + shareholders' equity) increased from 8.7% last year to 10.8 % this year.

### **Changes in State of Affairs**

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto and elsewhere in the Annual Report of the Company for the year ended 30 June 2007.

### **Subsequent Events**

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### **Future Developments**

Disclosure of additional information not already disclosed elsewhere in the Annual Report of the Company for the year ended 30 June 2007 regarding the business strategies, prospects and likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

However, as disclosed in the 2006 Annual Report, the Directors wish to advise that the Company intends to move its operations (currently situated at Balgowlah and Brookvale in Sydney) to a new site. The Company settled on the purchase of land in Warriewood (Sydney) in September 2005 and construction on the site has commenced. The Company continues to work to a timetable which would see completion of construction of a new office, manufacturing and despatch facility at Warriewood by mid calendar year 2008.

### **Environmental Regulations**

The Company monitors its legal obligations and has its own self imposed policies. We believe that the Company complies with all aspects of the environmental laws. The Company is a party to the National Packaging Covenant, an agreement between industry and government which ensures that the management of packaging and paper throughout their lifecycle produces sustainable, cost-effective benefits to the environment.

### **Occupational Health and Safety**

The Company's Occupational Health and Safety Committee meets monthly and monitors the business by conducting regular audits of the premises. Any safety matters raised either by staff, the audits or from an investigation of any workers' compensation claims are reviewed and, where appropriate, changes made to operating procedures. Staff are encouraged to make safety suggestions to their departmental representatives. All committee members are given the necessary training for the position.

### **Corporate Governance**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Blackmores support and have adhered to key principles of corporate governance. The Company's current corporate governance principles are set out on the Company's website at [www.blackmores.com.au](http://www.blackmores.com.au) (go to "Investors" then click on "Corporate Governance"). Please note a separate section in this Report on pages 24 to 25 outlining the Company's current Corporate Governance principles.

### **Company Secretary**

Nick Geddes FCA, FCIS Company Secretary. Mr Geddes is the principal of Australian Company Secretaries, a company secretarial practice, that he formed in 1993. Nick is a Vice President of the National Council of Chartered Secretaries Australia and a former Chairman of the NSW Council of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development and venture capital in Europe, Africa, the Middle East and Asia.

### Assistant Company Secretary

Cecile Cooper B Bus, CPA, GAICD. Cecile joined Blackmores in 1991 as Finance Manager. She has held a variety of positions and her experience includes ERP system implementations, design of business reporting solutions and strategic reviews. Cecile's most recent role at Blackmores was as Business Manager for the Professional range of products marketed and sold to healthcare practitioners. She brings extensive financial, cross functional and management experience to her new position in the company secretariat.

### Dividends

The amounts paid or declared by way of dividend since the start of the financial year were:

- A final dividend of 42 cents per share fully franked in respect of the year ended 30 June 2006, as detailed in the Directors' report for that financial year, was paid on 14 September 2006.
- An interim dividend of 35 cents per share fully franked in respect of the year ended 30 June 2007 was paid on 23 March 2007.
- On 27 August 2007 Directors declared a final dividend for the year ended 30 June 2007 of 46 cents per share fully franked, payable on 24 September 2007 to shareholders registered on 10 September 2007.

This will bring total ordinary dividends to 81 cents per share fully franked (2006: 69 cents per share fully franked) for the full year.

### Share Options

During and since the end of the financial year no share options were in existence and no new share options were granted to Directors or Executives of the Company.

### Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee Member). During the financial year, 7 Board meetings, 5 Remuneration Committee meetings, 3 Audit Committee meetings and no Nominations Committee meetings were held.

Directors	BOARD OF DIRECTORS		REMUNERATION COMMITTEE		AUDIT COMMITTEE	
	Held	Attended	Held	Attended	Held	Attended
M C Blackmore	7	7	5	4	0	0
S J Chapman	7	6	5	5	3	3
V C Fitzgerald	7	7	5	5	3	3
N Sparks	7	6	5	5	0	0
R L Stovold	7	7	0	0	3	3
B W Wallace	7	7	0	0	3	2
J A Tait	7	7	0	0	0	0
A W Pascoe	3	3	0	0	0	0

## Directors' Shareholdings

The following table sets out each Director's relevant interest in all financial instruments issued by the Company or a related body corporate as at the date of this report.

Directors	Fully Paid Ordinary Shares
M C Blackmore	4,869,120
S J Chapman	16,388
V C Fitzgerald	10,000
N Sparks	Nil
R L Stovold	19,397
B Wallace	2,035
J A Tait	192,296
<b>Total</b>	<b>5,109,236</b>

## Remuneration Report – Audited

Set out below are the remuneration policies of the Company:

### 1. Board Policy for Determining the Nature and Amount of Remuneration of Executive Directors and Company Executives ("Senior Executives") and Non-executive Directors

In April 1996, the Board of Directors established a committee of Directors known as the Remuneration Committee. The current members are:

Verilyn Fitzgerald, Chair  
Marcus C Blackmore  
Stephen Chapman  
Naseema Sparks

The primary objective of the Remuneration Committee is to consider remuneration strategies and policies for Senior Executives and Non-executive Directors of the Company and make recommendations to the Board that are in the best interests of the Company. The Remuneration Committee operates in accordance with the Company's Corporate Governance Principle 9, particulars of which are available on our website.

The Remuneration Committee obtains specialist external advice in establishing remuneration frameworks and levels and assesses the market to

ensure that Senior Executives and Non-executive Directors are being rewarded commensurate with their responsibilities. Executive remuneration packages involve a balance between fixed and incentive pay. In determining the appropriate balance an annual review is undertaken that involves cross referencing position descriptions to reliable accessible remuneration surveys and comparing current remuneration packages with the latest survey information available.

Policies are chosen to:

- Encourage a strong and long term commitment to the Company
- Attract and retain talented Senior Executives
- Enhance the Company's earnings and shareholder wealth.

The Board's current policy regarding remuneration for Senior Executives is summarised below. Non-executive Directors are remunerated on a different basis to other Senior Executives as set out in Section 7 of this report

### Senior Executive Remuneration

- (a) **Fixed Remuneration:** This is targeted to be reasonable and fair, taking into account the Company's legal and industrial obligations, labour market conditions and the scale of the Company. This fixed remuneration component reflects core performance requirements and expectations.
- (b) **Short Term Incentive Payments:** The Company has in place a performance based cash component of executive remuneration linked to clearly specified performance targets. This element of the remuneration is considered to be an effective tool in promoting the interests of the Company and shareholders. The incentive scheme is designed around appropriate performance benchmarks that measure relative performance and provide rewards for materially improved company performance.
- Senior Executives also participate in the general profit share ("Profit Share") arrangements whereby 10% of the Company's Australian net profit after tax is allocated on a pro-rata basis to all permanent Australian staff.

- (c) **Long Term Incentive Plans:** The Company established an Executive Performance Share Plan ("EPSP") which was approved at the Annual General Meeting held in October 2005. This plan has been designed to serve as a longer term incentive for such Senior Executives as are determined eligible by the Board. Under this plan shares in the Company are issued on an annual basis to eligible Senior Executives provided specific performance objectives and hurdles are met.
- (d) **Special Long Term Incentives:** From time to time the Board may offer a Special Long Term Incentive to Senior Executives in addition to the Long Term Incentive Plans outlined in (c) above.

**2. Relationship Between Board Remuneration Policy Outlined Above and the Company's Performance**

The performance based components of Senior Executive remuneration are designed to align the interests of the Senior Executives with the interests of the Company and its shareholders, with the objective of maximising the Company's earnings and improving shareholder wealth. Accordingly, this performance based remuneration is periodically reviewed and revised to achieve this objective. In reviewing the Company's historical performance it should be noted that different short and long term incentive mechanisms have been in place over the past five years. However, where performance benchmarks have applied, these were based on the Company's net profit after tax or growth in earnings per share (as are the current plans).

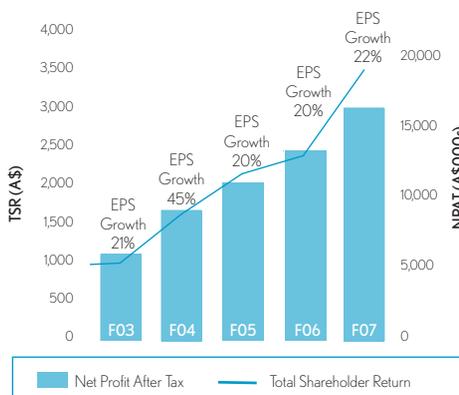
The Company's earnings and consequences of the Company's performance on shareholder wealth are illustrated in the following graph.

**Total Shareholder Return (TSR) versus NPAT and EPS Growth**

Total Shareholder Return is calculated as capital gains (through share price appreciation) plus dividends.

In this example, it is assumed that an investor buys \$1,000 worth of Blackmores' shares on 1 July 2002. The line represents the market value of these shares plus any dividends received. NB: No reinvestment of dividends is assumed.

**Total Shareholder Return (TSR) versus NPAT and EPS Growth**



NB: The NPAT for FY06 above excludes the non-recurring profit on sale of Balgowlah. Further, the FY05 NPAT reflects the IFRS restated result.

**3. Satisfaction of Performance Conditions as Prerequisite to Elements of Current Performance Based Remuneration**

**3.1 Summary of the Performance Condition**

**3.1.1 Performance Conditions for Short Term Incentive Payments ("STI")**

- (a) Under the current policy, unless the Company's Net Profit After Tax ("NPAT") is at least 95% of budgeted NPAT for the relevant financial year, no STI payments will be made. If this target is reached, then the STI payment is based on a sliding percentage based on the actual NPAT. If NPAT is equal to 95% of budgeted NPAT, the maximum STI payment a Senior Executive can receive is 5% of his or her base remuneration. If NPAT is equal to 100% of budgeted NPAT, the maximum STI payment a Senior Executive can receive is 15% of his or her base remuneration. This percentage increases as NPAT is increased. At 110% of budgeted NPAT, the maximum STI payment is 40% of base remuneration. If 150% or more of budgeted NPAT is received the maximum STI payment a Senior Executive can receive is 90% of his or her base remuneration. The percentages within this range vary for each

Senior Executive depending on the actual role and seniority of the Senior Executive in the Company. The ultimate eligibility to STI payment is also dependent upon individual performance.

- (b) As outlined on the previous page, Senior Executives also participate in the Company's Profit Share arrangements, whereby 10% of the Company's Australian NPAT is allocated on a pro-rata basis (by reference to the employee's base remuneration) to all permanent Australian staff. Senior Executives participate in this Profit Share arrangement on the same basis as all other employees of the Company.

### 3.1.2 Historical STI

For periods prior to 1 July 2004, the Board reviewed the Company's performance and the Senior Executive's performance and used its discretion to determine whether or not and if so, on what basis, a cash bonus would be granted to a Senior Executive.

### 3.1.3 Performance Conditions for Long Term Incentive ("LTI") Plans

The Executive Performance Share Plan ("EPSP") was approved at the Annual General Meeting held in October 2005. This EPSP forms the LTI component of remuneration packages for Senior Executives.

Under this EPSP, Senior Executives determined by the Board as eligible for participation, receive an entitlement to an annual allocation of shares based on the quantum of earnings per share ("EPS") growth actually delivered in the relevant year over the prior year. The allocation is based on a percentage of the Senior Executive's base remuneration and the allocation varies depending on the actual EPS growth delivered for the relevant year as follows:

Percentage of Base Remuneration of Participant	Rate of EPS Growth
5	greater than 4% but less than or equal to 8%
10	greater than 8% but less than or equal to 12%
15	greater than 12% but less than or equal to 16%
20	greater than 16%

In the case of the Sales Director, Chief Executive Officer or, in the absence of a Chief Executive Officer, the Chief Operating Officer, the above percentages of base remuneration are doubled.

The number of shares to be issued to a Senior Executive is determined by dividing the percentage amount calculated in accordance with the above by:

- the weighted average price of the shares for the five day trading period commencing on the day which is seven days subsequent to the day of the announcement to the ASX of the Company's yearly results for the financial year immediately preceding the relevant financial year; less
- the amount of any final dividend per share declared as payable in respect of the financial year immediately preceding the relevant financial year.

Options and performance shares have been issued in prior years under the terms of plans and arrangements different to those disclosed above for the EPSP. Details in relation to these old plans and option issues have been disclosed in Annual Reports issued by the Company in prior years. There are no options or performance share entitlements outstanding in respect of these old plans.

### 3.1.4 Performance Conditions for Special Long Term Incentive ("SLTI") Plans

Under this EPSP, as determined by the Board, the Sales Director may be offered shares based on the quantum of earnings per share ("EPS") growth actually delivered over a three year period. The allocation is based on a maximum offer of 25,000 shares and varies depending on the actual compounded annual EPS growth delivered for three years ending 30 June 2009.

Percentage of SLTI Shares to be Offered	Annualised Rate of EPS Growth over 3 years
Nil	less than 10%
50	greater than 10% but less than or equal to 14%
75	greater than 14% but less than or equal to 18%
100	greater than 18%

The number of shares to be issued to the Sales Director is determined by multiplying the percentage amount calculated in accordance with the above by the maximum amount of 25,000 shares.

### 3.2 Explanation as to Why the Performance Condition was Chosen

#### 3.2.1 Rationale for STI Payment Performance Conditions

Actual NPAT performance relative to budget was selected as the key performance condition as it is simple, readily identifiable and measurable and is a key driver of shareholder returns.

It also ensures that the incentive payment is aligned with the business strategy and objectives of the Company. The budget is approved on an annual basis by the Board and targets are set by the Board at levels designed to enhance the performance of the Company and have regard to the Company's business plans and market conditions. Individual performance was selected as a secondary performance condition to ensure that Senior Executives have clear objectives and performance indicators that are linked to the business' performance, with the opportunity for excellence to be rewarded and vice versa.

#### 3.2.2 Rationale for LTI and SLTI Plan Performance Conditions

In determining the performance conditions for the Company's LTI plan, the Board has been mindful that EPS growth is the key driver of shareholder value, influencing both share price and the capacity to pay increased dividends. Growth in EPS is simple to calculate and readily identifiable. Allocating shares to Senior Executives based on EPS growth ensures that they are striving to continually improve the Company's financial performance and as they increase their shareholding in the Company through the LTI and SLTI plan, their personal financial interests become even more directly aligned with those of the Company's shareholders in general.

### 3.3 Summary of the Methods Used in Assessing Whether the Performance Conditions are Satisfied and an Explanation as to Why Those Methods Were Chosen

#### 3.3.1 Short Term Incentive Payments

- (a) Actual NPAT is calculated by the Company at the end of the relevant year and verified with reference to the Company's audited financial statements before any payment is made. This method was chosen to ensure transparency.
- (b) In terms of individual performance, the person to whom the Senior Executive reports assesses that executive's contribution by reviewing his or her individual objectives, key tasks and performance indicators and the extent to which they have been achieved.

These individual objectives are set at the start of each financial year and formally reviewed every six months. The Board also overviews performance assessments for each of the members of the Company's Executive Committee (these individuals appear on pages 22 and 23 of the Company's Annual Report). This method was chosen to provide an objective assessment of the Senior Executive's individual performance.

#### 3.3.2 Long Term Incentive Plans and Special Long Term Incentive Plans

Growth in earnings per share is calculated by the Company at the end of the relevant period and verified with reference to the Company's audited financial statements before any award is made. This method was chosen as it is an objective test, is easy to calculate and ensures transparency.

### 4. Other Remuneration Related Items

During the financial year ended 30 June 2006, the Company established a Staff Share Acquisition Plan. The plan is open to all employees including Senior Executives and enables them to purchase up to \$1,000 of Blackmores' shares tax free each year with money that would have otherwise been paid as Profit Share (refer to Section 3.11(b) of this Directors' Report).

## 5. Prescribed Details of Key Management Personnel

### 5.1 Key Management Personnel Remuneration

The following table discloses the remuneration of the Directors of the consolidated entity for the financial year ended 30 June 2007:

	SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS		OTHER LONG-TERM EMPLOYEE BENEFITS		SHARE-BASED PAYMENT	Total \$
	Salary & Fees \$	1 Bonus \$	2 Non-Monetary \$	3 Other \$	Super-annuation \$	4 Other \$	5 Deferred Bonus \$	6 Other \$	7 Shares \$	
M C Blackmore										
<b>2007</b>	<b>364,314</b>	<b>412,282</b>	<b>4,625</b>	<b>44,224</b>	<b>105,113</b>	–	–	<b>20,859</b>	–	<b>951,417</b>
2006	462,677	270,875	4,054	38,844	24,517	–	–	12,942	–	813,909
S Chapman										
<b>2007</b>	<b>66,500</b>	–	–	–	<b>5,985</b>	–	–	–	–	<b>72,485</b>
2006	65,329	–	–	–	5,879	–	–	–	–	71,208
V Fitzgerald										
<b>2007</b>	<b>68,500</b>	–	–	–	<b>6,165</b>	–	–	–	–	<b>74,665</b>
2006	55,520	–	–	–	4,996	12,981	–	–	–	73,497
N Sparks										
<b>2007</b>	<b>63,500</b>	–	–	–	<b>5,715</b>	–	–	–	–	<b>69,215</b>
2006	44,179	–	–	–	3,976	–	–	–	–	48,155
R Stovold										
<b>2007</b>	<b>65,500</b>	–	–	–	<b>5,895</b>	–	–	–	–	<b>71,395</b>
2006	65,117	–	–	–	5,860	1,554	–	–	–	72,531
B Wallace										
<b>2007</b>	<b>63,500</b>	–	–	–	<b>5,715</b>	–	–	–	–	<b>69,215</b>
2006	44,179	–	–	–	3,976	–	–	–	–	48,155
J A Tait										
<b>2007</b>	<b>223,045</b>	<b>194,291</b>	<b>49,267</b>	<b>28,138</b>	<b>41,113</b>	–	–	<b>11,152</b>	<b>142,286</b>	<b>689,292</b>
2006	222,477	119,645	50,512	25,551	40,407	–	–	9,298	128,172	596,062
A Pascoe Resigned Dec 06										
<b>2007</b>	<b>123,682</b>	<b>84,014</b>	–	<b>5,108</b>	<b>6,343</b>	–	–	<b>13,049</b>	–	<b>232,196</b>
2006	253,113	102,050	–	20,160	12,139	–	10,074	1,190	54,738	453,464
Total Remuneration										
<b>2007</b>	<b>1,038,541</b>	<b>690,587</b>	<b>53,892</b>	<b>77,470</b>	<b>182,044</b>	–	–	<b>45,060</b>	<b>142,286</b>	<b>2,229,880</b>
2006	1,212,591	492,570	54,566	84,555	101,750	14,535	10,074	23,430	182,910	2,176,981

## Directors' Report continued

The following table discloses the remuneration of the Key Management Personnel of the consolidated entity (excluding Directors as disclosed above) for the financial year ended 30 June 2007, as specified for disclosure by AASB 124. This table also ensures compliance with section 300A of the Corporations Act 2001 which requires disclosure of prescribed remuneration details for the five highest paid Company and Group executives:

	SHORT-TERM EMPLOYEE BENEFITS				POST-EMPLOYMENT BENEFITS		OTHER LONG-TERM EMPLOYEE BENEFITS		SHARE-BASED PAYMENT	Total \$
	Salary & Fees \$	1 Bonus \$	2 Non-Monetary \$	3 Other \$	Super-annuation \$	4 Other \$	5 Deferred Bonus \$	6 Other \$	7 Shares \$	
P Barraket Chief Financial Officer										
<b>2007</b>	<b>172,147</b>	<b>123,704</b>	<b>-</b>	<b>22,877</b>	<b>12,686</b>	<b>-</b>	<b>-</b>	<b>6,260</b>	<b>58,448</b>	<b>396,122</b>
2006	134,753	42,461	-	11,095	12,139	-	-	2,434	-	202,882
L Burrows Director, Operations										
<b>2007</b>	<b>127,391</b>	<b>112,572</b>	<b>-</b>	<b>16,328</b>	<b>52,613</b>	<b>-</b>	<b>-</b>	<b>10,468</b>	<b>41,396</b>	<b>360,768</b>
2006	145,438	66,280	-	12,815	28,323	-	6,174	6,241	36,451	301,722
P Daffy <sup>8</sup> Director, Research & Development										
<b>2007</b>	<b>138,874</b>	<b>97,362</b>	<b>-</b>	<b>15,617</b>	<b>58,841</b>	<b>-</b>	<b>-</b>	<b>8,738</b>	<b>35,183</b>	<b>354,615</b>
2006	127,218	58,780	-	11,579	27,139	-	3,881	630	32,462	261,689
C Howard Director, Marketing										
<b>2007</b>	<b>163,851</b>	<b>127,069</b>	<b>-</b>	<b>17,415</b>	<b>42,378</b>	<b>-</b>	<b>-</b>	<b>9,104</b>	<b>46,669</b>	<b>406,486</b>
2006	184,361	78,011	-	15,015	19,475	-	-	379	42,678	339,919
L Richards Chief Technical Officer										
<b>2007</b>	<b>121,182</b>	<b>97,792</b>	<b>17,610</b>	<b>14,393</b>	<b>12,686</b>	<b>-</b>	<b>-</b>	<b>3,318</b>	<b>29,293</b>	<b>296,274</b>
2006	138,823	53,103	11,183	11,295	12,139	-	-	3,306	-	229,849
R Weine Director, Sales										
<b>2007</b>	<b>216,372</b>	<b>163,727</b>	<b>51,048</b>	<b>24,286</b>	<b>12,686</b>	<b>-</b>	<b>-</b>	<b>13,534</b>	<b>269,959</b>	<b>751,612</b>
2006	194,003	115,280	33,051	18,747	12,139	-	1,864	925	49,725	425,734
Total Remuneration										
<b>2007</b>	<b>939,817</b>	<b>722,226</b>	<b>68,658</b>	<b>110,916</b>	<b>191,890</b>	<b>-</b>	<b>-</b>	<b>51,422</b>	<b>480,948</b>	<b>2,565,877</b>
2006	924,596	413,915	44,234	80,546	111,354	-	11,919	13,915	161,316	1,761,795

- Note 1: Amounts included in Bonus column include amounts paid by way of Profit Share on 21 December 2006 and 20 June 2007. The Short Term Incentive Payment was granted on 25 May 2006.
- Note 2: Non-Monetary benefits include motor vehicle benefits and notional interest not charged on loans under employee share plans which operated in prior years. The Notional Interest Benefit is based on an estimate of the interest forgone by the Company in not charging interest on the Employee Share Plan Loans approved at various Annual General Meetings. An interest rate of 7.9% (2006: 7.3%) has been applied to Loans outstanding at various times of the year.
- Note 3: Amounts disclosed as other short term employee benefits relate to provisions for untaken annual leave earned during the relevant period.
- Note 4: Other post-employment benefits in the Directors' note relate to the provision for Non-executive Directors' retirement allowances.
- Note 5: Deferred bonus amounts are deferred payments relating to performance in the 2004 financial year but not payable until July 2006.
- Note 6: Other amounts shown under other long-term employee benefits relate to provisions for untaken long service leave earned during the relevant period.
- Note 7: Amounts shown above as Shares for the 2007 year are shares to be issued pursuant to the Company's Executive Performance Share Plan which relate to the financial year ended 30 June 2007. There were various grant dates for the shares related to 2007. All Executives were granted shares on 18 September 2006. In addition to these, P Barraket was granted 2,084 shares and L Richards was granted 632 shares on 19 December 2006. R Weine was granted 29,357 shares on 22 June 2007 of which 25,000 shares remain unvested as at 30 June 2007. Grant date for shares issued in relation to 2006 was 12 September 2005.

Amounts to Executives (excluding Executive Directors) also include 50 free shares issued to all staff in June 2006. Further details of R Weine's Executive Performance Share Plan are detailed in Note 5 of the Notes to the Financial Statements.

- Note 8: Mr Daffy is employed on a four days per week basis.
- Note 9: Directors' and Officers' liability insurance has not been included in the above figures since the amounts involved are not material and it is not possible to determine an appropriate allocation basis.

## 5.2 Employment contracts

The following persons have employment contracts: Jennifer Tait, Peter Barraket, Liz Burrows, Philip Daffy, Cecilia Howard, Lee Richards, and Reg Weine.

Term: No contract is for a fixed term.

Termination: Each contract states it can be terminated by the Company by giving a minimum of four weeks notice and by paying a redundancy specified in minimum weeks of pay according to years of service. These redundancy minimums range from five weeks' pay after one year of service through to 20 weeks' pay after six years of service.

## 6. Relative Proportion of Elements of Remuneration For Senior Executives

The proportion of fixed and performance related remuneration is structured to provide an incentive to Senior Executives to maximise the Company's earnings and increase shareholder wealth. Performance related remuneration is at risk and is struck at a level that provides executives with tangible incentives to meet the Company's objectives. Participation in these plans provides Senior Executives with the opportunity of sharing in the success and profitability of the Company and aligning these executives' interests with the interests of shareholders. The proportions of each element made up of the total remuneration for the top Senior Executives for the financial year ended 30 June 2007 are reflected in section 5 of this Report. The proportions in future years will depend on future performance.

### 7. Non-executive Directors' Remuneration

Compensation arrangements for Non-executive Directors are determined by the Company after reviewing various published remuneration surveys and market information. Non-executive Directors receive a flat fee and an additional fee for each committee membership, with that fee increasing if the Director chairs a committee. Directors appointed prior to 1 October 2003 receive a retirement allowance. Any Non-executive Director appointed after 1 October 2003 will not receive a retirement allowance. Details are as follows:

- The base fee for each Director is \$60,500 per annum, however, any accrued retirement allowance relating to the year in question is applied to reduce this base fee.
- Additional fee of \$3,000 for each committee membership.
- Additional fee of \$2,000 if appointed chairman of the committee.
- For Directors appointed prior to 1 October 2003, a retirement allowance of \$15,333 per annum accrues each year but is capped after 9 years' service at \$138,000.
- A Non-executive Director who is also deputy chairman receives 140% of the relevant base fee.

Shareholders at a meeting held on 19 October 2005 determined the maximum total Directors' fees payable to be \$450,000 per year, to be distributed as the Board determines.

Information about amounts paid to individual Directors is provided in section 5 of this Directors' Report.

### Statement of Non-audit Services

The Directors are satisfied that the provision of non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 6 to the financial statements.

Directors have accepted a statement from the auditors that they are satisfied that the provision of these services did not breach the independence standards included in the *Corporations Act 2001*. Based on this statement from the auditors and having regard to the nature and fees involved in the provision of these non-audit services, Directors are satisfied that the provision of non-audit services during the year by the auditor (or other person or firm on the auditor's behalf) did not compromise the audit independence requirements of the *Corporations Act 2001*.

### Auditor's Statement of Independence

A copy of the Auditor's Statement of Independence is set out on page 42 of this Annual Report.

### Shares on Issue

Summary of shares on issue as at 30 June 2007:

Shares on issue at 1/7/2006	15,914,464
Shares issued to Senior Executives	27,135
Shares issued to Staff	4,932
Dividend Reinvestment Plan	89,342
Shares on issue at 30/6/2007	16,035,873

## Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary, and all Executive Officers of the Company and of any related body corporate against any liability incurred as such a Director, Company Secretary or Executive Officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## Rounding Off of Amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a Resolution of the Directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the Directors

A handwritten signature in black ink that reads "Jennifer A Tait". The signature is written in a cursive, flowing style.

Jennifer A Tait  
Director

Dated in Sydney, 27 August 2007

The Board of Directors  
Blackmores Limited  
23 Roseberry Street  
BALGOWLAH NSW 2093

27 August 2007

Dear Board Members

## **Blackmores 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 Blackmores Limited.

As lead audit partner for the audit of the financial statements of Blackmores Limited for the financial year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



**P G Forrester**  
Partner  
Chartered Accountants

## Independent Auditor's Report to the Members of Blackmores Limited

### Report on the Financial Report and AASB 124 Compensation Disclosures in the Directors' Report

We have audited the accompanying financial report of Blackmores Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 45 to 84.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "Remuneration Report - Audited" on pages 33 to 40 of the directors' report, and not in the financial report.

#### *Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

# Deloitte.

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

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

## *Auditor's Independence Declaration*

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

## *Auditor's Opinion on the Financial Report*

In our opinion:

- (a) the financial report of Blackmores Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

## *Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report*

In our opinion, the compensation disclosures that are contained on pages 33 to 40 under the heading "Remuneration Report - Audited" of the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

  
DELOITTE TOUCHE TOHMATSU

  
P G Forrester  
Partner  
Chartered Accountants  
Parramatta, 27 August 2007

## Directors' Declaration

The Directors declare that:

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

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors,

A handwritten signature in black ink, appearing to read 'Jennifer Tait', written in a cursive style.

Jennifer A Tait  
Director

Sydney, 27 August 2007

# Consolidated Income Statement

For the Financial Year Ended 30 June 2007

		CONSOLIDATED		COMPANY	
	Note	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Continuing operations</b>					
Revenue	2	172,896	148,903	158,516	139,772
Other income	2	–	757	2	770
Promotional and other rebates		(13,881)	(11,159)	(11,453)	(9,484)
Changes in inventories of finished goods and work in progress		(304)	688	383	(986)
Raw materials and consumables used		(56,819)	(51,334)	(56,926)	(50,843)
Employee benefits expense		(37,438)	(32,811)	(34,164)	(29,819)
Depreciation and amortisation expenses		(1,572)	(1,855)	(1,504)	(1,797)
Finance costs		(444)	(756)	(640)	(1,003)
Selling and marketing expenses		(23,638)	(20,491)	(18,697)	(16,469)
Operating lease rental expenses		(2,509)	(1,707)	(2,374)	(1,611)
Professional and consulting expenses		(1,551)	(1,247)	(1,325)	(1,054)
Repairs and maintenance expenses		(1,577)	(1,196)	(1,556)	(1,181)
Freight expenses		(2,415)	(2,123)	(2,396)	(2,111)
Other expenses		(6,260)	(5,307)	(6,018)	(5,579)
<b>Profit Before Income Tax Expense</b>	2	<b>24,488</b>	20,362	<b>21,848</b>	18,605
Income tax expense	3	(7,817)	(5,911)	(6,699)	(5,388)
<b>Profit Attributable to Equity Holders of the Parent</b>		<b>16,671</b>	14,451	<b>15,149</b>	13,217
<b>Earnings Per Share from Continuing Operations</b>					
– Basic (cents per share)	25	104.3	90.9		
– Diluted (cents per share)	25	104.1	90.8		

Notes to the financial statements are included in pages 50 to 84.

# Consolidated Balance Sheet

as at 30 June 2007

	Note	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current Assets</b>					
Cash and cash equivalents		10,129	6,497	6,499	4,418
Trade and other receivables	7	29,020	26,277	25,931	23,505
Other financial assets	8	1,178	437	1,178	437
Inventories	9	15,213	14,425	13,182	11,773
Other	10	1,419	1,051	1,209	728
<b>Total Current Assets</b>		<b>56,959</b>	<b>48,687</b>	<b>47,999</b>	<b>40,861</b>
<b>Non-Current Assets</b>					
Property, plant and equipment	11	23,818	17,504	23,658	17,310
Deferred tax assets	3 (b)	2,361	2,018	2,393	2,050
Other	12	26	75	3,871	3,873
<b>Total Non-Current Assets</b>		<b>26,205</b>	<b>19,597</b>	<b>29,922</b>	<b>23,233</b>
<b>Total Assets</b>		<b>83,164</b>	<b>68,284</b>	<b>77,921</b>	<b>64,094</b>
<b>Current Liabilities</b>					
Trade and other payables	13	17,121	15,808	16,087	14,774
Borrowings	14	–	–	–	–
Other financial liabilities	15	–	174	–	174
Current tax liabilities	16	2,723	1,615	2,454	1,402
Provisions	17	2,784	2,822	2,784	2,822
<b>Total Current Liabilities</b>		<b>22,628</b>	<b>20,419</b>	<b>21,325</b>	<b>19,172</b>
<b>Non-Current Liabilities</b>					
Borrowings	18	15,397	10,000	19,002	13,179
Deferred tax liabilities	3 (b)	979	481	779	477
Provisions	19	674	598	674	598
<b>Total Non-Current Liabilities</b>		<b>17,050</b>	<b>11,079</b>	<b>20,455</b>	<b>14,254</b>
<b>Total Liabilities</b>		<b>39,678</b>	<b>31,498</b>	<b>41,780</b>	<b>33,426</b>
<b>Net Assets</b>		<b>43,486</b>	<b>36,786</b>	<b>36,141</b>	<b>30,668</b>
<b>Equity</b>					
Issued capital	22	17,401	15,932	17,401	15,932
Reserves	23	1,657	810	2,732	1,590
Retained earnings	24	24,428	20,044	16,008	13,146
<b>Total Equity</b>		<b>43,486</b>	<b>36,786</b>	<b>36,141</b>	<b>30,668</b>

Notes to the financial statements are included in pages 50 to 84.

# Consolidated Statement of Recognised Income and Expense

For the Financial Year Ended 30 June 2007

	Note	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Increase in hedging reserve arising on recognition of unrealised gains on interest rate swaps	23	741	437	741	437
Related income tax on items taken to equity	23	(353)	–	(353)	–
(Decrease)/increase in foreign currency translation reserve arising on translation of foreign operations	23	(295)	221	–	–
<b>Net income recognised directly in equity</b>		<b>93</b>	<b>658</b>	<b>388</b>	<b>437</b>
Profit for the period		16,671	14,451	15,149	13,217
<b>Total recognised income and expense for the period</b>		<b>16,764</b>	<b>15,109</b>	<b>15,537</b>	<b>13,654</b>
Attributable to equity holders of the parent company		16,764	15,109	15,537	13,654

Notes to the financial statements are included in pages 50 to 84.

# Consolidated Cash Flow Statement

For the Financial Year Ended 30 June 2007

	Note	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Cash Flows From Operating Activities</b>					
Receipts from customers		193,301	171,425	170,339	152,015
Payments to suppliers and employees		(168,598)	(149,564)	(148,292)	(131,040)
Interest and other costs of finance paid		(999)	(919)	(978)	(938)
Income tax paid		(6,909)	(6,385)	(6,042)	(6,127)
Net cash provided by operating activities	36(c)	16,795	14,557	15,027	13,910
<b>Cash Flows From Investing Activities</b>					
Interest and bill discount received		329	162	322	158
Payment for property, plant and equipment		(7,916)	(13,607)	(7,855)	(13,470)
Proceeds from sale of property, plant and equipment		6	9,796	5	9,795
Net cash used in investing activities		(7,581)	(3,649)	(7,528)	(3,517)
<b>Cash Flows From Financing Activities</b>					
Proceeds from borrowings		11,381	20,500	11,351	20,500
Repayment of borrowings		(6,000)	(16,500)	(6,000)	(16,500)
Dividends paid		(10,818)	(9,531)	(10,818)	(9,531)
Other		49	104	49	49
Net cash used in financing activities		(5,388)	(5,427)	(5,418)	(5,482)
<b>Net Increase in Cash and Cash Equivalents Held</b>		<b>3,826</b>	<b>5,481</b>	<b>2,081</b>	<b>4,911</b>
<b>Cash And Cash Equivalents At The Beginning Of The Financial Year</b>		<b>6,497</b>	<b>862</b>	<b>4,418</b>	<b>(493)</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		(194)	154	–	–
Cash And Cash Equivalents At The End Of The Financial Year	36(a)	10,129	6,497	6,499	4,418

Notes to the financial statements are included in pages 50 to 84.

# Notes to the Financial Statements

For the Financial Year Ended 30 June 2007

## 1. Summary of Accounting Policies

### Adoption of new and revised Accounting Standards

In the current year, the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption

of these new and revised Standards and Interpretations has not resulted to changes in the consolidated entity's accounting policies and has not affected the amounts reported in the current or prior years, nor on the calculation of basic and diluted earnings per share.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

<ul style="list-style-type: none"><li>• AASB 7 "Financial Instruments: Disclosures" and consequential amendments to other accounting standards resulting from its issue</li></ul>	Effective for annual reporting periods beginning on or after 1 January 2007
<ul style="list-style-type: none"><li>• AASB 101 "Presentation of Financial Statements" – revised standard</li></ul>	Effective for annual reporting periods beginning on or after 1 January 2007
<ul style="list-style-type: none"><li>• Interpretation 10 "Interim Financial Reporting and Impairment"</li></ul>	Effective for annual reporting periods beginning on or after 1 November 2006
<ul style="list-style-type: none"><li>• AASB 8 "Operating Segments" and consequential amendments to other accounting standards resulting from its issue</li></ul>	Effective for annual reporting periods beginning on or after 1 January 2009
<ul style="list-style-type: none"><li>• 2007-4 "Amendments to Australian Standards arising from ED 151 and Other Amendments"</li></ul>	Effective for annual reporting periods beginning on or after 1 July 2007
<ul style="list-style-type: none"><li>• Interpretation 11 "Group and Treasury Share Transactions" and consequential amendments to other accounting standards resulting from its issue</li></ul>	Effective for annual reporting periods beginning on or after 1 March 2007
<ul style="list-style-type: none"><li>• Interpretation 12 "Service Concession Arrangements" and consequential amendments to other accounting standards resulting from its issue</li></ul>	Effective for annual reporting periods beginning on or after 1 January 2008

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company or the consolidated entity.

These Standards and Interpretations will be first applied in the financial report of the consolidated entity that relates to the annual reporting period beginning after the effective date of each pronouncement.

The AASB released AASB 2005-4 "Amendments to Australian Accounting Standards" in June 2005. AASB 2005-4 amends AASB 139 "Financial Instruments: Recognition and Measurement" by limiting the ability of entities to designate any financial asset or liability as 'at fair value through profit or loss'.

The application of AASB 8 "Operating Segments" will not affect any of the amounts recognised in the financial statements, but may change the disclosures presently made in relation to the consolidated entity's segment reporting.

As the entity does not engage in any public-private service concession arrangements, Interpretation 12 "Service Concession Arrangements" will have no impact on the financial statements.

These Standards and Interpretations will be first applied in the financial report of the Company that relates to the annual reporting period beginning after the effective date of each pronouncement.

### **Statement of Compliance**

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS). The parent entity's financial statements and notes also comply with IFRS.

The financial report includes the separate financial statements of the Company and the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the Directors on 27 August 2007.

### **Basis of Preparation**

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1988, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

### **Significant Accounting Policies**

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### **(a) Cash and Cash Equivalents**

Cash comprises cash on hand and cash in banks. Cash equivalents are short term investments in money market instruments. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

#### **(b) Loans and Receivables**

Trade receivables, loans and other receivables are recorded at amortised cost using the effective interest method less impairment.

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 1. Summary of Accounting Policies continued

### (c) Impairment of Financial Assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment is reversed through profit and loss to the extent that the carrying amount of the investment at the date that the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

### (d) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

### (e) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most

appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### (f) Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The following estimated useful lives are used in the calculation of depreciation:

- Buildings 25 - 40 years
- Leasehold improvements 3 - 13 years
- Plant and equipment 3 - 20 years

### (g) Impairment of Assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

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

#### **(h) Financial Instruments Issued by the Company Debt and Equity Instruments**

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

#### **Transaction Costs on the Issue of Equity Instruments**

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

#### **Dividends**

Dividends are classified as distributions of profit.

#### **(i) Principles of Consolidation**

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full. In the separate financial statements of the Company, intra-group transactions are generally accounted for by reference to the existing book value of the items.

#### **(j) Borrowing Costs**

Borrowing costs directly attributable to buildings under construction and the associated land are capitalised as part of the cost of those assets. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **(k) Leased Assets**

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

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

#### **(l) Research and Development Costs**

Research and development costs are recognised as an expense as incurred.

#### **(m) Provisions**

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 1. Summary of Accounting Policies continued

### (m) Provisions continued

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

### Onerous Contracts

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

### (n) Employee Benefits

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

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

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

### Defined Contribution Plans

Contributions to defined contribution superannuation plans are expensed when incurred.

### (o) Revenue Recognition

#### Sale of Goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

### Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

### Dividend and Interest Revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

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

### (p) Foreign Currency

#### Individual Subsidiaries

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Blackmores Limited, and the presentation currency for the consolidated financial statements.

#### Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

### Foreign Operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

### (q) Share-based Payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 July 2005, are measured at fair value at the date of grant. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

### (r) Goods and Services Tax

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

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

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

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

### (s) Current Tax

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

### (t) Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

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

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 1. Summary of Accounting Policies continued

### (t) Deferred Tax continued

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

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

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

### (u) Current and Deferred Tax for the Period

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

### (v) Derivative Financial Instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 37 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The consolidated entity designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions (cash flow hedges), or hedges of net investments in foreign operations. Derivatives not designated into an effective hedge relationship are classified as a current asset or current liability.

#### Fair Value Hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

#### Cash Flow Hedges and Hedges of Net Investments in Foreign Operations

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges or hedges of net investments in foreign operations are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

#### Derivatives That Do Not Qualify For Hedge Accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

#### Embedded Derivatives

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

#### (w) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the provision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>2. Profit Before Income Tax</b>				
<b>(a) Operating Revenue</b>				
Revenue from continuing operations consisted of the following:				
Revenue from sale of goods	171,653	147,988	157,280	138,862
Interest revenue from bank deposits	329	162	322	158
Royalties	914	753	914	752
	<b>172,896</b>	<b>148,903</b>	<b>158,516</b>	<b>139,772</b>
<b>(b) Profit Before Income Tax</b>				
Profit/(loss) before income tax has been arrived at after crediting/(charging) the following gains and losses:				
(Loss)/gain on disposal of property, plant and equipment	(15)	556	2	568
Net foreign exchange (losses)/gains	(601)	201	(601)	202
Exchange (losses) on forward exchange contracts	(116)	(270)	(116)	(270)
	<b>(732)</b>	<b>487</b>	<b>(715)</b>	<b>500</b>
Gains per above	–	757	2	770
Losses per above	<b>(732)</b>	<b>(270)</b>	<b>(717)</b>	<b>(270)</b>
	<b>(732)</b>	<b>487</b>	<b>(715)</b>	<b>500</b>
Profit/(loss) before income tax has been arrived at after charging the following expenses:				
Cost of sales	63,674	56,872	63,095	58,055
Finance costs:				
Interest on loans	83	452	289	701
Other finance costs	361	304	351	302
	<b>444</b>	<b>756</b>	<b>640</b>	<b>1,003</b>
Depreciation of non-current assets	1,538	1,843	1,495	1,795
Amortisation of non-current assets	34	12	9	2
	<b>1,572</b>	<b>1,855</b>	<b>1,504</b>	<b>1,797</b>
Research and development costs immediately expensed	1,090	979	1,090	979
Operating lease minimum lease payments	2,509	1,707	2,374	1,611
Employee benefit expense				
Post employment benefits:				
Defined contribution plans	1,952	1,719	1,833	1,622
Share-based payments:				
Equity settled share-based payments	754	642	754	642
Other employee benefits	34,732	30,450	31,577	27,555
	<b>37,438</b>	<b>32,811</b>	<b>34,164</b>	<b>29,819</b>

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>3. Income Taxes</b>				
<b>(a) Income Tax Recognised in Profit</b>				
Tax expense comprises:				
Current tax expense	7,587	6,171	6,991	5,686
Adjustments recognised in the current year in relation to the current tax of prior years	231	180	102	185
Deferred tax (income)/expense relating to the origination and reversal of temporary differences	(198)	(55)	(394)	(98)
Previously unrecognised deferred taxes associated with subsidiaries	197	-	-	-
Benefit arising from previously unrecognised tax losses, tax credits, or temporary differences of a prior period that is used to reduce current tax expense	-	(385)	-	(385)
Total tax expense	7,817	5,911	6,699	5,388
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:				
Profit before income tax expense	24,488	20,362	21,848	18,605
Income tax expense calculated at 30%	7,346	6,109	6,554	5,581
Effect of lower tax rates on tax on overseas income	43	21	43	21
Non-allowable overseas rental	-	(3)	-	(3)
Non-deductible expenses	313	215	313	215
Previously unrecognised deferred taxes associated with subsidiaries	197	-	-	-
Deferred tax asset not previously recognised now brought to account with respect to accounting profit on sale of CGT assets (net of CGT)	-	(385)	-	(385)
Research and development tax concession	(30)	(8)	(30)	(8)
Interest capitalised for accounting purposes	(283)	(218)	(283)	(218)
	7,586	5,731	6,597	5,203
Under/(over) provision of income tax in previous year	231	180	102	185
Income tax expense	7,817	5,911	6,699	5,388

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## CONSOLIDATED

	Opening Balance \$'000	(Charged)/ credited to Income \$'000	(Charged) to Equity \$'000	Closing Balance \$'000
<b>3. Income Taxes continued</b>				
<b>(b) Deferred Tax Balances</b>				
Deferred tax assets/(liabilities) arise from the following:				
<b>Temporary differences 2007</b>				
Property, plant and equipment	(460)	42	–	(418)
Prepayments	(17)	9	–	(8)
Future withholding tax payable	–	(197)	–	(197)
Provisions	1,411	115	–	1,526
Accruals	597	220	–	817
Cash flow and fair value hedges	63	(66)	(353)	(356)
Website development	18	(2)	–	16
Foreign currency monetary items	(39)	76	–	37
Other	(36)	1	–	(35)
	<b>1,537</b>	<b>198</b>	<b>(353)</b>	<b>1,382</b>
Presented in the balance sheet as follows:				
Deferred tax (liability)				(979)
Deferred tax asset				2,361
				<b>1,382</b>
<b>Temporary differences 2006</b>				
Property, plant and equipment	(449)	(11)	–	(460)
Prepayments	(8)	(9)	–	(17)
Provisions	1,170	241	–	1,411
Accruals	682	(85)	–	597
Cash flow and fair value hedges	11	52	–	63
Website development	20	(2)	–	18
Foreign currency monetary items	46	(85)	–	(39)
Other	10	(46)	–	(36)
	<b>1,482</b>	<b>55</b>	<b>–</b>	<b>1,537</b>
Presented in the balance sheet as follows:				
Deferred tax (liability)				(481)
Deferred tax asset				2,018
				<b>1,537</b>

COMPANY

	Opening Balance \$'000	(Charged)/ credited to Income \$'000	(Charged) to Equity \$'000	Closing Balance \$'000
<b>3. Income Taxes continued</b>				
<b>Temporary differences 2007</b>				
Property, plant and equipment	(460)	42	–	(418)
Prepayments	(17)	9	–	(8)
Provisions	1,411	115	–	1,526
Accruals	597	220	–	817
Cash flow and fair value hedges	63	(66)	(353)	(356)
Website development	18	(2)	–	16
Foreign currency monetary items	(39)	76	–	37
Other	–	–	–	–
	<b>1,573</b>	<b>394</b>	<b>(353)</b>	<b>1,614</b>
Presented in the balance sheet as follows:				
Deferred tax (liability)				(779)
Deferred tax asset				2,393
				1,614
<b>Temporary differences 2006</b>				
Property, plant and equipment	(449)	(11)	–	(460)
Prepayments	(8)	(9)	–	(17)
Provisions	1,170	241	–	1,411
Accruals	682	(85)	–	597
Cash flow and fair value hedges	11	52	–	63
Website development	20	(2)	–	18
Foreign currency monetary items	46	(85)	–	(39)
Other	3	(3)	–	–
	<b>1,475</b>	<b>98</b>	<b>–</b>	<b>1,573</b>
Presented in the balance sheet as follows:				
Deferred tax (liability)				(477)
Deferred tax asset				2,050
				1,573

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>3. Income Taxes continued</b>				
<b>Unrecognised Deferred Tax Assets</b>				
The following deferred tax assets have not been brought to account as assets:				
Tax losses – capital (no expiry date)	2,526	2,526	2,526	2,526
Tax losses – revenue (expiry – 2011)	130	130	–	–
Tax losses – revenue (expiry – 2012)	571	–	–	–
Tax losses – revenue (no expiry date)	1,452	1,513	783	775
	<b>4,679</b>	<b>4,169</b>	<b>3,309</b>	<b>3,301</b>

## 4. Key Management Personnel Compensation

### Details of Key Management Personnel

The Key Management Personnel of Blackmores Limited during the year were:

Marcus C Blackmore, Executive Chairman

Stephen Chapman, Non-executive Director

Verilyn Fitzgerald, Non-executive Director

Naseema Sparks, Non-executive Director

Robert Stovold, Non-executive Director

Brent Wallace, Non-executive Director

Jennifer Tait, Chief Operating Officer

Anthony Pascoe, Chief Financial Officer (resigned 22 December 2006)

Peter Barraket, Chief Financial Officer (appointed 20 November 2006)

Liz Burrows, Director of Operations

Philip Daffy, Director of Research & Development and Corporate Affairs

Cecilia Howard, Marketing Director

Lee Richards, Chief Technical Officer (appointed 4 January 2007)

Reg Weine, Director of Sales

	CONSOLIDATED		COMPANY	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>4. Key Management Personnel Compensation continued</b>				
<b>Key Management Personnel Compensation</b>				
The aggregate compensation made to Key Management Personnel of the consolidated entity and the Company is set out below:				
Short term employee benefits	3,702,108	3,307,573	3,702,108	3,307,573
Post-employment benefits	373,934	227,639	373,934	227,639
Other long term benefits	96,482	59,338	96,482	59,338
Termination benefits	–	–	–	–
Share-based payment	623,234	344,226	623,234	344,226
	<b>4,795,758</b>	<b>3,938,776</b>	<b>4,795,758</b>	<b>3,938,776</b>

The compensation of each member of the Key Management Personnel of the consolidated entity and a discussion of the compensation policies of the Company are detailed in the Directors' Report which accompanies these financial statements

## 5. Executive and Employee Share and Options Plan

### Executive Performance Share Plan

The Company established an Executive Performance Share Plan which was approved by shareholders at the Annual General Meeting held in October 2005. This plan has been designed to serve as a longer term incentive for such Senior Executives as are determined eligible for participation by the Board. Under this plan shares in the Company are issued on an annual basis to eligible Senior Executives provided specific performance objectives and hurdles are met. The plan is detailed in the Remuneration Report in the Directors' Report which accompanies these financial statements.

The numbers of ordinary shares which will be issued for no consideration in relation to the services performed during the financial year ended 30 June 2007 are as follows:

Executive	2007 Shares	2006 Shares
P Barraket	3,268	–
L Burrows	2,905	2,572
P Daffy	2,469	2,285
C Howard	3,275	3,020
L Richards	1,896	–
J A Tait	9,985	9,221
R Weine	8,424	3,527
Total shares to be issued	<b>32,222</b>	<b>20,625</b>

As required by AASB 2 the fair value of the shares issued is determined as the market price at grant date. There were various grant dates for the shares related to 2007. All Executives were granted shares on 18 September 2006. In addition to these P Barraket was granted 2,084 shares and L Richards was granted 632 shares on 19 December 2006 and R Weine was granted 4,357 shares on 22 June 2007. Grant date for shares issued in relation to 2006 was 12 September 2005.

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 5. Executive and Employee Share and Options Plan continued

### Issue of Share Rights to Key Management Personnel

During the year, 25,000 rights (prior year: nil) in Blackmores shares were granted as part of compensation to the Sales Director, Reg Weine. These rights remain unvested as at 30 June 2007. These rights represent an equity-settled share-based payment, with the fair value at grant date of each rights being determined as \$20.03. These rights were issued for no consideration and do not have an exercise price.

These share rights vest over a period of three years, subject to the achievement of certain non-market based conditions relating to the continued employment of the employee and company performance as set out below:

Percentage of share rights offered	Annualised Rate of EPS Growth over 3 years
100	greater than 18%
75	greater than 14% but less than or equal to 18%
50	greater than 10% but less than or equal to 14%
Nil	less than 10%

A share-based payment expense of \$166,917 was recorded in relation to these rights for the year ended 30 June 2007 with a corresponding credit recorded in the employee equity-settled reserve account. This amount has been included in the total remuneration for Reg Weine as set out in the Key Management Personnel Remuneration Disclosure on page 38 of the Directors Report.

### Staff Share Acquisition Plan

The Company has established a Staff Share Acquisition Plan. The plan is open to all employees including Senior Executives and enables them to purchase up to \$1,000 of Blackmores' shares tax free each year with money that would have otherwise been paid as Profit Share. 4,932 shares were issued during the year ended 30 June 2007.

### Options Plan

At 1 July 2006 there were no share options outstanding, none were issued during the year ended 30 June 2007 and as at 30 June 2007 there were no unexercised share options.

The compensation of each member of the Key Management Personnel of the consolidated entity and a discussion of the compensation policies of the Company are detailed in the Directors' Report which accompanies these financial statements.

	CONSOLIDATED		COMPANY	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>6. Remuneration of Auditors</b>				
(a) Auditor of the parent entity:				
Auditing or reviewing the financial report	174,300	168,900	174,300	168,900
Taxation services	26,300	51,000	26,300	51,000
Other non-audit services	20,764	14,000	20,764	14,000
	<b>221,364</b>	233,900	<b>221,364</b>	233,900
(b) Related practice of the parent company auditor:				
Auditing the financial report	94,534	66,195	–	–
Taxation services	60,158	42,797	–	–
Other non-audit services	1,586	39,427	–	–
	<b>156,278</b>	148,419	–	–
The auditor of Blackmores Limited is Deloitte Touche Tohmatsu.				
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>7. Current Trade and Other Receivables</b>				
Current trade and other receivables	29,330	25,672	24,089	21,092
Allowance for doubtful debts	(180)	(144)	(180)	(144)
Allowance for claims	(140)	(100)	(140)	(100)
	<b>29,010</b>	25,428	<b>23,769</b>	20,848
Amounts due from controlled entities	–	–	2,162	1,811
Goods and services tax (GST) recoverable	10	849	–	846
	<b>29,020</b>	26,277	<b>25,931</b>	23,505
<b>8. Other Current Financial Assets</b>				
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swaps	1,178	437	1,178	437
<b>9. Current Inventories</b>				
Raw materials	6,555	5,341	6,555	5,341
Work in progress	1	1	1	1
Finished goods	8,657	9,083	6,626	6,431
	<b>15,213</b>	14,425	<b>13,182</b>	11,773
<b>10. Other Current Assets</b>				
Other current assets and prepayments	1,419	1,051	1,209	728

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 11. Property, Plant and Equipment

### CONSOLIDATED

	Freehold Land at cost \$'000	Buildings at cost* \$'000	Leasehold Improvements at cost \$'000	Plant and Equipment \$'000	Capital Work in Progress \$'000	Total \$'000
<b>Gross Carrying Amount</b>						
Balance at 30 June 2005	3,673	6,109	488	14,872	304	25,446
Additions	10,096	1,678	-	-	1,833	13,607
Category transfers	-	-	72	2,065	(2,137)	-
Disposals	(2,700)	(6,161)	(58)	(4,221)	-	(13,140)
Net foreign currency exchange differences arising on translation of financial statements of self- sustaining foreign operations	-	-	6	24	-	30
Balance at 30 June 2006	11,069	1,626	508	12,740	-	25,943
Additions	593	5,587	-	-	1,736	7,916
Category transfers	-	-	84	690	(774)	-
Disposals	-	(1)	(30)	(292)	-	(323)
Net foreign currency exchange differences arising on translation of financial statements of self- sustaining foreign operations	-	-	(4)	(13)	-	(17)
Balance at 30 June 2007	<b>11,662</b>	<b>7,212</b>	<b>558</b>	<b>13,125</b>	<b>962</b>	<b>33,519</b>

## 11. Property, Plant and Equipment continued

### CONSOLIDATED

	Freehold Land at cost \$'000	Buildings at cost* \$'000	Leasehold Improvements at cost \$'000	Plant and Equipment at cost \$'000	Capital Work in Progress \$'000	Total \$'000
<b>Accumulated Depreciation/ Amortisation</b>						
Balance at 30 June 2005	–	(901)	(455)	(9,754)	–	(11,110)
Disposals	–	1,061	35	3,446	–	4,542
Depreciation expense	–	(161)	(12)	(1,682)	–	(1,855)
Net foreign currency exchange differences arising on translation of financial statements of self- sustaining foreign operations	–	–	(3)	(13)	–	(16)
Balance at 30 June 2006	–	(1)	(435)	(8,003)	–	(8,439)
Disposals	–	1	9	291	–	301
Depreciation expense	–	–	(34)	(1,538)	–	(1,572)
Net foreign currency exchange differences arising on translation of financial statements of self- sustaining foreign operations	–	–	1	8	–	9
Balance at 30 June 2007	–	–	(459)	(9,242)	–	(9,701)
<b>Net Book Value</b>						
As at 30 June 2006	11,069	1,625	73	4,737	–	17,504
As at 30 June 2007	<b>11,662</b>	<b>7,212</b>	<b>99</b>	<b>3,883</b>	<b>962</b>	<b>23,818</b>

\* Buildings gross carrying amount includes capital work in progress related to the new building in the amount of \$7,211,515 (2006: \$1,625,582).

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 11. Property, Plant and Equipment continued

COMPANY						
	Freehold Land at cost \$'000	Buildings at cost* \$'000	Leasehold Improvements at cost \$'000	Plant and Equipment at cost \$'000	Capital Work in Progress \$'000	Total \$'000
<b>Gross Carrying Amount</b>						
Balance at 30 June 2005	3,673	6,109	423	14,649	304	25,158
Additions	10,096	1,678	–	–	2,000	13,774
Category transfers	–	–	8	1,992	(2,304)	(304)
Disposals	(2,700)	(6,161)	(4)	(4,217)	–	(13,082)
Balance at 30 June 2006	11,069	1,626	427	12,424	–	25,546
Additions	593	5,587	–	–	1,675	7,855
Category transfers	–	(1)	63	651	(713)	–
Disposals	–	–	(6)	(283)	–	(289)
Balance at 30 June 2007	<b>11,662</b>	<b>7,212</b>	<b>484</b>	<b>12,792</b>	<b>962</b>	<b>33,112</b>
<b>Accumulated Depreciation/Amortisation</b>						
Balance at 30 June 2005	–	(900)	(419)	(9,615)	–	(10,934)
Disposals	–	1,061	–	3,434	–	4,495
Depreciation expense	–	(161)	(2)	(1,634)	–	(1,797)
Balance at 30 June 2006	–	–	(421)	(7,815)	–	(8,236)
Disposals	–	–	–	286	–	286
Depreciation expense	–	–	(11)	(1,493)	–	(1,504)
Balance at 30 June 2007	–	–	<b>(432)</b>	<b>(9,022)</b>	–	<b>(9,454)</b>
<b>Net Book Value</b>						
As at 30 June 2006	11,069	1,626	6	4,609	–	17,310
As at 30 June 2007	<b>11,662</b>	<b>7,212</b>	<b>52</b>	<b>3,770</b>	<b>962</b>	<b>23,658</b>

\* Buildings gross carrying amount includes capital work in progress related to the new building in the amount of \$7,211,515 (2006: \$1,625,582).

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:				
Buildings	–	161	–	161
Leasehold improvements	34	12	11	2
Plant and equipment	1,538	1,682	1,493	1,634
	<b>1,572</b>	<b>1,855</b>	<b>1,504</b>	<b>1,797</b>

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>12. Other Non-Current Financial Assets</b>				
Loans due under employee share plans	17	65	2	4
Shares in subsidiaries at cost	–	–	3,869	3,869
Other non-current assets	9	10	–	–
	<b>26</b>	<b>75</b>	<b>3,871</b>	<b>3,873</b>
<b>13. Current Trade and Other Payables</b>				
Trade payables	6,589	7,826	6,087	6,701
Goods and services tax (GST) payable	212	1,005	212	1,005
Other creditors and accruals	10,320	6,977	9,788	7,068
	<b>17,121</b>	<b>15,808</b>	<b>16,087</b>	<b>14,774</b>
<b>14. Current Borrowings</b>				
Secured:				
At cost (2006: cost)				
Overdraft	–	–	–	–
Bank bills	–	–	–	–
	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>15. Other Financial liabilities</b>				
Derivatives:				
Foreign currency forward contracts	–	174	–	174
	<b>–</b>	<b>174</b>	<b>–</b>	<b>174</b>
<b>16. Current Tax Liabilities</b>				
Income tax payable	2,723	1,615	2,454	1,402
	<b>2,723</b>	<b>1,615</b>	<b>2,454</b>	<b>1,402</b>
<b>17. Current Provisions</b>				
Employee benefits	2,325	2,354	2,325	2,354
Directors' retirement (Note 20)	414	414	414	414
Make good provision (Notes 20, 29)	45	54	45	54
	<b>2,784</b>	<b>2,822</b>	<b>2,784</b>	<b>2,822</b>

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>18. Non-Current Borrowings</b>				
Secured:				
At amortised cost (2006: at amortised cost)				
Bank bills (i) (ii)	15,397	10,000	15,397	10,000
Unsecured:				
At amortised cost (2006: at amortised cost)				
Amounts due to controlled entities	–	–	3,605	3,179
	<b>15,397</b>	<b>10,000</b>	<b>19,002</b>	<b>13,179</b>

(i) Secured by registered mortgage debentures and a floating charge over certain assets of the consolidated entity.

(ii) In accordance with the security arrangements of liabilities, as disclosed in this note to the financial statements, effectively all non-current assets of the consolidated entity have been pledged as security, except goodwill and future income tax benefits.

## 19. Non-Current Provisions

Employee benefits	483	407	483	407
Surplus lease space (Notes 20, 29)	191	191	191	191
	<b>674</b>	<b>598</b>	<b>674</b>	<b>598</b>

## 20. Provisions

	CONSOLIDATED		
	Make Good Provision \$'000	Surplus Lease Space <sup>(i)</sup> \$'000	Directors' Retirement Benefits <sup>(ii)</sup> \$'000
Balance at 30 June 2006	54	191	414
Reductions resulting from the re-measurement of the estimated future sacrifice or the settlement of the provision without cost to the entity	(9)	–	–
Balance at 30 June 2007	<b>45</b>	<b>191</b>	<b>414</b>
Current (Note 17)	45	–	414
Non-Current (Note 19)	–	191	–

(i) The provision for surplus lease space represents the present value of the future lease payments that the consolidated entity is presently obligated to make in respect of surplus lease space under non-cancellable operating lease agreements, less estimated future sub-lease revenue.

(ii) The provision for Directors' retirement benefits represents amounts set aside as Directors' retirement allowances in accordance with a resolution passed by Shareholders at the 4 November 1993 annual general meeting.

COMPANY

	Make Good Provision \$'000	Surplus Lease Space <sup>(i)</sup> \$'000	Directors' Retirement Benefits <sup>(ii)</sup> \$'000
Balance at 30 June 2006	54	191	414
Reductions resulting from the re-measurement of the estimated future sacrifice or the settlement of the provision without cost to the entity	(9)	–	–
Balance at 30 June 2007	<b>45</b>	<b>191</b>	<b>414</b>
Current (Note 17)	45	–	414
Non-Current (Note 19)	–	191	–

## 20. Provisions continued

- (i) The provision for surplus lease space represents the present value of the future lease payments that the Company is presently obligated to make in respect of surplus lease space under non-cancellable operating lease agreements, less estimated future sub-lease revenue.
- (ii) The provision for Directors' retirement benefits represents amounts set aside as Directors' retirement allowances in accordance with a resolution passed by Shareholders at the 4 November 1993 annual general meeting.

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>21. Capitalised Borrowing Costs</b>				
Borrowing costs capitalised during the financial year	911	767	911	767
For the purpose of funding qualifying assets, the Company has dedicated borrowing facilities, therefore the amount of borrowing costs eligible for capitalisation is the actual cost associated with those facilities.				
<b>22. Issued Capital</b>				
16,035,873 fully paid ordinary shares (2006: 15,914,464)	17,401	15,932	17,401	15,932
	<b>17,401</b>	15,932	<b>17,401</b>	15,932

	COMPANY 2007		COMPANY 2006	
	Number '000	\$'000	Number '000	\$'000
Fully Paid Ordinary Share Capital				
Balance at beginning of financial year	15,914	15,932	15,870	15,932
Issue of shares under executive and employee share plans (Notes 5, 32(c))	32	–	44	–
Issue of shares under dividend reinvestment plan	89	1,469	–	–
Balance at end of financial year	<b>16,035</b>	<b>17,401</b>	15,914	15,932

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 22. Issued Capital continued

### Employee Share Plans

Further details of the Company's executive and employee share plans are contained in Note 5 to the financial statements.

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

## 23. Reserves

Employee Equity-Settled Benefits Reserve	1,907	1,153	1,907	1,153
Hedging Reserve	825	437	825	437
Foreign Currency Translation Reserve	(1,075)	(780)	–	–
	<b>1,657</b>	<b>810</b>	<b>2,732</b>	<b>1,590</b>

### Employee Equity-Settled Benefits Reserve

Balance at beginning of financial year	1,153	511	1,153	511
Movements	754	642	754	642
Balance at end of financial year	<b>1,907</b>	<b>1,153</b>	<b>1,907</b>	<b>1,153</b>

The employee equity-settled benefits reserve arises on the grant of shares to employees under various share plans. Further information about share-based payments to employees is made in note 5 to the financial statements.

### Hedging Reserve

Balance at beginning of financial year	437	–	437	–
Movements	388	437	388	437
Balance at end of financial year	<b>825</b>	<b>437</b>	<b>825</b>	<b>437</b>

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

### Foreign Currency Translation Reserve

Balance at beginning of financial year	(780)	(1,001)	–	–
Translation of foreign operations	(295)	221	–	–
Balance at end of financial year	<b>(1,075)</b>	<b>(780)</b>	<b>–</b>	<b>–</b>

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation and the translation of self-sustaining foreign controlled entities are brought to account by entries made directly to the foreign currency translation reserve, as described in Note 1(p).

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>24. Retained Earnings</b>				
Balance at beginning of financial year	20,044	15,159	13,146	9,460
Net profit attributable to members of the parent entity	16,671	14,451	15,149	13,217
Dividends paid (Note 26)	(12,287)	(9,531)	(12,287)	(9,531)
Other	–	(35)	–	–
Balance at end of financial year	24,428	20,044	16,008	13,146
			2007 Cents per Share	2006 Cents per Share
<b>25. Earnings Per Share</b>				
Basic earnings per share			104.3	90.9
Diluted earnings per share			104.1	90.8
<b>Basic Earnings per Share</b>				
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:				
			2007 \$'000	2006 \$'000
Earnings (reconciles directly to net profit in the statement of financial performance)			16,671	14,451
			2007 Number	2006 Number
The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings per share			15,989,396	15,888,783
<b>Diluted Earnings per Share</b>				
Earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:				
			2007 \$'000	2006 \$'000
Earnings (reconciles directly to net profit in the statement of financial performance)			16,671	14,451
			2007 Number	2006 Number
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of basic earnings per share			15,989,396	15,888,783
Shares deemed to be issued for no consideration in respect of:				
Employee shares			23,085	21,736
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share			16,012,481	15,910,519

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 26. Dividends

Recognised amounts	2007 Cents per Share	Total \$'000	2006 Cents per Share	Total \$'000
<b>Fully Paid Ordinary Shares</b>				
Final dividend for year ended 30 June 2006 (2006: 30 June 2005)				
– fully franked at 30% corporate tax rate	42	6,686	33	5,238
Interim dividend for year ended 30 June 2007 (2006: 30 June 2006)				
– fully franked at 30% corporate tax rate	35	5,601	27	4,293
		12,287		9,531
<b>Unrecognised Amounts:</b>				
Fully paid ordinary shares				
Final dividend – fully franked at 30% corporate tax rate	46	7,377	42	6,686

The final dividend in respect of ordinary shares for the year ended 30 June 2007 has not been recognised in this financial report because the final dividend was declared, determined or publicly recommended subsequent to 30 June 2007.

On the basis that Directors will continue to publicly recommend dividends in respect of ordinary shares subsequent to reporting date, in future financial reports the amount disclosed as 'recognised' will be the final dividend in respect of the prior financial year, and the interim dividend in respect of the current financial year.

	COMPANY	
	2007 \$'000	2006 \$'000
Adjusted franking account balance (tax paid basis)	6,737	5,059
Impact on franking account balance of dividends not recognised	(3,162)	(2,865)
Income tax consequences of unrecognised amounts	–	–

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>27. Commitments for Expenditure</b>				
<b>Forward Foreign Exchange Contracts</b>				
Not longer than 1 year	3,948	9,344	3,948	9,344
<b>Research and Development Contracts</b>				
Not longer than 1 year	315	300	315	300
<b>Building Construction Contracts</b>				
Not longer than 1 year	32,000	978	32,000	978
	36,263	10,622	36,263	10,622

### Lease commitments:

Non-cancellable operating lease commitments are disclosed in note 29 of the financial statements.

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>28. Contingent Liabilities</b>				
Guarantee from Blackmores Limited to Pittwater Council in respect of construction of the new building	738	–	738	–
Guarantees from Blackmores Limited for the issuance of performance guarantees	207	207	207	207
	<b>945</b>	207	<b>945</b>	207
<b>29. Leases</b>				
<b>Operating Leases</b>				
Leasing arrangements				
Operating leases relate to business premises and the Company motor vehicle fleet with lease terms of between 3 to 6 years. All operating lease contracts contain market review clauses in the event that the Company/consolidated entity exercises its option to renew. The Company/consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.				
Non-cancellable operating lease payments				
Not longer than 1 year	2,035	1,923	1,960	1,878
Longer than 1 year and not longer than 5 years	1,259	948	1,222	916
	<b>3,294</b>	2,871	<b>3,182</b>	2,794
In respect of non-cancellable operating leases the following liabilities have been recognised:				
Current (Note 17)	45	54	45	54
Non-current (Note 19)	191	191	191	191
	<b>236</b>	245	<b>236</b>	245

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 30. Subsidiaries

Name of entity	Country of Incorporation	OWNERSHIP INTEREST	
		2007 %	2006 %
<b>Parent Entity</b>			
Blackmores Limited	Australia		
<b>Controlled Entities</b>			
Blackmores Nominees Pty Limited	Australia	100	100
Pat Health Limited	Hong Kong	100	100
Abundant Earth Limited	United Kingdom	100	100
Blackmores (Singapore) Pte Limited	Singapore	100	100
Blackmores (Malaysia) Sdn Bhd	Malaysia	100	100
Blackmores (Thailand) Limited	Thailand	100	100
Blackmores Holdings Limited*	Thailand	100	100
PT Blackmores Indonusa*	Indonesia	100	100
Blackmores (NZ) Limited*	New Zealand	100	100
Blackmores (Taiwan) Limited**	Taiwan	100	100

\* These companies did not trade during the 2007 or 2006 years.

\*\* This company did not trade during 2006. It commenced trading during the financial year ended 30 June 2007. Companies incorporated outside Australia carry on business in the country of incorporation. All overseas entities have been audited by overseas firms of Deloitte Touche Tohmatsu.

### Economic Dependency

The consolidated entity is not significantly dependent upon any other entity.

## 31. Segment Information

### Segment Revenues

	EXTERNAL SALES		INTER-SEGMENT <sup>0</sup>		OTHER		TOTAL	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Australia	145,127	126,387	8,471	9,302	321	158	153,919	135,847
New Zealand	3,650	2,539	241	253	863	685	4,754	3,477
Asia	22,843	18,904	–	–	7	4	22,850	18,908
Other	34	158	–	–	51	68	85	226
Total of all segments							181,608	158,458
Eliminations							(8,712)	(9,555)
Consolidated							172,896	148,903

The above activity is regarded as a single business segment for reporting purposes.

- (i) Inter-segment sales are recorded at cost plus 10%. Pricing is set using a budgeted exchange rate and reviewed at regular intervals, currently once a year.

### 31. Segment Information continued

	TOTAL	
	2007 \$'000	2006 \$'000
<b>Segment Results</b>		
Australia	21,202	18,217
New Zealand	1,051	814
Asia	2,136	1,435
Other	33	20
Total of all segments	24,422	20,486
Eliminations	66	(124)
Profit before tax	24,488	20,362
Income tax expense	(7,817)	(5,911)
Profit for the year from continuing operations	16,671	14,451

	ASSETS*		LIABILITIES**	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Segment Assets and Liabilities</b>				
Australia	77,921	64,094	41,779	33,426
New Zealand	3,605	3,179	33	20
Asia	12,367	10,982	3,691	3,071
Total of all segments	93,893	78,255	45,503	36,517
Eliminations	(10,729)	(9,971)	(5,825)	(5,019)
Consolidated	83,164	68,284	39,678	31,498

\* Includes investments in and receivables from group companies.

\*\* Includes amounts payable to group companies.

	AUSTRALIA		NEW ZEALAND		ASIA		OTHER	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Other Segment Information</b>								
Acquisition of segment assets	7,855	13,470	–	–	61	137	–	–
Depreciation and amortisation of segment assets	1,504	1,797	–	–	68	58	–	–
Other non-cash expenses*	369	89	(197)	44	(34)	30	–	–

\* Other non-cash expenses relate to changes in the obsolescence provision, employee share plan receivables, goodwill, deferred tax assets and liabilities, and other provisions and accruals.

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 31. Segment Information continued

### Products and Services within Each Business Segment

For management purposes, the consolidated entity is organised into three major operating divisions – Australia, New Zealand and Asia. These divisions are the basis on which the consolidated entity reports its primary segment information. The principal activity in each instance is the development and marketing of health products including vitamins, herbal and mineral nutritional supplements. This activity is regarded as being a single business segment for reporting purposes.

## 32. Related Party and Key Management Personnel Disclosures

### (a) Equity Interests In Related Parties

#### Equity Interests in subsidiaries:

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 30 to the financial statements.

### (b) Key Management Personnel Remuneration

Details of Key Management Personnel's remuneration are disclosed in the Directors' Report which accompanies these financial statements. Information in the report has been prepared in accordance with AASB 124.

### (c) Key Management Personnel's Equity Holdings

#### Key Management Personnel's Share Option Plans, Shareholdings and Loans:

There were no options unexercised as at 1 July 2005 and no issues since that date.

Fully paid ordinary shares of Blackmores Limited:

2007	Balance at 1/7/06	Granted as Remuneration	Net Change Other	Balance at 30/6/2007
M C Blackmore	4,968,390	–	(99,270)	4,869,120
S Chapman	16,388	–	–	16,388
V Fitzgerald	20,000	–	(10,000)	10,000
N Sparks	–	–	–	–
R Stovold	18,500	–	897	19,397
B Wallace	2,000	–	35	2,035
J Tait	189,139	9,221	(6,064)	192,296
A Pascoe <sup>1</sup>	19,838	3,938	(11,217)	12,559
P Barraket	50	–	72	122
L Burrows	4,569	2,572	342	7,483
P Daffy	51,821	2,285	(4,000)	50,106
C Howard	2,437	3,020	72	5,529
L Richards	12,150	–	–	12,150
R Weine	462	3,527	(3,939)	50
<b>Total (for Key Management Personnel)</b>	<b>5,305,744</b>	<b>24,563</b>	<b>(133,072)</b>	<b>5,197,235</b>

1 A. Pascoe's closing share balance is at the date of his resignation (22 December 2006).

## 32. Related Party and Key Management Personnel Disclosures continued

2006	Balance at 1/7/06	Granted as Remuneration	Net Change Other	Balance at 30/6/2006
M C Blackmore	4,968,390	–	–	4,968,390
S Chapman	16,388	–	–	16,388
V Fitzgerald	20,000	–	–	20,000
N Sparks	–	–	–	–
R Stovold	18,500	–	–	18,500
B Wallace	–	–	2,000	2,000
J Tait	178,799	10,340	–	189,139
A Pascoe	15,227	4,611	–	19,838
P Barraket	–	–	50	50
L Burrows	1,565	3,004	–	4,569
P Daffy	49,094	2,727	–	51,821
C Howard	–	2,437	–	2,437
L Richards	12,100	–	50	12,150
R Weine	412	3,989	(3,939)	462
<b>Total (for Key Management Personnel)</b>	<b>5,280,475</b>	<b>27,108</b>	<b>(1,839)</b>	<b>5,305,744</b>

### (d) Loan Disclosures

Loans to Key Management Personnel

	Balance at beginning \$	Interest Charged \$	Interest Not Charged \$	Write-Off \$	Balance at end \$	No. in Group
<b>2007</b>	<b>12,249</b>	<b>–</b>	<b>608</b>	<b>–</b>	<b>3,999</b>	<b>1</b>
2006	86,483	–	3,604	–	12,249	2

There were no loan balances exceeding \$100,000 due from Key Management Personnel during or at the end of the financial year.

All loans relate to the Company's Employee Share Plans and, where appropriate, were approved by shareholders at annual general meetings.

The loans are interest free and relate to shares issued in the name of the respective employee. Repayment of the loans must be made by the dividends payable on the related shares. Until the loan is repaid in full, the share certificates are retained by the Company as security.

### (e) Other Transactions with Key Management Personnel

- (i) Key Management Personnel received dividends on their shareholdings, whether held privately or through related entities or through the Employee Share Plans in the same manner as all ordinary shareholders.
- (ii) No interest was paid to or received from Key Management Personnel.

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 32. Related Party and Key Management Personnel Disclosures continued

### (f) Transactions within the Wholly-Owned Group

The wholly-owned group includes:

- the ultimate parent entity in the wholly-owned group;
- wholly-owned controlled entities; and
- other entities in the wholly-owned group

The ultimate parent entity in the wholly-owned group is Blackmores Limited. During the financial year ended 30 June 2007, the following transactions occurred between Blackmores Limited and its other related parties:

	2007 \$	2006 \$
Sales of inventory to overseas entities		
Blackmores (Singapore) Pte Limited*	545,191	377,500
Blackmores (Malaysia) Sdn Bhd*	3,665,033	3,775,841
Blackmores (Thailand) Limited*	4,056,427	5,044,300
Blackmores Limited (Taiwan) Limited*	245,152	–
Pat Health Limited*	203,799	–

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

Amounts due (to)/from:

Blackmores Nominees Pty Limited*	14,306	60,680
Blackmores (Singapore) Pte Limited*	119,538	124,077
Blackmores (Malaysia) Sdn Bhd*	502,138	595,844
Blackmores (Thailand) Limited*	700,003	1,099,753
Blackmores Limited (Taiwan) Limited*	752,584	53,613
Pat Health Limited*	73,833	(123,321)
Blackmores (NZ) Limited**	(3,604,930)	(3,179,102)

\* Amounts receivable from or payable to these related parties are interest free, unsecured and are subordinate to other liabilities. The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

\*\* Amounts payable to this related party are unsecured and are subordinate to other liabilities. Interest is charged monthly on the outstanding loan balance currently at 9.45%, two percentage points above the New Zealand Prime Lending rate. The amounts outstanding will be settled in cash. No guarantees have been given or received.

### (g) Transactions with Other Related Parties

Information on the remuneration of the Key Management Personnel during the financial year is shown in the Directors' Report. The balance of the loans to Key Management Personnel as at financial year end is shown above at (d).

### (h) Balances with Related Parties

No balances have been written off and no provision for doubtful debts has been made against any balances with related parties.

### (i) Controlling Entities

The parent entity in the consolidated entity is Blackmores Limited.

### 33. Unusual Transactions

#### Sale of Balgowlah Land and Building

On 13 April 2006 the Company settled the sale and leaseback of the Company's current premises at Balgowlah. The sale's effect on net profit after tax (net of costs and provisions) was \$835,000.

### 34. Subsequent Events

There has not been any matter or circumstance that has arisen since the end of the financial year 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.

### 35. Assets and Liabilities of Trusts for which the Company is a Trustee or has Indemnified others

	2007 \$'000	2006 \$'000
Blackmores Limited has indemnified the trustee of the Blackmores Share Plan Trust, Blackmores Nominees Pty Limited. Details of the underlying assets and liabilities of the Trust are as follows:		
<b>Non-Current Assets</b>		
Employee Share Plan Loans	14	61
<b>Total Assets</b>	14	61
<b>Current Liabilities</b>		
Loan from Blackmores Limited	14	61
<b>Total Liabilities</b>	14	61

### 36. Notes to the Cash Flows Statement

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>(a) Reconciliation of Cash and Cash Equivalents</b>				
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash	10,129	6,497	6,499	4,418
Bank overdraft	–	–	–	–
	10,129	6,497	6,499	4,418

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 36. Notes to the Cash Flows Statement continued

	CONSOLIDATED		COMPANY	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>(b) Financing Facilities</b>				
Secured bank overdraft facility, reviewed annually and payable at call:				
• amount used	–	–	–	–
• amount unused	2,500	2,500	2,500	2,500
	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>
Secured bank bill acceptance facility, reviewed annually:				
• amount used	15,397	10,000	15,397	10,000
• amount unused	47,603	53,000	47,603	53,000
	<b>63,000</b>	<b>63,000</b>	<b>63,000</b>	<b>63,000</b>
<b>(c) Reconciliation of Profit From Ordinary Activities After Related Income Tax to Net Cash Flows From Operating Activities</b>				
Profit for the year	16,671	14,451	15,149	13,217
(Gain)/loss on sale of non-current assets	15	(1,198)	(2)	(1,209)
Interest income received and receivable	(329)	(162)	(322)	(158)
Depreciation and amortisation of non-current assets	1,572	1,853	1,504	1,797
Unrealised foreign exchange gain/(loss)	254	(285)	254	(285)
Capitalisation of interest expense to borrowings	–	–	217	227
Equity-settled share-based payment	754	642	754	642
Other	74	(130)	(45)	(101)
Increase/(decrease) in current tax liability	1,083	(461)	1,051	(707)
Increase/(decrease) in deferred tax balances	145	(55)	(41)	(98)
Increase/(decrease) in deferred tax balances related to hedge reserve in equity	(353)	–	(353)	–
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
• Current receivables	(3,051)	118	(2,075)	697
• Current inventories	(916)	487	(1,408)	1,777
• Other debtors and prepayments	(378)	(422)	(482)	(230)
• Amounts receivable from subsidiaries	–	–	(352)	(1,185)
Increase/(decrease) in liabilities:				
• Current trade payables	1,216	(174)	1,140	(848)
• Current provisions	(38)	(304)	(38)	195
• Non-current provisions	76	197	76	179
Net cash from operating activities	<b>16,795</b>	<b>14,557</b>	<b>15,027</b>	<b>13,910</b>

## 36. Notes to the Cash Flows Statement continued

### (d) Non-cash financing activities

Dividend payments during the financial year totalled \$12,287,023 (2006: \$9,531,343) of which \$1,468,786 (2006: \$nil) relates to shares created under the Dividend Reinvestment Plan. The balance of \$10,818,237 (2006: \$9,531,343) was paid as cash to equity holders of the parent.

## 37. Financial Instruments

### (a) Financial Risk Management Objectives

The consolidated entity seeks to minimise the effects of currency risk and interest rate risk, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the consolidated entity's policies, approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, and the use of financial derivatives.

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rates and foreign currency risk, including:

- foreign exchange forward contracts to manage exchange rate risk relating to substantial foreign cash receipts.
- interest rate swaps to mitigate the risk of rising interest rates.

### (b) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

### (c) Foreign Currency Risk Management

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

#### Forward Foreign Exchange Contracts

It is the policy of the consolidated entity to enter into forward foreign exchange contracts to cover the risk associated with certain anticipated sales arising in the next twelve months.

At the reporting date there are no outstanding forward foreign exchange contracts. A number of forward foreign exchange contracts were entered into shortly after the reporting date, and these were in line with the policies of the consolidated entity.

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

	AVERAGE EXCHANGE RATE		PRINCIPAL AMOUNT	
	2007	2006	2007 A\$'000	2006 A\$'000
Outstanding Contracts				
Sell Thai Baht				
Less than 3 months	n/a	2915	–	1,478
3 to 12 months	n/a	2915	–	4,436
			–	5,914
Sell Malaysia Ringgits				
Less than 3 months	n/a	2.74	–	849
3 to 12 months	n/a	2.70	–	2,580
			–	3,429

At the reporting date, no forward foreign exchange contracts existed and therefore the aggregate amount of unrealised gains/(losses) under forward foreign exchange contracts relating to future transactions is \$nil (2006: \$173,503).

# Notes to the Financial Statements continued

For the Financial Year Ended 30 June 2007

## 37. Financial Instruments continued

### (d) Interest Rate Risk Management

The consolidated entity is exposed to interest rate risk as it borrows funds on a floating interest rate basis. The risk is managed by the consolidated entity by the use of interest rate swap contracts. In 2006, the Company entered into an interest rate swap with a notional amount of \$30 million, a fixed rate of 5.92% and a forward start date of January 2007. This contract expires in January 2012.

The following table details the notional amounts and remaining terms of interest rate contracts outstanding as at reporting date:

	AVERAGE CONTRACTED FIXED INTEREST RATE		FAIR VALUE NOTIONAL PRINCIPAL AMOUNT		FAIR VALUE	
	2007 %	2006 %	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Outstanding fixed for floating contracts						
Less than 1 Year	–	–	–	–	–	–
1 to 2 years	–	–	–	–	–	–
2 to 5 years	5.92	–	30,000	–	1,178	–
5 years +	–	5.92	–	30,000	–	437

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian Bank Bill Swap Bid Rate. All interest rate swap contracts are designated as cash flow hedges.

The consolidated entity will settle the difference between fixed and floating interest on a net basis.

All other financial assets and liabilities (in the current and prior financial years) are non-interest bearing.

### (e) Credit Risk

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian Bank Bill Swap Bid Rate. All interest rate swap contracts are designated as cash flow hedges.

### (f) Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

### (g) Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the consolidated entity's short, medium, and long term funding and liability management requirements. The consolidated entity manages liquidity risk by maintaining adequate reserves and balancing facilities by continually monitoring forecast and actual cash flows.

## 38. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 18 to the financial statements, all non-current assets of the consolidated entity, except goodwill and deferred tax assets, have been pledged as security. The holder of the security does not have the right to sell or repledge the assets.

# Additional Information

## Number of Holders of Equity Securities as at 14 August 2007:

### Ordinary Share Capital

16,039,330 fully paid ordinary shares are held by 5,340 shareholders.

All issued ordinary shares carry one vote per share, and are entitled to participate in dividends.

There are no options in existence.

There are no restricted securities.

There is no current on-market buy-back.

### Distribution of Holders of Equity Securities

Spread of holdings			No. of Ordinary Shareholders
1	–	1,000	3,314
1,001	–	5,000	1,749
5,001	–	10,000	166
10,001	–	100,000	96
100,001	and	over	15
<b>Total</b>			<b>5,340</b>
Holdings less than a marketable parcel			41

### Substantial Shareholders

Date of Notice	Ordinary Shareholders	FULLY PAID	
		Number	Percentage
26 March 2007	Marcus C Blackmore	4,869,120	30.36%
31 August 2006	Hyperion Asset Management Limited	1,005,583	6.3%

# Additional Information continued

## Twenty Largest Holders of Quoted Equity Securities as at 14 August 2007

Ordinary Shareholders	FULLY PAID	
	Number	Percentage
Mr M C Blackmore	4,094,302	25.53
Dietary Products (Australia) Pty Ltd	576,132	3.59
ANZ Nominees Ltd	570,445	3.56
J P Morgan Nominees Australia Ltd	414,035	2.58
Milton Corporation Limited	300,115	1.87
National Nominees Ltd	260,241	1.62
Gowing Bros Limited	207,363	1.29
Ms J A Tait	192,296	1.20
Ms E M Whellan	182,868	1.14
HSBC Custody Nominees	175,146	1.09
Citicorp Nominees Pty Ltd (Aust Share A/c)	155,000	0.97
Mr R Shepherd	115,000	0.72
Trans State Nominees Pty Ltd	109,150	0.68
Blackmore Foundation Pty Ltd	100,000	0.62
Rathvale Pty Ltd	98,099	0.61
Mrs Q H E Praeger	94,980	0.59
Invia Custodian Pty Ltd (A/c S McClay)	94,302	0.59
Citicorp Nominees Ltd	90,761	0.57
Mrs P G Wright	75,343	0.47
P G Wright, M G Wright & J G Wright	73,260	0.46
<b>Total</b>	<b>7,978,838</b>	<b>49.75</b>

# Company Information

## Company Secretary

The Company Secretary is N V Geddes FCA, FCIS.

## Principal Place of Business

23 Roseberry Street  
Balgowlah NSW 2093  
Telephone (02) 9951 0111

## Registered Office

23 Roseberry Street  
Balgowlah NSW 2093  
Telephone (02) 9951 0111

## Share Registry

Computershare Investor Services Pty Limited  
Level 3, 60 Carrington Street  
Sydney NSW 2000  
(GPO Box 7045 Sydney NSW 1115)  
Telephone (02) 8234 5000  
Facsimile (02) 8234 5050

## Stock Exchange Listing

Blackmores Limited's ordinary shares are quoted by the Australian Stock Exchange Limited, listing code BKL.

## Direct Payment to Shareholders' Bank Accounts

Dividends may be paid directly to bank, building society or credit union accounts in Australia.

These payments are electronically credited on the dividend date and confirmed by mail. The Company encourages you to participate in this arrangement, so please contact our share registry.

## Change of Address

Shareholders who have changed address should advise our share registry in writing.

## Tax File Number

There may be benefit to shareholders in lodging their tax file number with the share registry.

## Shareholder Discount Plan

Shareholders can buy product for personal use at 25% off the recommended retail price. All shareholders have been given details of the plan but please contact the Company Secretary if you would like more information.

# Company Information continued

## Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan.

## Corporate Governance Principles

The Corporate Governance Principles adopted by the Company are available on our website at [blackmores.com.au](http://blackmores.com.au) – (go to 'Investors' then click on 'Corporate Governance'; or contact the Company Secretary).

## Annual Report Mailing

Shareholders who do not want the annual report or who are receiving more than one copy, should advise the share registrar in writing. These shareholders will continue to receive all other shareholder information.

The annual report is available on our website at [blackmores.com.au](http://blackmores.com.au) – (go to 'Investors' then click on 'Annual Reports').

## To Consolidate Shareholdings

Shareholders who want to consolidate their separate shareholdings into one account should advise the share registrar in writing.

## Investor Information

Securities analysts and institutional investors seeking information about the Company should, in the first instance, contact Peter Barraket, Chief Financial Officer, on (02) 9951 0111.

## Company Information

### Board of Directors:

Directors who are executives of the Group:

Marcus C Blackmore (Chairman of Directors)

Jennifer A Tait (Chief Operating Officer)

Directors who are not executives of the Group:

Stephen J Chapman

Verilyn C Fitzgerald

Robert L Stovold

Naseema Sparks

Brent W Wallace

### Auditors:

Deloitte Touche Tohmatsu

### Solicitors:

C R Fieldhouse

### Bankers:

National Australia Bank Limited

## Blackmores Online:

Blackmores have a popular website containing information on a more natural approach to health and the Company in general. The address is [blackmores.com.au](http://blackmores.com.au)

This annual report is printed on paper which is Elemental Chlorine Free and uses pulp derived from sustainable forests.

Designed and produced by Designate Reporting



## Make every day a personal best with Blackmores Men's Performance Multi

These days life can be pretty demanding, the pressures of work, social life, staying in shape... to perform at your peak, you have to work at it.

If achieving your best is important to you, Blackmores Men's Performance Multi can be a great boost. It helps provide an optimum intake of vitamins, minerals and herbs to help support energy production and assist exercise performance, support liver detoxification and assist immune health. It also contains ingredients traditionally used to relieve stress and may assist male sexual performance.

So if you like to be at the top of your game in all aspects of your life, then Blackmores Men's Performance Multi can help you be your best.

For free advice from our naturopaths call 1800 803 760 or visit [blackmores.com.au](http://blackmores.com.au)

**B** your best™

**BLACKMORES**

[blackmores.com.au](http://blackmores.com.au)

Always read the label. Use only as directed. If symptoms persist see your healthcare professional.

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**Blackmores Limited**

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