Patties Foods Ltd
ABN 62 007 157 182

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23 August 2010

Announcements Officer
Company Announcements Office
Australian Stock Exchange Limited
South Rialto Tower
525 Collins Street
MELBOURNE VIC 3000

Patties Foods Limited (PFL) - Results for announcement to the market - Year ended 30 June 2010

In accordance with the ASX Listing Rule 4.3A, the following information in respect of the year ended 30 June 2010 is transmitted for lodgement:

1. Year end report announcement:

2. Appendix 4E - Preliminary Final Report and Dividend Announcement for the year ended 30 June 2010; and

3. Directors' Report and Financial Report for the year ended 30 June 2010.

Yours faithfully

PHILIP W THOMAS
Company Secretary

2010 FINANCIAL YEAR RESULTS ANNOUNCEMENT

PATTIES INCREASES UNDERLYING NPAT BY 42.2%

The Board of Patties Foods Ltd (PFL) today announced the Company's financial result for the year ended 30 June 2010.

Group summary result

$m	FY10	FY09	% Change
Sales Revenue	$196.9	$179.2	9.9%
EBITDA	$31.6	$26.3	20.2%
EBIT	$25.7	$20.3	26.8%
Reported NPAT	$15.7	$11.3	39.7%
EPS (cents)	11.3	8.1	39.5%
DPS (cents)	6.5	4.5	44.4%
EBITDA – Underlying (1)	$33.1	$27.1	22.3%
EBIT – Underlying (1)	$27.2	$21.0	29.3%
NPAT – Underlying (1)	$16.8	$11.8	42.2%
EPS (cents) – Underlying (1)	12.1	8.5	42.4%
Net Debt	$62.8	$69.4	(9.5%)
Cash Inflow from Operations	$22.1	$13.2	67.4%

(1) Reported profit adjusted for significant items of $1.5m pre-tax and $1.0m post-tax. (Last year adjustment for significant items of $0.8m pre-tax and $0.5m post-tax.)

The Company delivered an underlying NPAT of $16.8m for FY2010 reflecting a 42.2% increase on the previous corresponding period, with a corresponding increase in underlying earnings per share from 8.5 cents to 12.1 cents. The total fully franked dividend for the full year has increased 44.4% from 4.5 cents per share to 6.5 cents per share.

Commenting on the results, PFL Chairman, Mr Chris Riordan, said: "The improved trading performance reflects the fact that the board and management have worked closely together to develop and implement a clear strategic plan for the business. Our immediate focus is to continue to drive increased earnings by concentrating on the fundamentals: enhanced brand strength, innovative new products and improved manufacturing efficiencies."

Managing Director, Mr Greg Bourke, said, "The executive leadership team is driving increased profits through revenue growth from strengthening customer relationships and improving factory performance."

The principal drivers of this improved trading result were:

- Strong sales growth from improved market shares, increased category growth and a continued pipeline of new products;
- Improved margins driven by manufacturing efficiencies and increasing economies of scale.

Highlights for the year were:

- Record sales revenue driven by a 17.1% increase in the Out-Of-Home Division and an 8.2% increase in branded sales in the In-Home Division.
- The underlying EBIT margin to sales improved from 11.8% to 13.8%, highlighting the impact of improved manufacturing efficiencies and stringent cost control
- Successful launches of new products:
  - Extension of the premium Herbert Adams range across both In-Home and Out-of-Home divisions, with supporting TV commercial and consumer promotion,
  - Four'n Twenty products for the petrol and convenience channel.
  - Extended sweet pastry range produced on the recently installed fruit pie line, including Nanna's mini retail products and Out-of-Home sweet tarts range.
  - Patties' Caterer's Selection foodservice range of entertainment products.
- Improvement in customer supply levels.
- Successful closure and relocation of frozen fruit packing plant from Silverwater NSW to Bairnsdale with on-going annual benefit of $0.75m.
- Finance costs were lower than last year due mainly to lower interest rates and lower debt levels.
- Our joint venture, Davies Bakery, continued to improve its performance.
- Improved working capital management, which assisted in reducing debt by $6.6m

Dividend

A fully franked final dividend of 3.5 cents per share (FY09: 2.5 cps) has been declared. The total dividend per ordinary share for FY10 is 6.5 cps, an increase of 44.4% on the previous corresponding period (FY09: 4.5 cps). The record date for entitlement is 15 September 2010 and the payment date is 8 October 2010.

Capital Management

Net Debt reduced by $6.6m to $62.8m (30 June 2009 $69.4m) as a result of effective working capital management and increased earnings. Total net cash flow generated from operating activities in FY10 was $22.1m, delivering a 67.4% increase on the previous corresponding period (FY09: $13.2m). Accordingly, the debt to equity ratio(2) has improved to 52.7% at 30 June 2010 from 62.4% at 30 June 2009. Furthermore, interest cover(3) has increased to 6.0x representing significant improvement on the previous corresponding period (FY09: 4.1x).

Significant Items

Significant items impacting the result (as disclosed in 1H result) are:

- Costs of closure of the frozen fruit packing plant in Silverwater NSW, and relocation to Bairnsdale, in February 2010. (EBIT $1.2m)
- Executive redundancy costs from restructuring the sales management team. (EBIT $0.3m)

Outlook

There has been a positive start to FY11 with the launch of the new range of Four'n Twenty Angus Beef Pies. There is scope for further improvement in manufacturing efficiencies, particularly through targeted capital expenditure.

In view of our commitment and focus on implementing agreed strategies, we are confident of meeting the challenges of a competitive trading environment and achieving further improvement in the Company's trading performance in FY11.

For further information refer to www.patties.com.au or contact Greg Bourke, Managing Director on 03 8540 9100.

(2) Debt to equity ratio is calculated as net debt vs. total equity.
(3) Interest cover is calculated as underlying EBIT divided by interest.

Appendix 4E Preliminary Final Report

Name of entity

Patties Foods Limited

ABN or equivalent company reference: ABN 62 007 157 182

1. Reporting period

Report for the financial year ended	30 June 2010
Previous corresponding period is the financial year ended	30 June 2009

2. Results for announcement to the market

				A$'000
Revenue from ordinary activities *(item 2.1)*	up	9.9%	to	196,885
Earnings before interest, tax, depreciation & amortisation (EBITDA)	up	20.2%	to	31,624
Underlying earnings before interest, tax, depreciation & amortisation (EBITDA)	up	22.3%	to	33,117
Earnings before interest and tax (EBIT)	up	26.8%	to	25,683
Underlying earnings before interest and tax (EBIT)	up	29.3%	to	27,176
Net profit (loss) from ordinary activities after tax attributable to members *(Item 2.2 & 2.3)*	up	39.7%	to	15,733
Underlying net profit (loss) from ordinary activities after tax attributable to members	up	42.2%	to	16,778

Dividends *(item 2.4)*	Date paid / payable	Amount per security	Franked amount per security
Interim dividend			
Current reporting period	14 APR 2010	3.0¢	3.0¢
Previous corresponding period	15 APR 2009	2.0¢	2.0¢
Final dividend			
Current reporting period	8 OCT 2010	3.5¢	3.5¢
Previous corresponding period	9 OCT 2009	2.5¢	2.5¢
Record date for determining entitlements to the final dividend (*item 2.5*):	15 September 2010		

Brief explanation *(item 2.6)*:
Please refer to the commentary in the review of operations and activities section of the directors' report and the 2010 Financial Year Results Announcement accompanying this Preliminary Final Report.

3. Statement of financial performance: see attached Financial Report

4. Statement of financial position: see attached Financial Report

5. Statement of cash flows: see attached Financial Report

6. Total dividend on all securities paid or payable in period

	Current period $A'000	Previous corresponding period - $A'000
Interim Dividend Paid	$4,167	$2,776
Final Dividend Payable	$4,862	$3,470

7. There is currently no dividend reinvestment plan in place

8. Statement of retained earnings: see attached Financial Report

9. Net tangible assets per security

	Current period	Previous corresponding period
Net tangible asset backing (per share)	$0.30	$0.23
Net asset backing (per share)	$0.86	$0.80

10. Details of entities over which control has been gained or lost
Not Applicable

11. Share of net profit/(loss) after tax from associates

	% Holding	**2010 A$'000**	**2009 A$'000**
Davies Bakery Pty Ltd	50%	$325	$96
Piper Partners Pty Ltd	50%	$14	($8)

The share of net profit/(loss) after tax from associates is included in the net profit after tax disclosed above for the Group.

12. Other Significant Information
All significant information is disclosed in this appendix and its attachments

13. Foreign Entities accounting standards

Not Applicable

14. Commentary on results for the period

Please refer to the commentary in the review of operations and activities section of the director’s report and the 2010 Financial Year Results Announcement accompanying this Preliminary Final Report.

15. Audit of the financial report

The financial report has been audited by PricewaterhouseCoopers and an unqualified audit opinion is in the attached Financial Report.

Patties Foods Limited

ABN 62 007 157 182

Financial Statements
for the year ended 30 June 2010

Patties Foods Limited ABN 62 007 157 182
Financial Statements - 30 June 2010

Directors	Chris Riordan, Chairman J Curt Leonard, Deputy Chairman Gregory J Bourke, Managing Director Ernest W Barr Gregory Dhnaram Henricus J Rijs Richard C Rijs John P Schmoll
Secretary	Philip Thomas
Principal registered office in Australia	161 - 169 Princes Highway Bairnsdale Vic 3875 1800 650 069
Share and debenture register	Computershare Investor Services Pty Ltd Yarra Falls, 452 Johnston Street Abbotsford Vic 3067 1300 787 171
Auditor	PricewaterhouseCoopers Freshwater Place 2 Southbank Boulevard Southbank Vic 3006
Solicitors	Minter Ellison 525 Collins St Melbourne Vic 3000
Bankers	Westpac Bank Limited Level 10, 360 Collins St Melbourne Vic 3000
Stock exchange listings	Patties Foods Limited shares are listed on the Australian Stock Exchange. ASX Code: PFL
Website address	www.patties.com.au

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Patties Foods Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2010.

Directors
The following persons were directors of Patties Foods Limited during the whole of the financial year and up to the date of this report:

Gregory J Bourke
Ernest W Barr
Gregory Dhnaram
J Curt Leonard
Henricus J Rijs
Richard C Rijs

Chris Riordan was appointed as an independent non-executive director and Chairman effective 7 July 2009 and continues in office at the date of this report.

John P Schmoll was appointed as an independent non-executive director effective 2 October 2009 and continues in office at the date of this report.

J Curt Leonard was appointed Deputy Chairman on 20 October 2009 and continues in office at the date of this report.

Principal activities
During the year the principal continuing activities of the Group consisted of the manufacture and marketing of frozen food products.

Dividends - Patties Foods Limited
Dividends paid to members during the financial year were as follows:

	2010 $'000	2009 $'000
Final ordinary dividend for the year ended 30 June 2009 of 2.5 cents (2008 - 4.5 cents) per fully paid share paid on 9 October 2009	**3,470**	6,246
Interim ordinary dividend for the year ended 30 June 2010 of 3.0 cents (2009 - 2.0 cents) per fully paid share paid on 14 April 2010	**4,167**	2,776
	7,637	9,022

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final dividend of $4,861,810 (3.5 cents per fully paid share) expected to be paid on 8 October 2010.

The dividend will be fully franked. Total dividends for FY2010 are therefore 6.5 cents per share (FY2009: 4.5 cents per share). The dividend payout ratio is 57% (FY2009: 55%).

Review of operations and activities
The Group's net profit after tax for the year ended 30 June 2010 (FY10) amounted to $15,733,000, an increase of 39.7% on the previous corresponding period (FY09: $11,262,000). If significant items are excluded, the Group's underlying net profit after tax increased by 42.2% from $11,797,000 in FY09 to $16,778,000 in FY10.

The principal drivers of the improved trading result were:

- Sales revenue increasing by 9.9% from $179,213,000 in FY09 to $196,885,000 in FY10;
- Increased manufacturing efficiencies; and
- Effective cost control.

The basic earnings per share were 11.3 cents (FY09: 8.1 cents) or, on an underlying basis, 12.1 cents (FY09: 8.5 cents).

Further information is contained in the 2010 Financial Year Results Announcement accompanying the Financial Statements.

Significant changes in the state of affairs
There was no significant change in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year
No other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:
(a) the Group's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations
There has been a positive start to the 2010/2011 financial year with the launch of the new range of Four ‘n Twenty Angus Beef Pies. There is scope for further improvement in manufacturing efficiencies, particularly through targeted capital expenditure.

The strong relationships built with the customers and our understanding of consumer trends, integrated into a robust new product development process, place the Group in an excellent position to maintain and build both the product categories in which we trade and our market leading position.

With a settled senior management team focused on implementing strategies agreed with the Board, we are capable of meeting the challenges of a competitive trading environment and achieving further improvement in the Group’s trading performance in future years.

Environmental regulation
The Group is a signatory to the National Packaging Covenant. Its sites are all compliant with EPA and other relevant governmental environmental targets and regulations. The Group is subject to environmental regulation in respect of its manufacturing activities as set out below.

In Victoria, the Group holds environmental licences for its manufacturing site. These licences require discharges to air and water to be below specified levels of contaminants, and solid wastes to be removed to an appropriate disposal facility. These requirements arise under the Environmental Protection Authority's regulations *Clean Air Act 1961, Clean Waters Act 1970, Pollution Control Act 1970, Noise Control Act 1975,* the *Environmentally Hazardous Chemicals Act 1985* and *Waste Avoidance and Resource Recovery Act 2001.*

The Group is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

The National Greenhouse and Energy Reporting Act 2007 requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and submitted its initial report to the Greenhouse and Energy Data Officer on 30 October 2009.

The directors are not aware of any breaches to the environmental requirements and are not aware of any infringement notices or fines being issued during the year.

Information on directors

Chris Riordan LLB *Non-Executive Chairman.*

Experience and expertise

Over 20 years experience as a non-executive director of numerous public and private companies, including 12 years as a director (7 as Chairman) of SPC LTD., 4 years (3 years as Deputy Chairman) as a director of Golden Circle Ltd. and 6 years as a director of Wingara Wine Group Pty Ltd. Chris is a practising lawyer with over 40 years of experience specialising in commercial and corporate law.

Other current directorships

Chairman, Radio Rentals Limited.

Former directorships in last 3 years

Director and Deputy Chairman of Golden Circle Limited (May 2005 - December 2008).

Chairman of Future Capital Development Fund Limited (June 2005 - December 2008).

Special responsibilities

Chairman of the Board.
Chairman of Remuneration and Nomination Committee.

Interests in shares and options

100,372 ordinary shares in Patties Foods Limited.

J Curt Leonard BMktg & Bus. Admin, MBA *Non-Executive Director and Deputy Chairman*

Experience and expertise

Non-executive director since 2003.

Over 31 years experience working with the Mars Group, including General Manager of Mars Confectionery, Managing Director of Uncle Bens and Managing Director of Mars Australia and New Zealand.

Served as President, Asia Pacific, of all Mars business and Director of the Managing Board of Mars Incorporated global business.

Other current directorships

Non-executive director of Select Harvests Limited (since July 2004).
Appointed Chairman 2008.

Former directorships in last 3 years

None.

Special responsibilities

Deputy Chairman of the Board

Member of Remuneration and Nomination Committee.

Interests in shares

2,163,547 ordinary shares in Patties Foods Limited.

Gregory J Bourke BBus, CPA, MBA, AICD *Managing Director.*

Experience and expertise

Over 25 years experience in finance and corporate executive roles including 20 years at George Weston Foods Ltd in Australia and New Zealand, serving as Chief Financial Officer of Don's Smallgoods, Group General Manager of Weston Milling New Zealand and Southern Regions General Manager Weston Milling Australia.

Other current directorships

Australian Food and Grocery Council.

Former directorships in last 3 years

None.

Special responsibilities

Managing Director.

Interests in shares

291,296 ordinary shares in Patties Foods Limited.

Information on directors (continued)

Ernest W Barr BA, Dr. Uni. (h.c) *Non-Executive Director*
Experience and expertise
Non-executive director since 1994 and Chairman from 1994 until 2005.

Over 20 years with HJ Heinz Company serving as Chief Executive Officer of Heinz Japan, Heinz Australia and finally Area Director Asia Pacific.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
Member of Audit and Risk Committee.

Interests in shares
4,000,000 ordinary shares in Patties Foods Limited.

Greg Dhnaram *Non-Executive Director*
Experience and expertise
Currently Chief Executive Officer of Favco Group.

30 years experience with Woolworths Limited, including a number of senior positions at both State and National levels.

Extensive experience in buying, marketing, operations, strategic planning and all aspects of retail.

Other current directorships
Non-executive director of Citrus Australia Limited.

Former directorships in last 3 years
None.

Special responsibilities
Member of Audit and Risk Committee.

Interests in shares
20,000 ordinary shares in Patties Foods Limited.

Henricus J Rijs Executive Director
Experience and expertise
A director since 1989.

A son of the founders of Patties Foods, joining the company in 1972 as an apprentice pastry cook. Extensive experience in the sales, marketing and distribution aspects of the business.

Other current directorships
Davies Bakery (Aust) Pty Ltd.

Former directorships in last 3 years
None.

Special responsibilities
None.
Interests in shares
8,395,901 ordinary shares in Patties Foods Limited.

Information on directors (continued)

Richard C Rijs *Non-Executive Director.*
Experience and expertise
Managing Director from 1989 to 2007.

A son of the founders of Patties Foods, joining the business in 1971, working in all aspects of production, packaging, despatch, sales and distribution.

Other current directorships
Davies Bakery (Aust) Pty Ltd.

Former directorships in last 3 years
None.

Special responsibilities
Member of Remuneration and Nomination Committee.

Interests in shares
15,253,007 ordinary shares in Patties Foods Limited.

John P Schmoll BComm, FCA, FAICD *Non-Executive Director*
Experience and expertise
Until his retirement in 2002, Mr Schmoll spent seven years as the Chief Financial Officer of Coles Myer Ltd and prior to this held senior corporate and professional roles in Australia and South Africa, which exposed him to a broad spectrum of commercial, financial services, retail distribution, and public service activities.

Other current directorships
Non-executive director of Oroton Group Limited.

Non-executive Chairman of Breville Group Limited.

Non-executive director of AWB Limited.

Former directorships in last 3 years
Non-executive director of Golden Circle Limited.

Non-executive director of Chandler Macleod Limited.

Special responsibilities
Chairman of Audit and Risk Committee.

Interests in shares and options
75,000 ordinary shares in Patties Foods Limited.

Company Secretary
The Company Secretary is Mr Philip Thomas BBUS, MCommLaw, GradDipCSP, FCIS, F.Fin, ASA, AICD. Mr Thomas was appointed Company Secretary in 2008 and has a significant amount of experience in similar roles in other public listed companies.

Meetings of directors

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees			
			Audit and Risk		Remuneration and Nomination	
	A	B	A	B	A	B
Chris Riordan (Appointed 7 July 2009)	15	15	*	*	4	4
J Curt Leonard	11	15	1	1	1	4
Gregory J Bourke	15	15	*	*	*	*
Ernest W Barr	13	15	3	4	*	*
Gregory Dhnaram	14	15	3	4	*	*
Henricus J Rijs	13	15	*	*	*	*
Richard C Rijs	14	15	*	*	4	4
John P Schmoll (Appointed 2 October 2009)	10	12	3	3	*	*

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
* = Not a member of the relevant committee

Remuneration Report

The directors present the remuneration report for the year ending 30 June 2010.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001.*

The Board policy on remuneration

The Group reviews its remuneration policies and practices on a regular basis. The objective of the Group's executive remuneration policy is to:

- align executive reward with achievement of the strategic objectives of the Group and the creation of value for shareholders.
- align the reward for executives with the performance of the Group;
- ensure executive remuneration is competitive to retain and attract talented people; and
- ensure that elements of reward related to performance are appropriate for the results delivered.

The Board has established a Remuneration and Nomination Committee (Committee) to assist the Board by providing advice in relation to the remuneration packages for key management personnel and non-executive directors. The charter of the committee was reviewed and updated in February 2010. The committee receives both internal and external advice to assist it in the regular review and decisions relating to remuneration. The Corporate Governance Statement provides further information on the role of this committee.

Key management personnel

In addition to the non-executive directors, listed on page 2 of the Directors' Report, the following senior executives are members of the Patties Leadership Team (PLT) and are regarded as the key management personnel of the Group who have authority and responsibility for planning, directing and controlling the activities of the Group.

Name	**Role**	
Current Executives		**Date Commenced In Role**
G Bourke	Managing Director	23 September 2008
M Knaap	Chief Financial Officer	16 February 2009
M Connolly	General Marketing Manager	1 January 2008
G Leyden	General Manager Manufacturing	23 February 2009
T Peters	Head of Sales	11 January 2010
J Pentney	General Manager People & Organisation	4 February 2008
H Rijs	General Manager Logistics & Customer Service	1 June 2005

Key management personnel remuneration

Key management personnel remuneration is structured with the following three components:

- total fixed remuneration;
- short term incentive; and
- long term incentive.

The combination of these elements comprises each executive's total remuneration.

The committee reviews executive packages annually taking into account Group performance, executive performance and comparative information from other listed companies in similar industries and the broader market. The objective is that executive remuneration will be market competitive, while achieving a balance between fixed elements of remuneration, and those linked to performance.

Total fixed remuneration

Total Fixed Remuneration (TFR) includes base salary, superannuation and other fixed benefits. Each year, the committee reviews the performance and TFR for the Managing Director and the Managing Director reviews the performance and TFR for other key management personnel in conjunction with the committee.

Executives have the option to sacrifice some of their base pay to increase payments towards superannuation or to salary package a motor vehicle.

Remuneration Report (continued)

Short term incentive (STI)

Executives may receive a specified percentage of their TFR in a performance linked short term incentive plan (STIP). Payments under the STIP are based on achievement of key performance measures, being Financial, Business Process Improvement, Customer and People measures. These measures are regarded as the key drivers of trading performance. A threshold level of Group financial performance must be achieved for any payment to be made under the STIP.

Each member of the PLT may achieve an incentive payment of up to 14% of TFR. Other senior managers may achieve up to 10% of their TFR if all key performance measures are achieved.

Details of the STIP payments to the Patties Leadership Team are provided on pages 11 to 13.

Long term incentive plan

A Long Term Incentive Plan (LTIP) was approved by the Board of Directors in 2006 prior to the Company's listing on the ASX. Details of the LTIP were contained in the Prospectus.

Under the LTIP, the Board has the discretion to grant options or rights to eligible employees to acquire ordinary shares in the Company subject to such terms and conditions, including vesting conditions, including time and / or performance conditional and exercise price (in relation to options), as the Board determines in its discretion.

The Board made the initial grant to key management personnel under the LTIP on 2 December 2009. The grant of options to the Managing Director is subject to the approval of shareholders at the next Annual General Meeting under Listing Rule 10.14.

The following provides a summary of key aspects of the LTIP:

Date of Grant	2 December 2009(1)
Strike Price	The strike price is determined by calculating the volume weighted average price (VWAP) of ordinary shares in the Company for a period prior to the date of grant: • For options granted on 2 December 2009 it was calculated from 1 July 2009 to 2 December 2009 with a value of $0.90; • For options granted on 28 January 2010 it was calculated from 18 January 2010 to 27 January 2010 at $1.33.
Performance Hurdle	Achievement of specified compound annual earnings per share growth (EPS Growth). EPS is the base earnings per share on a normalised basis. The base year for determining the EPS Growth calculations is FY 2009 (8.5 cents).
Performance Periods	Options may vest over two performance periods: • Tranche 1: 50% based on EPS Growth over three consecutive years ending FY2012; • Tranche 2: 50% based on EPS Growth over four consecutive years ending FY2013.
Base EPS Growth	The EPS will be calculated using a base of 8.5 cents.
Vesting Acceleration Events	Subject to any necessary shareholder approval that may be required, there are certain vesting acceleration events on certain types of termination of employment (excluding resignation or dismissal for cause, in which event options lapse) as well as on a Change of Control of the Company.

(1) The grant date for T Peters, Head of Sales, is 28 January 2010.

(2) Each option granted is for one ordinary share

Remuneration Report (continued)

The following table provides details of the vesting schedule for options granted:

First Tranche - Period ending FY2012	
EPS Growth over 3 years period	**Proportion of options vesting**
Less than 23% per annum	0%
Equal to 23% per annum	50%
Greater than 23% per annum but less than 26% per annum	Proportionate vesting in a straight line between 50% and 100%
26% per annum or greater	100%
Second Tranche - Period ending FY2013	
EPS Growth over 4 years period	**Proportion of options vesting**
Less than 19.5% per annum	0%
Equal to 19.5% per annum	50%
Greater than 19.5% per annum but less than 23.5% per annum	Proportionate vesting in a straight line between 50% and 100%
23.5% per annum or greater	100%

Service contracts
There are no service contracts with the directors. Key management personnel are each employed under an individual contract agreement which includes standard terms and conditions of employment for the Group. There is no term on these arrangements, standard notice periods of three months apply (save for six months in the case of the Managing Director) and there are no termination entitlements other than statutory entitlements.

Non-executive director remuneration
The Constitution provides that the Group may pay directors a maximum amount of directors' fees determined by the Group in the annual general meeting or, until so determined, as the Board resolves.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit. The maximum fee pool currently stands at $600,000 per annum, which was resolved by the Board in May 2006 and approved by the shareholders at the AGM on 21 November 2007.

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors receive an annual fee and do not participate in any Group incentive plan. In addition, non-executive directors (excluding the Chairman) may receive additional fees for participation in the Audit and Risk Committee and the Remuneration and Nomination Committee. Non-executive directors' fees and payments are reviewed annually by the Board.

The Chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The Chairman's remuneration is inclusive of additional yearly fees for chairing Board committees. The Chairman is not present at any discussions relating to the determination of his own remuneration.

The following provides a summary of the non-executive director annual fees (including superannuation contributions):

Board Fees	**Chairman**	**Directors**
Board	$150,000	$60,000
Committee fees	**Committee Chair**	**Committee Member**
Audit and Risk	$10,000	nil
Remuneration and Nomination	Covered by Chairman's fee	nil

Retirement allowances for directors
There are no retirement benefit schemes for directors, other than statutory superannuation contributions. Some individuals have chosen to sacrifice some of their remuneration to increase payments towards superannuation.

Remuneration Report (continued)

Linking Group Performance to Executive Remuneration
The following tables provide a summary of Group performance and executive reward earned over the past four years.

Group Financial Performance

	FY2007	FY2008	FY2009	FY2010
Revenue	$126.6m	$164.0m	$179.2m	$196.9m
EBIT (underlying)	$21.1m	$23.9m	$21.0m	$26.8m
NPAT (underlying)	$12.7m	$15.0m	$11.8m	$16.8m
Dividends Per Share	7.2 cents	7.3 cents	4.5 cents	6.5 cents
EPS	10.1 cents	10.8 cents	8.1 cents	11.3 cents
Share price at 30 June	$1.62	$1.04	$0.68	$1.08

Average STIP payment
The STIP is designed to align the reward for executives with the performance of the Group. No payments have been made to key management personnel under the STIP prior to FY10 as a result of pre requisite financial performance targets not being achieved. Final STIP payments will be made by 30 September 2010 for FY10 as a result of the significantly improved business performance. The following table summarises the performance against the STIP targets:

Measure	Result
EBIT(1)	100% achieved
Financial	79% achieved
Business Process Improvement	73% achieved
Customer	81% achieved
People	86% achieved

(1)EBIT target must be achieved for any payment to be made under the STIP.

The full STIP payment for FY10 has been accrued in the FY10 accounts. The following table provides the average percentage of maximum STIP payments made to the key management personnel for each of the past four years.

	FY2007	FY2008	FY2009	FY2010
STI % of Maximum	0%	0%	0%	87%

Long term incentive performance
No options have reached the initial performance period of FY2012, therefore there has been no test against performance hurdles.

Key management personnel remuneration mix
The following table shows the proportion weighting of each element of the remuneration for each of the key management personnel based on target performance:

Name	**Fixed remuneration (%)**		**Short Term Incentive (%)**		**Long term Incentive (%)**(1)	
	FY 2010	FY 2009	**FY 2010**	FY 2009	**FY 2010**	FY 2009
G Bourke	**74.0%**	87.7%	**10.1%**	12.3%	**15.9%(2)**	-%
M Knaap	**76.3%**	87.7%	**10.4%**	12.3%	**13.4%**	-%
M Connolly	**81.2%**	87.3%	**9.6%**	12.3%	**9.2%**	-%
T Peters	**74.6%**	-%	**17.5%** (3)	-%	**7.9%**	-%
G Leyden	**75.6%**	87.3%	**9.9%**	12.3%	**14.6%**	-%
J Pentney	**81.0%**	87.3%	**10.3%**	12.3%	**8.6%**	-%
H Rijs	**88.5%**	87.3%	**11.5%**	12.3%	**-%**	-%

(1) LTIP values are based on the accounting value of options attributed to FY10

(2) Options allocated to G Bourke are subject to shareholder approval.

(3) For FY10 T Peters has a STIP of $60,000 as part of his employment arrangements on commencement. This will align with standard STIP arrangements of other key management personnel for FY11.

Remuneration Report (continued)

Remuneration tables

Details of the remuneration of the directors, the key management personnel and other specified executives (as defined in AASB 124 *Related Party Disclosures)* of the Group are set out in the following tables:

2010	Short-term employee benefits			Post-employment benefits	Long-term benefits		Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non monetary benefits (1) $	Super-annuation $	Long service leave $	Termination benefits $	Options $	Total $
Non-executive directors								
Chris Riordan - Chairman *(2)*	147,580	-	-	-	-	-	-	147,580
Ernest W Barr	60,000	-	-	-	-	-	-	60,000
Richard C Rijs*(8)*	18,333	-	-	41,617	-	-	-	59,950
Gregory Dhnaram	41,250	-	-	18,700	-	-	-	59,950
John P Schmoll *(3)*	52,500	-	-	4,725	-	-	-	57,225
J Curt Leonard	41,250	-	-	18,700	-	-	-	59,950
Sub-total non-executive directors	**360,913**	**-**	**-**	**83,742**	**-**	**-**	**-**	**444,655**
Executive directors								
Gregory J Bourke^ *(5)*	425,006	23,940	4,706	24,996	-	-	98,875	577,523
Henricus J Rijs	137,475	12,474	5,991	91,435	5,137	-	-	252,512
Other key management personnel (Group) (4)								
Michael Knaap ^	243,390	15,400	6,323	30,610	-	-	49,438	345,161
Grant Leyden ^	205,386	11,424	38,696	12,610	-	-	49,438	317,554
Tim Peters *(6)*	130,306	-	-	6,026	-	-	27,065	163,397
Mark Connolly	171,000	10,387	28,961	16,415	2,602	-	24,719	254,084
Jeff Pentney	193,495	11,875	20,334	18,573	-	-	24,719	268,996
Sub-total senior executives	**1,506,058**	**85,500**	**105,011**	**200,665**	**7,739**	**-**	**274,254**	**2,179,227**
Total key management personnel compensation (Group)	**1,866,971**	**85,500**	**105,011**	**284,407**	**7,739**	**-**	**274,254**	**2,623,882**
Other Group executives								
Bevan Hillen ^ *(7)*	96,950	12,000	12,585	41,390	-	126,183	-	289,108
John Munro ^	211,655	9,219	25,386	49,779	-	-	-	296,039

^ denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001.*

(1) includes fringe benefits tax, the value of shares purchased and other non-cash benefits (excluding superannuation).

(2) Chris Riordan appointed effective 7 July 2009.

(3) John P Schmoll appointed effective 2 October 2009.

(4) Remuneration shown for the key management personnel is for the full financial year.

(5) Options allocated to G Bourke are subject to shareholder approval.

(6) T Peters was appointed 11 January 2010.

(7) B Hillen ceased employment on 31 December 2009. Termination payment includes notice period, redundancy payment and accrued benefits.

(8) R Rijs also received a consultancy service fee from Davies Bakery (Aust) Pty Ltd of $25,000 per note 30(d)

Remuneration Report (continued)

Remuneration tables (continued)
Amounts of remuneration (continued)

2009	Short-term employee benefits			Post-employment benefits	Long-term benefits		
Name	Cash salary and fees $	Cash bonus $	Non monetary benefits $	Super-annuation $	Long service leave $	Termination benefits $	Total $
Non-executive directors							
Peter T Kempen*(1)*	38,042	-	-	5,899	-	-	43,941
John C Leonard	-	-	-	59,950	-	-	59,950
Ernest W Barr - Acting Chairman	99,971	-	-	-	-	-	99,971
Richard C Rijs*(7)*	-	-	14,050	45,900	-	-	59,950
Gregory Dhnaram*(2)*	-	-	-	44,963	-	-	44,963
Sub-total non-executive directors	**138,013**	**-**	**14,050**	**156,712**	**-**	**-**	**308,775**
Executive directors							
MIchele J Allan^ *(3)*	91,629	-	-	28,780	-	680,000	800,409
Gregory J Bourke^ *(4)*	227,766	-	-	120,094	-	-	347,860
Henricus J Rijs ^	142,254	-	9,759	76,077	43,740	-	271,830
Other key management personnel (Group)							
B Schofield (6)	162,259	-	1,000	28,178	-	-	191,437
M Knaap (5)	87,841	-	-	9,229	-	-	97,070
Sub-total senior executives	**711,749**	**-**	**10,759**	**262,358**	**43,740**	**680,000**	**1,708,606**
Total key management personnel compensation (Group)	**849,762**	**-**	**24,809**	**419,070**	**43,740**	**680,000**	**2,017,381**
Other Group executives							
B Hillen ^	106,143	-	7,464	98,761	418	-	212,786
J Munro ^	193,395	-	23,486	31,207	2,326	-	250,414

^ denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001.*

(1) P Kempen ceased as Chairman effective 5 November 2008.

(2) Gregory Dhnaram appointed 23 September 2008.

(3) M Allan resigned as a director on 21 August 2008 and as Chief Executive Officer on 23 September 2008.

(4) G Bourke appointed 23 September 2008.

(5) M Knaap appointed 16 February 2009.

(6) B Schofield resigned effective 5 February 2009.

(7) R Rijs also received consultancy service fees from Patties Foods Limited of $47,000 per note 30(d)

STIP payments to key management personnel for FY10
Details are set out in the table below. Payments to key management personnel vary based on individual performance and results achieved.

Name	**Maximum Potential STI**	**Achieved FY2010**	**% of the Maximum Potential**	**% forfeited**
	($)	**($)**		
G Bourke	63,000	58,149	92%	8%
H Rijs	31,050	24,552	79%	21%
M Knaap	38,500	38,500	100%	0%
G Leyden	33,600	18,483	55%	45%
T Peters	60,000(1) *	60,000	100%	0%
M Connolly	25,900	24,020	92%	8%
J Pentney	29,680	27,250	92%	8%

(1) *For FY2010 T Peters has a STI of $60,000 as part of his employment arrangements on commencement. This will align with standard STI arrangements of other key management personnel for FY2011.

Remuneration Report (continued)

Managing Director and Senior Executives' Long Term Incentives

The following tables provide the details of options allocated to the key management personnel pursuant to the LTIP. The grant of options to the Manager Director remains subject to shareholder approval at the next annual general meeting.

Accounting value of all LTI equity instruments

Name	**Date of Grant**	**No. of options**	**Total Accounting Value**	**Accounting value as % of Total Remuneration**
			($)	**(%)**
G Bourke(1)	3 Dec 2009	1,200,000	98,875	17.0%
M Knaap	3 Dec 2009	600,000	49,438	14.2%
G Leyden	3 Dec 2009	600,000	49,438	15.6%
T Peters	28 Jan 2010	600,000	27,065	16.6%
M Connolly	3 Dec 2009	300,000	24,719	9.7%
J Pentney	3 Dec 2009	300,000	24,719	9.2%

(1) Options allocated to G Bourke are subject to shareholder approval.

Number of equity instruments granted and vested in FY 2010

Name	**Options**	**Options Granted**	**Options Vested**	**Options Lapsed**	**Balance**
	30 June 2009				**30 June 2010**
G Bourke	-	1,200,000	-	-	1,200,000
M Knaap	-	600,000	-	-	600,000
G Leyden	-	600,000	-	-	600,000
T Peters	-	600,000	-	-	600,000
M Connolly	-	300,000	-	-	300,000
J Pentney	-	300,000	-	-	300,000

Accounting Value of options granted, exercised and expired/forfeited in FY 2010

Name	Granted during period	Exercised	Expired / forfeited	Aggregate of options granted, exercised and lapsed
	($)	($)	($)	($)
G Bourke	98,875	-	-	98,875
M Knaap	49,438	-	-	49,438
G Leyden	49,438	-	-	49,438
T Peters	27,065	-	-	27,065
M Connolly	24,719	-	-	24,719
J Pentney	24,719	-	-	24,719

Loans to directors and executives

There are no loans to directors or executives at 30 June 2010 other than loans to executives of up to $1,000 under standard terms of the Group's exempt employee share plan, see note 27.

Insurance of officers
During the financial year, Patties Foods Limited paid a premium of $41,204 (2009: $46,794) to insure the directors and secretary of the Company and the executives of the Group.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Non-audit services
The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

Details of the fees paid or payable for services provided by the auditor of the parent entity and its related practices are set out in note 28.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

Rounding of amounts
The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor
PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

This report is made in accordance with a resolution of directors.

Chris Riordan
Chairman

Melbourne
23 August 2010

PRICEWATERHOUSECOOPERS

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Auditors' Independence Declaration

As auditor for the audit of Patties Foods Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Patties Foods Limited and the entities it controlled during the period.

John O'Donoghue
Partner
PricewaterhouseCoopers

Melbourne
23 August 2010

Corporate Governance Statement

Patties Foods Limited (the Company) and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the August 2007 ASX Principles of Good Corporate Governance and Best Practice Recommendations.

Principle 1 - Lay solid foundations for management and oversight

The Board has developed a charter to provide a framework for the effective operation of the Board. The Board charter sets out specific duties and responsibilities of the Board and includes:

- setting the Group's strategy;
- overall management of general risk;
- responsible for ensuring that the Group has appropriate management expertise;
- assessing the overall performance of the Group's officers;
- ensuring a sufficient level of corporate governance to meet ethical and legislative requirements;
- establishing and monitoring Board committees responsible for key Board responsibilities including the Audit and Risk Committee and the Remuneration and Nomination Committee; and
- performing such other functions as prescribed by law.

Roles of senior management of the Group, including the Managing Director, are clearly set out in employment contracts, position descriptions and key performance indicators (KPIs) against which performance is reviewed at least annually to ensure consistency with strategic and operational plans of the Group. Performance reviews of management have been undertaken.

Principle 2 - Structure the Board to add value

The structure of the Board of Directors

The charter details the Board's responsibilities while the constitution details the Board's composition.

Board composition

The Board seeks to ensure that the composition of the Board reflects the appropriate range of independence, skills and experience for the Group.

The minimum number of directors is three and the maximum number is ten. Directors will be elected at annual general meetings of the Company.

The Managing Director will not retire by rotation. Provided that the Company has three or more directors, one third of the directors (rounded down to the nearest whole number) will retire at each annual general meeting. In any case, no director may retain office for more than three years or beyond the third annual general meeting, following the director's last election or appointment, whichever is the longer period. In each case, if the retiring director is eligible, they may then seek re-election.

The Directors' Report, on pages 4 to 6, outlines the relevant skills, experience and expertise held by each director in office at the date of this report.

Directors' independence

Every member of the Board is required to apply independent judgement to decision making in their capacity as a director. A non-executive director will be deemed to be independent by the Board if no relationship exists between the director and Patties Foods Limited that may interfere with the exercise of their independent judgement. In the context of director independence, 'materiality' is considered from both the Group and the individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to, or less than, 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to, or greater than, 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Group's loyalty.

As discussed above, Mr G.J. Bourke, Mr R.C. Rijs and Mr H.J. Rijs are not considered to be independent directors due to their current or former executive roles or significant shareholdings or association with significant shareholdings.

Independent professional advice

The Board and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Group's expense.

Chairman and Managing Director (MD)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Group's senior executives. The Chairman is an independent director.

The Managing Director is responsible for implementing Group strategies and policies.

It is the practice of the Board that, prior to commencement of each Board meeting, non-executive Board members meet without management being present.

Commitment

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2010, and the number of meetings attended by each director is disclosed on page 7.

The commitments of non-executive directors are considered by the Remuneration and Nomination Committee prior to the director's appointment to the Board and are reviewed each year as part of the annual performance assessment.

Performance assessment

The Board undertakes an annual self assessment of its collective performance, the performance of its Chair and of its committees. The assessment also considers the adequacy of induction and continuing education, access to information and the support provided by the Company Secretary.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss the assessment.

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Remuneration and Nomination Committee and the Audit and Risk Committee. Each consists entirely of non-executive directors. Committee members are appointed for a one year term of office, after which their appointment may be subject to annual rotation at the discretion of the Board.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by committees are submitted to the full Board as recommendations for Board decisions. Minutes are tabled at a subsequent Board meeting.

Other committees may be established by the Board as and when required. Membership of the Board committees will be based on the needs of the Group, relevant legislative and other requirements and the skills and experience of individual directors. Committee members' appointment and rotation will be in line with existing committees and at the discretion of the Board.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of the following non-executive directors with the majority being independent:

Chris Riordan (Chairman);

J Curt Leonard; and

Richard C Rijs

Details of these directors' attendance at Remuneration and Nomination Committee meetings are set out in the Directors' Report on page 7.

The Remuneration and Nomination Committee operates in accordance with a charter. The main responsibilities of the committee in relation to nomination issues are to:

- Review the process for the nomination and selection of non-executive directors to the Board;
- review succession plans and induction programs for the Group's non-executive directors, senior management and key staff;
- review the induction programs for the Group's non-executive directors; and
- assess the requirements for non-executive directors and set a transparent process to review whether they are meeting those requirements.

When a new director is to be appointed the committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants.

The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the Company. The committee's nomination of existing directors for reappointment is not automatic and is contingent on their past performance, contribution to the Group and the current and future needs of the Board and Group. The Board and the committee are also aware of the advantages of Board renewal and succession planning.

New directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their employment. All new directors participate in a comprehensive, formal induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

Audit and Risk Committee - refer pages 20 to 21

Principle 3 - Promote ethical and responsible decision making

Code of Conduct

The Group has a Code of Conduct and Ethics policy (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

In summary, the Code requires that each director, manager and employee of the Group, at all times, act with the utmost honesty, integrity and responsibility in their dealings with clients, suppliers and competitors and other employees.

The Board, management and all employees of the Group are committed to complying with the Code. It is the responsibility of each individual to comply with the Code and each person will be accountable for such compliance. Where an employee is concerned that there has been a violation of the Code, it can be reported in good faith to management. A record of such reports will be kept by the Group.

Securities trading

The purchase and sale of Company securities by directors and senior management is only permitted, subject to insider trading laws, during the thirty-day period following the release of the half-yearly and annual financial results to the market and the close of the Annual General Meeting. Any transactions undertaken must be notified to the Chairman in advance.

The Group endeavours to ensure that all employees are fully aware of their obligations with regard to trading in shares, in particular the restriction on trading while in possession of price sensitive, non-public information about the Group. Every current and new employee receives a document which outlines these obligations.

The Board recognises that it is the individual responsibility of each director, officer and employee to ensure that they comply with the spirit and letter of the insider trading laws.

Share trading by directors is promptly notified to the ASX.

Principle 4 - Safeguard integrity in financial reporting

Managing Director and Chief Financial Officer statement

The Managing Director and the Chief Financial Officer have provided a written statement to the Board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition, and that operational results are in accordance with relevant accounting standards.

Audit and Risk Committee

The Audit and Risk Committee has been established to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Group's financial reports and financial reporting process, internal control structure, risk management systems (financial and non-financial) and the external audit process.

The Audit and Risk Committee operates in accordance with a charter.

The committee has a minimum of three non-executive directors, with the majority being independent. The Audit and Risk Committee consists of the following non-executive directors:

John P Schmoll (Chairman);

Ernest W Barr; and

Gregory J Dhnaram.

Details of these directors' qualifications and attendance at Audit and Risk Committee meetings are set out in the Directors' Report on pages 4 to 7.

All members of the Audit and Risk Committee are financially literate and have an appropriate understanding of the industry in which the Group operates. The Chairman, Mr John P Schmoll, has relevant qualification and experience by virtue of extensive executive and director financial roles and formal qualifications.

The main responsibilities of the committee are to:

- have overall control over external statutory financial reporting;
- assess accounting, financial and reporting controls;
- appoint external auditors, determine the scope of the external audit, and approve additional non-audit services to be provided by the external auditor and to assess the external auditor;
- oversee the effective operation of the risk management framework; and
- monitor and review the propriety of any related party transactions.

In fulfilling its responsibilities, the Audit and Risk Committee:

- receives regular reports from management and external auditors;
- meets with the external auditors at least twice a year, or more frequently if necessary;
- reviews the processes that the MD and CFO have in place to support their certifications to the Board;
- meets separately with the external auditors at least twice a year without the presence of management; and
- provides the external auditors with a clear line of direct communication at any time to either the Chair of the Audit and Risk Committee or the Chair of the Board.

At the discretion of the committee, internal specialists or external advisers may be invited to the Audit and Risk Committee meetings. The committee meets at least two times a year, and additionally if required for it to undertake its role effectively.

The Group and Audit and Risk Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers was appointed as the external auditor in 2003. In accordance with the Corporations Act 2001, PricewaterhouseCoopers will rotate audit engagement partners on listed companies at least every five years, and a new audit engagement partner was introduced for the year ended 30 June 2009.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in note 28 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit and Risk Committee.

The external auditor attends the Annual General Meeting and is available to answer shareholder questions about:

- the conduct of the audit;
- the preparation and content of the auditor's report;
- the accounting policies adopted by the Group in relation to the conduct of the audit; and
- the independence of the auditor in relation to the conduct of the audit.

Principle 5 - Make timely and balanced disclosure

Continuous disclosure and shareholder communication

The Group has adopted a continuous disclosure policy so as to comply with its continuous disclosure obligations. The aims of the policy are to:

- ensure that the Group, as a minimum, complies with its continuous disclosure obligations under the Corporations Act and Listing Rules;
- provide shareholders and the market with timely, direct and equal access to information issued by the Group; and
- promote investor confidence in the integrity of the Group and its securities.

The continuous disclosure policy requires the Group to immediately notify the ASX of information:

- concerning the Group that a reasonable person would expect to have a material effect on the price or value of the Company's shares; and
- that would, or would be likely to, influence persons who commonly invest in shares in deciding whether to acquire or dispose of the Company's shares.

The only exception to this is where the ASX Listing Rules do not require such information to be disclosed.

The Company Secretary is responsible for overseeing and, if appropriate, coordinating the disclosure of price sensitive information relating to the shares to the ASX.

Principle 6 - Respect the rights of shareholders

The continuous disclosure policy described above provides shareholders and the market with timely, direct and equal access to information issued by the Group and is designed to promote investor confidence in the integrity of the Company and its securities.

The Board has nominated the Managing Director or the Chairman to speak to the media on matters associated with the Group. The Board approves and monitors internal and external financial and other reporting to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the Group's web-site as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Group's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders may elect to receive a copy of the Group's annual reports. In addition, the Group seeks to provide opportunities for shareholders to participate through electronic means. The Group is committed to making all Group announcements, media and analyst briefings, details of Company meetings, press releases for the last three years and financial reports available on the Group's website, including the Chairman's address, speeches and voting results of the Company's Annual General meeting.

Principle 7 - Recognise and manage risk

Risk management and assessment

The Board, through the Audit and Risk Committee, is responsible for ensuring that there are adequate policies in relation to risk management, compliance and internal control systems. The Group policies are designed to ensure material strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

The Board's risk management principles are designed to:

- identify, assess and prioritise the major risks associated with the Group's key values and corporate goals as set out in the Strategic Plan;
- identify material operational risks and determine risk mitigation strategies, action plans and responsibilities to address these; and
- identify financial risks which may include fraudulent activities, the risk of financial loss caused by the loss of the business of a key customer and credit risk arising from non-payment by a customer.

The Board is responsible for approving the Group's risk management strategy and policies. Executive management is responsible for the implementation of the risk management strategy and for developing policies, processes and procedures to identify and manage risk. Executive management have provided a risk review and findings report to the Board which highlights the effectiveness of controls and procedures in place to manage its material business risk.

As described under Principle 4 above, the Managing Director and Chief Financial Officer have provided a declaration under section 295A of the Corporations Act to the Board. The Board is satisfied that this declaration is made based on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Corporate reporting

The Managing Director and the CFO have made the following declarations to the Board:

that the Group's financial reports are complete and present a true and fair view, in all material aspects, of the financial condition and operational results of the Group and are in accordance with relevant accounting standards; and

that the above statement is founded on a sound system of risk management and internal compliance and control and that the Group's risk management and internal compliance and control is operating efficiently and effectively in all material aspects in relation to financial reporting risk.

Principle 8 - Remunerate fairly and responsibly

Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of the following directors with the majority being non-executive:

Chris Riordan (Chairman);

J Curt Leonard; and

Richard.C.Rijs

Details of these directors' attendance at Remuneration and Nomination Committee meetings are set out in the Directors' Report on page 7.

The Remuneration and Nomination Committee operates in accordance with a charter. The main responsibilities of the committee in relation to remuneration issues are to:

- provide advice in relation to remuneration packages of key management, non-executive directors and executive directors, equity-based incentive plans and other employee benefit programs;
- ensure the performance of key management and members of the Board is reviewed at least annually;
- review the Group's recruitment, retention and termination policies as well as succession plans of key management and executives;
- review the Group's superannuation arrangements;
- consider those aspects of the Group remuneration policies and packages, including equity based incentives, which should be subject to shareholder approval;
- review staff resourcing trends and metrics; and
- review other relevant matters identified from time to time, or requested by the Board.

The committee has a minimum of three directors, with the majority being independent.

At the discretion of the committee, internal specialists or external advisors may be invited to Remuneration and Nomination Committee meetings. The committee meets at least two times a year, and additionally as required for it to undertake its role effectively.

Retirement allowances for directors

As detailed in the Remuneration Report, there are no retirement benefit schemes in place for directors other than statutory superannuation contributions.

Patties Foods Limited ABN 62 007 157 182
Financial Statements - 30 June 2010

This financial report covers the consolidated entity consisting of Patties Foods Limited (the Company or Parent) and its subsidiaries (collectively the Group). The financial report is presented in Australian currency.

Patties Foods Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Patties Foods Limited
161-169 Princes Highway
Bairnsdale VIC 3875.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 2 - 4 in the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 23 August 2010. The directors have the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Investor Centre on our website: www.patties.com.au.

	Notes	Consolidated 2010 $'000	2009 $'000
Revenue from continuing operations			
Sale of goods	5	**196,127**	178,363
Other revenue from ordinary activities	5	**758**	850
		196,885	179,213
Other income	6	**220**	(46)
Expenses			
Cost of sales of goods		**(118,786)**	(110,898)
Distribution		**(20,148)**	(17,790)
Marketing		**(20,216)**	(19,300)
Administration		**(11,359)**	(10,101)
Other		**(1,228)**	(713)
Finance costs	7	**(4,556)**	(5,184)
Share of net profit of associates and joint venture partnership accounted for using the equity method		**339**	88
Profit before income tax		**21,151**	15,269
Income tax expense	8	**(5,418)**	(4,007)
Profit from continuing operations		**15,733**	11,262
Other comprehensive income			
Cash flow hedges		**303**	(452)
Income tax relating to components of other comprehensive income		**(91)**	135
Other comprehensive income for the year, net of tax		**212**	(317)
Total comprehensive income for the year		**15,945**	10,945
Profit is attributable to:			
Owners of Patties Foods Limited		**15,733**	11,262
		15,733	11,262
Total comprehensive income for the year is attributable to:			
Owners of Patties Foods Limited		**15,945**	10,945
		15,945	10,945
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the parent entity:			
Basic earnings per share		**11.3**	8.1
Diluted earnings per share		**11.3**	8.1

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	Consolidated 2010 $'000	2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**357**	1,155
Receivables	10	**32,790**	36,727
Inventories	11	**29,602**	19,540
Current tax receivables	12	**-**	1,366
Total current assets		**62,749**	58,788
Non-current assets			
Investments accounted for using the equity method	13	**8,388**	8,049
Property, plant and equipment	14	**64,374**	61,977
Intangible assets	16	**78,550**	78,905
Total non-current assets		**151,312**	148,931
Total assets		**214,061**	207,719
LIABILITIES			
Current liabilities			
Payables	17	**20,970**	17,058
Borrowings	18	**2,232**	2,349
Derivative financial instruments	19	**4**	266
Current tax liabilities		**789**	-
Provisions	20	**3,092**	2,969
Total current liabilities		**27,087**	22,642
Non-current liabilities			
Borrowings	21	**60,926**	68,178
Deferred tax liabilities	22	**5,549**	4,920
Provisions	23	**646**	579
Derivative financial instruments	19	**146**	311
Total non-current liabilities		**67,267**	73,988
Total liabilities		**94,354**	96,630
Net assets		**119,707**	111,089
EQUITY			
Contributed equity	24	**68,329**	68,194
Reserves	25(a)	**70**	(317)
Retained earnings	25(b)	**51,308**	43,212
Total equity		**119,707**	111,089

The above balance sheet should be read in conjunction with the accompanying notes.

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2008		**68,269**	**-**	**40,972**	**109,241**
Changes in the fair value of cash flow hedges, net of tax	25	-	(317)	-	(317)
Profit for year	25	-	-	11,262	11,262
Total comprehensive income for the year		-	(317)	11,262	10,945
Transactions with owners in their capacity as owners:					
On-market share buy-back	24	(214)	-	-	(214)
Employee share scheme	24	139	-	-	139
Dividends provided for or paid	25	-	-	(9,022)	(9,022)
		(75)	-	(9,022)	(9,097)
Balance at 30 June 2009		**68,194**	**(317)**	**43,212**	**111,089**
Changes in the fair value of cash flow hedges, net of tax	25	-	212	-	212
Profit for year	25	-	-	15,733	15,733
Total comprehensive income for the year		-	212	15,733	15,945
Transactions with owners in their capacity as owners					
Employee share scheme issue	24	135	-	-	135
Dividends provided for or paid		-	-	(7,637)	(7,637)
Employee share options	26	-	175	-	175
Balance at 30 June 2010		**68,329**	**70**	**51,308**	**119,707**

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

	Notes	Consolidated 2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**216,710**	190,535
Payments to suppliers and employees (inclusive of goods and services tax)		**(186,110)**	(166,159)
		30,600	24,376
Income tax paid		**(2,878)**	(5,940)
Borrowing costs paid		**(4,580)**	(5,195)
Sundry income received		**(1,029)**	-
Net cash outflow (inflow) from operating activities	33	**22,113**	13,241
Cash flows from investing activities			
Payments for property, plant and equipment	14	**(8,091)**	(5,175)
Proceeds from sale of property, plant and equipment		**25**	41
Interest received		**24**	193
Net cash (outflow) inflow from investing activities		**(8,042)**	(4,941)
Cash flows from financing activities			
Proceeds from issues of ordinary shares and other equity securities		**135**	-
Payments for shares bought back		**-**	(72)
Proceeds from borrowings	21	**19,325**	9,635
Repayment of borrowings		**(26,695)**	(9,784)
Dividends paid to company's shareholders	31	**(7,634)**	(9,022)
Net cash inflow (outflow) from financing activities		**(14,869)**	(9,243)
Net (decrease) in cash and cash equivalents		**(798)**	(943)
Cash and cash equivalents at the beginning of the financial year		**1,155**	2,098
Cash and cash equivalents at end of year	9	**357**	1,155

The above cash flow statement should be read in conjunction with the accompanying notes.

Contents of the notes to the consolidated financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Patties Foods Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

Compliance with IFRS
The financial report of Patties Foods Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Financial statement presentation
The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2010 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group’s investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 32).

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in profit or loss.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Patties Leadership Team.

Change in accounting policy
The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in an increase in the number of reportable segments presented. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

(d) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Patties Foods Limited's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

(i) Sale of goods
Revenue from the sale of goods is recognised when goods have been delivered to the customer, the customer has accepted the goods and collectibility of the related receivables is probable.

(ii) Interest income
Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(iii) Dividends
Dividends are recognised as revenue when the right to receive payment is established.

(iv) Caravan Park income
The Group obtains income from the operation of a caravan park business. Revenue from the caravan park is recognised upon the delivery of the rental service to the customer.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all conditions or other contingencies attached to the grant.

1 Summary of significant accounting policies (continued)

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Management have determined that deferred tax assets and deferred tax liabilities associated with indefinite lived intangibles (note 1(q)) should be measured using the tax consequences that would follow from the sale of these assets. This is on the basis that the assets have an indefinite life and are likely to be recovered through sale rather than use.

Deferred tax assets are recognised for temporary deductible differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities are part of a tax consolidated group under Australian tax law. Patties Foods Limited is the head entity in the tax consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'stand alone taxpayer' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

(h) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 14). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in short-term and long-term borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 29). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

1 Summary of significant accounting policies (continued)

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For the purpose of presentation in the cash flow statements, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impaired receivables. Trade receivables are generally due for settlement no more than 60 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision 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 amount of the provision is recognised in the income statement in other expenses.

(m) Inventories

(i) Raw materials and stores, work in progress and finished goods
Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of first-in first-out. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1 Summary of significant accounting policies (continued)

(n) Investments and other financial assets

Classification
Management determines the classification of its investments at initial recognition depending upon the purpose for which the investments were acquired. The following classifications are used:

(i) Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor or other party with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 10).

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences relating to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Details of how the fair value of financial instruments is determined are disclosed in note 2.

Impairment
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from equity and recognised in the profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

(o) Derivatives and hedging activities

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 accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Currently the Group only has derivatives designated as cash flow hedges which are hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions.

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

1 Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities (continued)

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 19. Movements in the hedging reserve in shareholders' equity are shown in note 25. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing 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 reported in equity is immediately reclassified to profit or loss.

(ii) 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 instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(p) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line or diminishing value method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings	2.5%
- Plant and equipment	10% - 37.5%
- Leased plant	10% - 18.75%
- Equipment held at third parties	10% - 33.33%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

1 Summary of significant accounting policies (continued)

(q) Intangible assets

(i) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is tested for impairment in accordance with note 1(j).

(ii) Brand names
Brand names have been assessed by the directors as having indefinite useful lives. This is based on an analysis of product life cycle studies and market and competitive trends which provides evidence that the products will generate net cash inflows for the Group for an indefinite period. Therefore, the brands are carried at cost without amortisation, but are tested for impairment in accordance with note 1(j).

(iii) Non-compete covenants
Non-compete covenants acquired as part of a business combination are recognised separately from goodwill. They are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives of the contracts. This is usually 4 years.

(iv) Distribution rights
Distribution rights have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of distribution rights over their estimated useful lives, which is 5 years.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(u) Provisions

Provisions for claims, discounts, rebates and allowances are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

1 Summary of significant accounting policies (continued)

(u) Provisions (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(v) Employee benefits

(i) Short-term obligations
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Other long-term employee benefit obligations
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on commonwealth government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments
Share-based compensation benefits are provided to employees via the Long Term Incentive Plan and an Exempt Employee Plan offer. Information relating to these schemes is set out in note 35.

The fair value of options granted under the Long Term Incentive Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(w) Contributed equity

Ordinary shares are classified as equity (note 24).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(x) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date. Dividends declared but not distributed at 30 June 2010 were nil (2009: nil).

1 Summary of significant accounting policies (continued)

(y) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 34).

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(z) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(aa) Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ab) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments and* AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective 1 July 2010)
AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group's financial statements since it is only retrospectively applied from 1 July 2009 and the Group has not entered into any debt for equity swaps since that date.

(ii) *Improvements to IFRSs* (effective from 1 July 2010/1 January 2011)
In May 2010, the IASB made a number of amendments to the International Financial Reporting Standards as part of its ongoing improvements project. The AASB is expected to make equivalent amendments to the Australian accounting standards shortly. The Group will apply the amendments from 1 July 2010. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

(ac) Parent entity financial information

The financial information for the parent entity, Patties Foods Limited, disclosed in note 36, has been prepared on the same basis as the consolidated financial statements.

2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Where utilised, derivatives are exclusively used for hedging purposes, ie not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by management under a framework approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, including US dollar, Euro and NZ dollar.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. These commercial transactions relate to the procurement of raw materials, finished goods and items of plant and equipment. Export sales represent less than 1% of the Group's sales revenue and therefore are not recognised as a source of foreign exchange risk.

Management determined that some specific hedges were required for FY2010 and FY2009 for purchases of specific items of plant and equipment and commodity based raw material inputs. The Group’s risk management policy, as provided by the Board of Directors, includes a requirement to hedge approximately 50% of the identifiable foreign exchange requirements to provide some certainty in its cost of raw materials and 100% of the purchase cost of plant and equipment when the commitment is approved. No other hedging activities took place as the exposure was immaterial to the Group's overall result. Management will continue to review this exposure and take actions to hedge exposure if deemed appropriate.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	30 June 2010		30 June 2009		
	USD $'000	**NZD $'000**	USD $'000	NZD $'000	EUR $'000
Trade payables	**(1,171)**	**(74)**	(671)	(158)	-
Forward exchange contracts					
- buy foreign currency (cash flow hedges)	**1,665**	**-**	1,600	-	-
- buy foreign currency (held for trading)	**-**	**-**	553	-	237
Net exposure	**494**	**(74)**	1,482	(158)	237

The market risk due to foreign exchange movements is not material in terms of the possible impact on profit or loss or total equity.

(ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Group policy is to maintain approximately 50% of its borrowings at fixed rates using interest rate swaps to achieve this when necessary. During 2010 and 2009, the Group’s borrowings were at both fixed (through interest rate swaps) and variable rates and were denominated in Australian Dollars. During 2010, the Group's variable interest rate was based on BBSY and a margin.

2 Financial risk management (continued)

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

Consolidated	**2010 $'000**	2009 $'000
Bank overdrafts and bank bills	**63,014**	70,135
Interest rate swaps (notional principal amount)	**(35,000)**	(35,000)
Net exposure to cash flow interest rate risk	**28,014**	35,135

At 30 June 2010, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been $247,000 lower/higher (2009 - $246,000 lower/higher), mainly as a result of higher/lower interest expense from variable rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. For customers, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Compliance with credit limits by customers is regularly monitored by line management.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements
The Group had access to the following undrawn borrowing facilities at the reporting date:

	Consolidated	
	2010 $'000	2009 $'000
- Expiring beyond one year	**15,360**	10,458

The undrawn facilities may be drawn at any time and are subject to bi-annual review.

2 Financial risk management (continued)

Maturities of financial liabilities
The tables below analyse the Group's financial liabilities and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date.

Contractual maturities of financial liabilities	**Less than 12 months**	**Between 1 and 5 years**	**Total contract - ual cash flows**	**Carrying Amount (assets)/ liabilitie s**
At 30 June 2010	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives				
Non-interest bearing	20,970	-	20,970	20,970
Variable rate*	2,184	63,351	65,535	63,014
Fixed rate	135	43	178	143
Total non-derivatives	23,289	63,394	86,683	84,127
Derivatives				
Interest rate swaps				
- net settled	-	-	-	(146)
Forward foreign exchange contracts	-	-	-	-
- (inflow)	(1,666)	-	(1,666)	-
- outflow	1,662	-	1,662	-
- total	-	-	-	(4)
Total derivatives	(4)	-	(4)	(150)
At 30 June 2009				
Non-derivatives				
Non-interest bearing	17,058	-	17,058	17,058
Variable rate*	6,096	70,033	76,129	70,135
Fixed rate	279	178	457	392
Total non-derivatives	23,433	70,211	93,644	87,585
Derivatives				
Interest rate swaps				
Net settled	(70)	(241)	(311)	(311)
Forward foreign exchange contracts	-	-	-	-
- (inflow)	(3,378)	-	(3,378)	-
- outflow	3,112	-	3,112	-
- total	-	-	-	(266)
Total derivatives	(336)	(241)	(577)	(577)

* Management have arrived at the contractual cash flows for variable rate non-derivatives, based on budgeted variable interest rates.

2 Financial risk management (continued)

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, Patties Foods Limited has adopted the amendment to AASB 7 *Financial Instruments: Disclosures*, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

At 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Derivatives used for hedging	-	150	-	150

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise derivative financial instruments.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill and indefinite lived intangibles
The Group tests annually, or more frequently if events or changes in circumstances indicate that it might be impaired, whether goodwill and indefinite lived intangibles have suffered any impairment, in accordance with the accounting policy stated in note 1(j). The recoverable amounts of cash-generating units have been determined based on the higher of an asset's fair value less costs to sell and value-in-use. These calculations require the use of assumptions. Refer to note 16 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Income taxes
The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes, in particular, research and development. The Group recognises liabilities for anticipated tax issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) to differ by 20% from management's estimates, the Group would need to:
- increase the income tax liability by $45,000 and the income tax expense by $45,000 if unfavourable, or
- decrease the income tax liability by $45,000 and the income tax expense by $45,000 if favourable.

3 Critical accounting estimates and judgements (continued)

(iii) Indefinite lived intangibles

Management have determined that deferred tax assets and deferred tax liabilities associated with indefinite lived intangibles should be measured using the tax consequences that would follow from the sale of that asset. This is on the basis that these assets are not depreciated and therefore the carrying amount of the asset reflects the value recoverable from the sale of the asset.

Should this assumption change and management determine that the carrying value is greater than the value recoverable from sale, and record an impairment charge, there will be an associated change in the value of the deferred tax assets and tax liabilities which would be taken through that year's earnings.

4 Segment information

The economic entity operated predominantly in one operating segment during the year, being the manufacture and marketing of frozen food products throughout Australia.

Management has determined the operating segments based on the reports reviewed by the Patties Leadership Team that are used to make strategic decisions. Results are review on a whole-of-business basis, in accordance with statutory financial statements.

(i) Segment revenue

		Consolidated	
	Notes	**2010 $'000**	2009 $'000
Total segment revenue		**196,127**	179,213
Interest revenue		**24**	-
Other revenue		**734**	-
Total revenue from continuing operations (note 5)		**196,885**	179,213

The entity is domiciled in Australia. All of its revenue is derived from external customers in Australia.

Of the total revenue, $122,203,000, or 62.0%, is derived from three significant external customers (2009: $108,234,000, or 61.0%). This amount is split respectively by customer as follows: $58,895,000, or 29.9% of total revenue (2009: $52,795,000, or 29.7%), $42,264,000, or 21.4% (2009: $35,506,000, or 20.0%), $21,043,000, or 10.7% (2009: $19,932,000, or 11.2%).

(ii) Segment assets

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Australia is $151,311,000 (2009 - $148,931,000). There are no non-current assets located in other countries (2009 - $nil).

5 Revenue

	Consolidated	
	2010 $'000	2009 $'000
From continuing operations		
Sales revenue		
Sale of goods	**196,127**	178,363
Other revenue		
Interest	**24**	192
Caravan Park revenue	**734**	658
	758	850
	196,885	179,213

6 Other income

	Consolidated	
	2010	2009
	$'000	$'000
Government grants (a)	**178**	(68)
Sundry income	**5**	(31)
Royalties (note 30)	**37**	53
	220	(46)

(a) Government grants

Regional development and environmental grants of $178,310 (2009: $45,369 less grants no longer qualified for of $113,000) were recognised as other income by the Group during the financial year. The Group did not benefit from any other forms of government assistance.

7 Expenses

	Consolidated	
	2010	2009
	$'000	$'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	**965**	934
Property, plant and equipment	**4,618**	4,656
Total depreciation	**5,583**	5,590
Amortisation		
Intangible assets	**358**	461
Employee benefits expense	**38,725**	33,222
Finance costs		
Interest and finance charges paid/payable	**(4,556)**	(5,184)
Net loss on disposal of property, plant and equipment	**89**	18
Rental expense relating to operating leases		
Minimum lease payments	**2,689**	2,166
Net loss on foreign currency derivatives not qualifying as hedges	**-**	124
Research and development	**615**	432
Impairment losses - financial assets		
Trade receivables	**2**	34
Significant items		
Management restructuring costs	**265**	764
Plant closure and relocation of frozen fruit plant	**1,228**	-

Plant closure and relocation costs shown above are net of government grants of $144,000 which were received in relation to the plant closure and relocation as shown in note 6 above.

8 Income tax expense

	Consolidated	
	2010	2009
	$'000	$'000
(a) Income tax expense		
Current tax	**4,534**	3,586
Deferred tax	**580**	432
(Under)/over provision of current tax in prior periods	**304**	(11)
	5,418	4,007
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets (note 15)	**581**	203
Decrease in deferred tax liabilities (note 22)	**(1)**	229
	580	432

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated 2010 $'000	2009 $'000
Profit from continuing operations before income tax expense	**21,151**	15,269
Tax at the Australian tax rate of 30% (2009 - 30%)	**6,345**	4,581
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**31**	29
Share of net profit of associates	**(274)**	(26)
Legal fees	**9**	-
Research and Development	**(225)**	(113)
Capital Allowances	**(524)**	(189)
Share option expenses	**82**	-
Other non-deductible expenses	**3**	-
Sundry items	**(62)**	(111)
	5,385	4,171
Adjustments for current tax of prior periods	**304**	(11)
Adjustments for deferred tax of prior periods	**(271)**	(153)
	33	(164)
Total income tax expense	**5,418**	4,007

(c) Amounts recognised directly in equity

	Consolidated 2010 $'000	2009 $'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Current tax - debited directly to equity (note 24)	**139**	42
Net deferred tax - credited directly to equity (notes 15 and 22)	**(91)**	(135)
	48	(93)

(d) Tax consolidation legislation

Patties Foods Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2007. The accounting policy in relation to this legislation is set out in note 1(g).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the entities in the tax consolidated group in the case of a default by the head entity, Patties Foods Limited.

8 Income tax expense (continued)

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Patties Foods Limited for any current tax payable assumed and are compensated by Patties Foods Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Patties Foods Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the entities in the tax consolidated group's financial statements.

(e) Taxation of financial arrangements (TOFA)

Legislation is in place which changes the tax treatment of financial arrangements including the tax treatment of hedging transactions. The new TOFA rules will apply to Patties Foods Limited from 1 July 2010. As such Patties Foods Limited will assess the impact of TOFA during the year ended 30 June 2011.

9 Current assets - Cash and cash equivalents

	Consolidated	
	2010	2009
	$'000	$'000
Cash in hand	**1**	2
Cash at bank	**356**	1,153
	357	1,155

(a) Cash in hand

This is non-interest bearing.

(b) Cash at bank

The average effective interest rate on short term bank deposits was 1.73% (2009 - 3.86%).

10 Current assets - Receivables

	Consolidated	
	2010	2009
	$'000	$'000
Trade receivables	**36,781**	43,794
Provision for claims, discounts, rebates and allowances	**(5,758)**	(8,416)
Provision for impaired receivables (note (a))	**(12)**	(23)
	31,011	35,355
Other receivables (note (b))		
Other receivables (note (b))	**361**	274
Employee share purchase loans (note (b))	**136**	144
	497	418
Prepayments	**1,282**	954
	32,790	36,727

10 Current assets - Receivables (continued)

(a) Credit risk

The aging of the Group's trade receivables at the reporting date was:

	Consolidated 2010 $'000	2009 $'000
Not past due	**34,198**	39,653
Past due 1 - 30 days	**1,212**	841
Past due 31 - 60 days	**39**	1,646
Past due 60+ days	**1,332**	1,654
	36,781	43,794

As of 30 June 2010, trade receivables of $12,177 (2009 - $22,518) were impaired.

The maximum exposure to credit risk for trade receivables at the reporting date is the carrying amount of each class mentioned above.

Movements in the provision for impaired receivables are as follows:

	Consolidated 2010 $'000	2009 $'000
At 1 July	**23**	469
Provision for impaired receivables recognised during the year	**14**	34
Receivables written off during the year as uncollectible	**(12)**	(480)
Unused amount reversed	**(13)**	-
	12	23

The other classes within trade and other receivables do not contain impaired assets and are not past due (note 2(b)).

Based on the credit history of other receivables, these amounts are expected to be received when due.

(b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group.

(c) Fair value

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

11 Current assets - Inventories

	Consolidated	
	2010	2009
	$'000	$'000
Raw materials and stores		
- at cost	**12,668**	8,016
Finished goods		
- at cost	**15,262**	10,160
Other inventories		
- at cost	**269**	141
Spare parts		
- at net realisable value	**1,403**	1,223
	29,602	19,540

(a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2010 amounted to $84,847,659 (2009: $83,257,803) refer to note 7.

Inventories written down to net realisable value during the year ended 30 June 2010 amounted to $151,333 (2009: $195,857).

12 Current assets - Current tax receivables

	Consolidated	
	2010	2009
	$'000	$'000
Current tax receivable	**-**	1,366

13 Non-current assets - Investments accounted for using the equity method

	Consolidated	
	2010	2009
	$'000	$'000
Interest in joint venture	**8,388**	8,049

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting.

14 Non-current assets - Property, plant and equipment

	Construction in progress $'000	Land and buildings $'000	Plant and equipment $'000	Leased plant & equipment $'000	Equipment held at 3rd parties $'000	Total $'000
At 1 July 2008						
Cost or fair value	23,086	17,192	41,764	1,374	3,219	86,635
Accumulated depreciation	-	(1,590)	(20,220)	(329)	(2,045)	(24,184)
Net book amount	23,086	15,602	21,544	1,045	1,174	62,451
Year ended 30 June 2009						
Opening net book amount	23,086	15,602	21,544	1,045	1,174	62,451
Additions	250	934	2,510	-	1,481	5,175
Disposals	-	-	(59)	-	-	(59)
Transfers	(23,086)	7,759	15,216	111	-	-
Depreciation charge	-	(934)	(3,948)	(189)	(519)	(5,590)
Closing net book amount	250	23,361	35,263	967	2,136	61,977
At 30 June 2009						
Cost or fair value	250	25,886	59,301	1,520	4,700	91,657
Accumulated depreciation	-	(2,525)	(24,038)	(553)	(2,564)	(29,680)
Net book amount	250	23,361	35,263	967	2,136	61,977
Year ended 30 June 2010						
Opening net book amount	250	23,361	35,263	967	2,136	61,977
Additions	5,776	200	1,234	-	882	8,092
Disposals	-	-	(113)	-	-	(113)
Transfers	(4,320)	633	3,362	-	325	-
Depreciation charge	-	(857)	(3,940)	(161)	(624)	(5,582)
Closing net book amount	1,706	23,337	35,806	806	2,719	64,374
At 30 June 2010						
Cost or fair value	1,706	26,717	63,448	1,520	5,908	99,299
Accumulated depreciation	-	(3,380)	(27,642)	(714)	(3,189)	(34,925)
Net book amount	1,706	23,337	35,806	806	2,719	64,374

15 Non-current assets - Deferred tax assets

	Consolidated	
	2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:		
Employee benefits	**1,121**	1,064
Fixed assets	**-**	334
Capitalised transaction costs	**790**	1,165
Cash flow hedges	**45**	93
	1,956	2,656
Other		
Impaired receivables	**4**	7
Accruals	**248**	175
Sub-total other	**252**	182
Total deferred tax assets	**2,208**	2,838
Set-off of deferred tax liabilities pursuant to set-off provisions (note 22)	**(2,208)**	(2,838)
Net deferred tax assets	**-**	-
Deferred tax assets to be recovered within 12 months	**-**	-
Deferred tax assets to be recovered after more than 12 months	**2,208**	2,838
	2,208	2,838

Movements - Consolidated	**Employee benefits $'000**	**Fixed assets $'000**	**Capitalised transaction costs $'000**	**Cash flow hedges $'000**	**Impaired receivables $'000**	**Other $'000**	**Total $'000**
At 1 July 2008	898	401	1,549	-	141	52	3,041
- to profit or loss	166	28	(479)	-	(134)	123	(296)
- to other comprehensive income	-	-	-	93	-	-	93
At 30 June 2009	1,064	429	1,070	93	7	175	2,838
At 30 June 2009	1,064	429	1,070	93	7	175	2,838
- to profit or loss	57	(429)	(280)	-	(3)	73	(582)
- directly to equity	-	-	-	(48)	-	-	(48)
At 30 June 2010	1,121	-	790	45	4	248	2,208

16 Non-current assets - Intangible assets

	Goodwill $'000	Brands $'000	Distribution rights $'000	Other $'000	Non-compete covenant $'000	Total $'000
At 1 July 2008						
Cost	12,019	65,486	794	941	463	79,703
Accumulated amortisation and impairment	-	-	(159)	(178)	-	(337)
Net book amount	12,019	65,486	635	763	463	79,366
Year ended 30 June 2009						
Opening net book amount	12,019	65,486	635	763	463	79,366
Amortisation charge	-	-	(159)	(109)	(193)	(461)
Closing net book amount	12,019	65,486	476	654	270	78,905
At 30 June 2009						
Cost	12,019	65,486	794	941	463	79,703
Accumulated amortisation and impairment	-	-	(318)	(287)	(193)	(798)
Net book amount	12,019	65,486	476	654	270	78,905
Year ended 30 June 2010						
Opening net book amount	12,019	65,486	476	654	270	78,906
Amortisation charge	-	-	(158)	(106)	(93)	(356)
Closing net book amount	12,019	65,486	318	549	178	78,550
At 30 June 2010						
Cost	12,019	65,486	794	942	178	79,419
Accumulated amortisation and impairment	-	-	(476)	(393)	-	(869)
Net book amount	12,019	65,486	318	549	178	78,550

(a) Impairment tests for goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are allocated to the Group's cash-generating units (CGU) according to business operations.

The recoverable amount of a CGU is determined based on value-in-use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a two-year period. Cash flows beyond the two-year period are extrapolated using the estimated growth rates stated below.

2010	**Goodwill $'000**	**Brands $'000**
Sweet and savoury frozen bakery product business	-	54,565
Caravan Park	825	-
Frozen fruit product business	11,194	10,921
	12,019	65,486

2009	Goodwill $'000	Brands $'000
Sweet and savoury frozen bakery product business	-	54,565
Caravan Park	825	-
Frozen fruit product business	11,194	10,921
	12,019	65,486

16 Non-current assets - Intangible assets (continued)

(b) Key assumptions used for value-in-use calculations

CGU	Growth rate **		Discount rate ***	
	2010 %	2009 %	**2010 %**	2009 %
Sweet and savoury frozen bakery product business	**5.6**	6.0	**14.4**	12.9
Caravan Park	**1.5**	1.0	**14.4**	11.8
Frozen fruit product business	**9.2**	7.0	**14.4**	13.1

** Growth rate is used to extrapolate cash flows beyond the budget period for the forecast period to 2015.
A 2.5% growth rate has been applied beyond 2015 (1% for the caravan park).
*** The discount rates used are pre-tax.
These assumptions have been used for the analysis of each CGU. Management determined budgeted gross margin based on past performance and its expectations for the future. The growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant CGU and the markets in which they operate.

(c) Impact of possible changes in key assumptions

Management does not consider that any reasonably possible change in any of the key assumptions would result in a CGU carrying amount exceeding the recoverable amount.

17 Current liabilities - Payables

	Consolidated	
	2010 $'000	2009 $'000
Trade payables	**16,793**	13,114
Other payables	**4,177**	3,944
	20,970	17,058

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 2.

18 Current liabilities - Borrowings

	Consolidated 2010 $'000	2009 $'000
Secured		
Lease liabilities (note 29)	**108**	249
Bank bills (a)	**2,124**	2,100
Total secured current borrowings	**2,232**	2,349

(a) Bank bills

Relates to a portion of a bill facility that expires within 12 months.

(b) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 2.

(c) Fair value disclosures

Details of the fair value of borrowings for the Group are set out in note 21.

(d) Security

Details of the security relating to each of the secured liabilities and further information on the bank bills are set out in note 21.

19 Derivative financial instruments

	Consolidated 2010 $'000	2009 $'000
Current liabilities		
Forward foreign exchange contracts - cash flow hedges ((a)(i))	**4**	142
Forward foreign currency contracts - held for trading ((a)(ii))	**-**	124
Total current derivative financial instrument liabilities	**4**	266
Non-current liabilities		
Interest rate swaps - cash flow hedges ((a)(iii))	**146**	311
Total non-current derivative financial instrument liabilities	**146**	311
Total derivative financial instrument liabilities	**150**	577

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

(i) Forward foreign exchange contracts - cash flow hedges
The Group uses raw materials purchased from the United States and Europe. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US dollars and Euros.

These contracts are hedging highly probable forecasted purchases for the ensuing financial year. The contracts are timed to mature when payments for shipments of raw materials are scheduled to be made.

19 Derivative financial instruments (continued)

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.

There was no hedge ineffectiveness in the current or prior year.

(ii) Forward foreign exchange contracts - held for trading
The Group entered into forward exchange contracts in the previous year which did not satisfy the requirements for hedge accounting. These contracts were subject to the same risk management policies as all other derivative contracts, see note 2 for details. They were accounted for as held for trading.

(iii) Interest rate swap contracts - cash flow hedges
Bank loans of the Group currently bear a variable interest rate. It is policy to protect part of the loans from exposure to fluctuations in interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Swaps currently in place cover approximately 55% (2009 - 50%) of the variable loan principal outstanding and are timed to expire as each loan repayment falls due.

The contracts require settlement of net interest receivable or payable each 30 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. In the year ended 30 June 2010 a loss of $484,980 was reclassified into profit and loss (2009 - loss of $296,925) and included in finance cost. There was no hedge ineffectiveness in the current year.

20 Current liabilities - Provisions

	Consolidated	
	2010	2009
	$'000	$'000
Employee benefits (a)	**3,092**	2,969

(a) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

	Consolidated	
	2010	2009
	$'000	$'000
Leave obligations expected to be settled after 12 months	**-**	121

21 Non-current liabilities - Borrowings

	Consolidated 2010 $'000	2009 $'000
Secured		
Lease liabilities (note 29)	**36**	143
Bank bills	**60,890**	68,035
Total secured non-current borrowings	**60,926**	68,178
Total non-current borrowings	**60,926**	68,178

(a) Secured liabilities and assets pledged as security

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

	2010	2009
Lease liabilities	**144**	392
Bank bills	**63,014**	70,135
Total secured liabilities	**63,158**	70,527

The bank bills are secured by first ranking fixed and floating charges over all the assets and undertakings of the Group and first ranking registered mortgages over the Group's freehold land and buildings.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The Group is subject to certain covenants within the bank facility.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated 2010 $'000	2009 $'000
Current		
Floating charge		
Cash and cash equivalents	**357**	1,155
Receivables	**32,790**	36,727
Inventories	**29,602**	19,540
Total current assets pledged as security	**62,749**	57,422
Non-current		
First mortgage		
Freehold land and buildings	**23,337**	23,361
Finance lease		
Plant and equipment	**806**	967
Floating charge		
Other financial assets	**8,388**	8,049
Plant and equipment	**35,806**	35,263
Total non-current assets pledged as security	**68,337**	67,640
Total assets pledged as security	**131,086**	125,062

(b) Fair value

The carrying amounts and fair values of borrowings at the end of reporting period are:

21 Non-current liabilities - Borrowings (continued)

	At 30 June 2010		At 30 June 2009	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
On-balance sheet				
Non-traded financial liabilities				
Bank bills	**63,014**	**63,014**	70,135	70,135
Lease liabilities	**144**	**144**	392	392
	63,158	**63,158**	70,527	70,527

The fair value of borrowings equals their carrying amounts, as they are at variable interest rates.

(c) Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 2.

22 Non-current liabilities - Deferred tax liabilities

	Consolidated	
	2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:		
Brand names	**6,500**	6,500
Intangible assets	**88**	297
Unrealised foreign exchange gains	**77**	-
Depreciation	**1,092**	935
Other		
Other	**-**	26
Total deferred tax liabilities	**7,757**	7,758
Set-off of deferred tax assets pursuant to set-off provisions (note 15)	**(2,208)**	(2,838)
Net deferred tax liabilities	**5,549**	4,920
Movements:		
Opening balance at 1 July	**7,758**	7,529
Charged/(credited) to the income statement (note 8)	**(1)**	229
Closing balance at 30 June	**7,757**	7,758
Deferred tax liabilities to be settled within 12 months	**-**	-
Deferred tax liabilities to be settled after more than 12 months	**7,757**	7,758
	7,757	7,758

23 Non-current liabilities - Provisions

	Consolidated	
	2010	2009
	$'000	$'000
Employee benefits	**646**	579

24 Contributed equity

	Parent entity		Parent entity	
	2010	2009	**2010**	2009
	Shares	Shares	**$'000**	$'000
(a) Share capital				
Ordinary shares				
Fully paid	**138,908,853**	138,797,343	**68,329**	68,194

(b) Movements in ordinary share capital:

Date	Details	Number of shares	$'000
1 July 2008	Opening balance	138,873,680	68,269
	On market share buy back	(76,337)	(75)
	On market share buy back - employee share scheme	(170,292)	(139)
	Employee share scheme issues	170,292	139
30 June 2009	Balance	138,797,343	68,194
1 July 2009	Opening balance	138,797,343	68,194
	Employee share scheme issues	111,510	135
30 June 2010	Balance	138,908,853	68,329

(c) Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(d) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 35.

An Exempt Employee Plan Offer under which shares may be issued by the Company to employees for no up front cash consideration was established as part of the Initial Public Offer. The first round of the Exempt Employee Plan Offer was conducted in November 2006, the second in March 2008 and the third in March 2009.

Under the fourth round of the Exempt Employee Plan Offer conducted in March 2010, eligible employees were granted 826 Offer Shares (being approximately $1,000 worth of fully paid Offer Shares at the offer price of $1.21) in Patties Foods Limited. Successful Plan applicants would have their pre tax salary or wages reduced by approximately $1,000 in equal instalments, over a 12 month period.

Shares issued under the exempt employee plan offer may not be sold until the earlier of three years after issue or cessation of employment by the Group. During this period, the eligible employee will have legal ownership of the shares and all other rights (including dividend and voting rights), but may not sell, grant a security over or otherwise dispose of those shares. In all other respects the shares rank equally with other fully paid ordinary shares on issue.

24 Contributed equity (continued)

It is proposed that offers under the Exempt Employee Share Plan will be made annually. Salary or bonus sacrifice arrangements, where applicable, will be entered into by the participants for a period of 12 months. Offers will be up to $1,000 worth of shares.

(e) Options

Information relating to the Long Term Incentive Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 35.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors capital on the basis of maintaining its capital adequacy ratio above 45%. This ratio is calculated as total net worth divided by total assets. Total net worth is defined as net assets. This capital requirement is imposed on the Group by its banking covenants.

The capital adequacy ratio for 2010 was 55% (2009: 53%).

The Group's capital management strategy in 2010 was unchanged from 2009.

25 Reserves and retained earnings

	Consolidated	
	2010	2009
	$'000	$'000
(a) Reserves		
Hedging reserve - cash flow hedges	**(105)**	(317)
Share-based payments reserve	**175**	-
	70	(317)
Movements:		
Hedging reserve - cash flow hedges		
Opening balance 1 July	**(317)**	-
Revaluation - gross (notes 8, 15 and 22)	**303**	(452)
Deferred tax		
Deferred tax (notes 8, 15 and 22)	**(91)**	135
Balance 30 June	**(105)**	(317)
Movements:		
Share-based payments reserve		
Option expense	**175**	-
Balance 30 June	**175**	-

25 Reserves and retained earnings (continued)

(b) Retained earnings

Movements in retained earnings were as follows:

Balance 1 July	**43,212**	40,972
Net profit for the year	**15,733**	11,262
Dividends	**(7,637)**	(9,022)
Balance 30 June	**51,308**	43,212

(c) Nature and purpose of reserves

(i) Hedging reserve - cash flow hedges
The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(o). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(ii) Share-based payments reserve
The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised

26 Dividends

	Parent entity	
	2010 **$'000**	2009 $'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2009 of 2.5 cents (2008 - 4.5 cents) per fully paid share paid on 9 October 2009 (2008 - 10 October 2008)		
Fully franked based on tax paid @ 30% - 2.5 cents (2008 - 4.5 cents) per share	**3,470**	6,246
Interim ordinary dividend for the year ended 30 June 2010 of 3.0 cents (2009 - 2.0 cents) per fully paid share paid on 14 April 2010 (2009 - 15 April 2009)		
Fully franked based on tax paid @ 30% - 3.0 cents (2009 - 2.0 cents) per share	**4,167**	2,776
Total dividends provided for or paid	**7,637**	9,022
Dividends paid in cash during the years ended 30 June 2010 and 2009 were as follows:		
Paid in cash	**7,637**	9,022
	7,637	9,022

(b) Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 3.5 cents per fully paid ordinary share, (2009 - 2.5 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 8 October 2010 out of retained profits at 30 June 2010, but not recognised as a liability at year end, is	**4,862**	3,470

(c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2010.

26 Dividends (continued)

	Consolidated	
	2010	2009
	$'000	$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009 - 30%)	**15,596**	15,607

The above amounts represent the balance of the franking account as at the reporting date, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $2,083,633 (2009: $1,487,114).

27 Key management personnel disclosures

(a) Directors

The following persons were directors of Patties Foods Limited during the financial year:

(i) Chairman - non-executive
Chris Riordan (from 7 July 2009).

(ii) Executive directors
Gregory J Bourke, Managing Director; and
Henricus J Rijs.

(iii) Non-executive directors
Ernest Barr;
Gregory Dhnaram;
J Curt Leonard, (Deputy Chairman from 2 October 2009);
Richard Rijs; and
John P Schmoll (from 2 October 2009).

(b) Other key management personnel

The following also had authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly, during the financial year:

Michael Knaap	Chief Financial Officer
Grant Leyden	General Manager, Manufacturing
Mark Connolly	General Manager, Marketing
Jeff Pentney	General Manager, Human Resources
Tim Peters	Head of Sales

27 Key management personnel disclosures (continued)

(c) Key management personnel compensation

	Consolidated 2010 $	Consolidated 2009 $
Short-term employee benefits	**2,016,232**	1,205,058
Post-employment benefits	**278,407**	595,521
Termination benefits	**-**	680,000
Share-based payments	**274,254**	-
	2,568,893	2,480,579

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options
Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on page 14..

(ii) Option holdings
The numbers of options over ordinary shares in the Company held during the financial year by each director of Patties Foods Limited and other key management personnel of the Company, including their personally related parties, are set out below.

2010 Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Patties Foods Limited							
Gregory J Bourke	-	1,200,000	-	-	1,200,000	-	1,200,000
Other key management personnel of the Group							
Michael Knaap	-	600,000	-	-	600,000	-	600,000
Grant Leyden	-	600,000	-	-	600,000	-	600,000
Mark Connolly	-	300,000	-	-	300,000	-	300,000
Jeff Pentney	-	300,000	-	-	300,000	-	300,000
Tim Peters	-	600,000	-	-	600,000	-	600,000

(iii) Share holdings
The numbers of shares in the Company held during the financial year by each director of Patties Foods Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

27 Key management personnel disclosures (continued)

2010 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Patties Foods Limited				
Ordinary shares				
Chris Riordan	-	-	100,372	100,372
Gregory J Bourke	138,800	-	152,496	291,296
Ernest W Barr	3,823,464	-	176,536	4,000,000
Richard C Rijs*	11,437,275	-	3,815,732	15,253,007
Henricus J Rijs	8,185,588	-	210,313	8,395,901
Gregory Dhnaram	-	-	20,000	20,000
J Curt Leonard	2,061,172	-	102,375	2,163,547
John P Schmoll	-	-	75,000	75,000
Other key management personnel of the Group				
Ordinary shares				
M Knaap	36,364	-	78,475	114,839
G Leyden	-	-	20,000	20,000
M Connolly	17,545	-	826	18,371
J Pentney	2,074	-	-	2,074
T Peters	-	-	-	-
* Change during the year is due to consolidation of family arrangements.	-	-	-	-

2009 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Patties Foods Limited				
Ordinary shares				
P T Kempen*	1,448,512	-	(1,448,512)	-
M J Allan*	30,500	-	(30,500)	-
R C Rijs	11,311,656	-	125,619	11,437,275
H J Rijs**	4,196,644	-	3,988,944	8,185,588
J Curt Leonard	2,061,172	-	-	2,061,172
E W Barr	3,773,464	-	50,000	3,823,464
Gregory J Bourke	-	-	138,800	138,800
Gregory Dhnaram	-	-	-	-
Other key management personnel of the Group				
Ordinary shares				
B A Schofield*	14,696	-	(14,696)	-
M Knaap	-	-	36,364	36,364

* Change during the year is due to resignation.
** Change during the year is due to consolidation of family arrangements.

28 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2010	2009
	$	$
(a) Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the Corporations Act 2001	**200,400**	203,600
Non-audit services		
Other consulting services	**24,850**	8,800
Total remuneration	**225,250**	212,400

29 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated	
	2010	2009
	$'000	$'000
Property, plant and equipment		
Payable:		
Within one year	**1,161**	2,375
	1,161	2,375

(b) Lease commitments: Group as lessee

	Consolidated	
	2010	2009
	$'000	$'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	**1,216**	1,048
Later than one year but not later than five years	**1,248**	1,330
	2,464	2,378
Representing:		
Non-cancellable operating leases	**2,429**	2,313
Future finance charges on finance leases	**35**	65
	2,464	2,378

29 Commitments (continued)

(i) Non-cancellable operating leases
The Group leases various offices and warehouses under non-cancellable operating leases expiring within one to five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated	
	2010	2009
	$'000	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1,188**	1,018
Later than one year but not later than five years	**1,241**	1,294
	2,429	2,312

(ii) Finance leases
The Group leases various plant and equipment with a carrying amount of $806,000 (2009 - $872,000) under finance leases expiring within one to four years. Under the terms of the leases, ownership of the assets transfers to the Group upon payment of the final instalment.

	Consolidated	
	2010	2009
	$'000	$'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**142**	279
Later than one year but not later than five years	**36**	178
Minimum lease payments	**178**	457
Future finance charges	**(35)**	(65)
Recognised as a liability	**143**	392
Total lease liabilities	**143**	392
Representing lease liabilities:		
Current (note 18)	**114**	249
Non-current (note 21)	**29**	143
	143	392

The weighted average interest rate implicit in the leases is 7.12% (2009 - 7.23%).

30 Related party transactions

(a) Parent entities

The parent entity and ultimate entity within the Group is Patties Foods Limited.

(b) Associates

Details of associates are set out in note 32.

(c) Subsidiaries

Interests in subsidiaries are set out in note 31.

30 Related party transactions (continued)

(d) Transactions with other related parties

The following transactions occurred with related parties:

	Consolidated 2010 $	Consolidated 2009 $
Sales of goods and services		
Sale of raw materials to Davies Bakery (Aust) Pty Ltd	**616,451**	632,617
Royalties from Davies Bakery (Aust) Pty Ltd	**33,708**	48,461
	650,159	681,078
Purchases of goods and services with associates		
Finished goods from Davies Bakery (Aust) Pty Ltd (associated company).	**15,653,521**	7,823,872
Air flight services from Piper Partners Pty Ltd (associated company)	**287,483**	140,121
	15,941,004	7,963,993

	Consolidated 2010 $	Consolidated 2009 ` $
Other transactions		
Strategic and financial advice from Ernst & Young	**-**	25,940
Interest revenue from Davies Bakery (Aust) Pty Ltd	**-**	(44,104)
Consultancy services from Richard Rijs	**-**	47,000
	-	28,836

Ernst & Young was considered to be a related party as they had previously employed Peter Kempen.

Associates		
Consultancy services to Davies Bakery (Aust) Pty Ltd from Richard Rijs	**25,000**	-
	25,000	-
Superannuation contributions		
Contributions to superannuation funds on behalf of employees	**2,612,070**	2,341,036
	2,612,070	2,341,036

(e) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	Consolidated 2010 $	Consolidated 2009 $
Current receivables (sales of goods and services)		
Davies Bakery (Aust) Pty Ltd	**57,413**	145,939
Current payables (purchases of goods)		
Davies Bakery (Aust) Pty Ltd	**1,290,086**	1,117,694

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

30 Related party transactions (continued)

(f) Loans to/from related parties

	Consolidated 2010 $	2009 $
Loans to associates		
Beginning of the year	**-**	-
Loans advanced	**-**	600,000
Loan repayments received	**-**	(600,000)
Interest charged	**-**	44,104
Interest received	**-**	(44,104)
End of year	**-**	-

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

There are no loans to directors or executives at 30 June 2010 other than loans to executives of up to $1,000 under standard terms of the Group's exempt employee share plan.

31 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding 2010 %	2009 %
Chef's Pride Pty Ltd	Australia	Ordinary	**100**	100
Creative Gourmet Pty Ltd	Australia	Ordinary	**100**	100

32 Investments in associates

	Consolidated 2010 $'000	2009 $'000
(a) Movements in carrying amounts		
Carrying amount at the beginning of the financial year	**8,049**	7,961
Share of profits after income tax	**339**	88
Carrying amount at the end of the financial year	**8,388**	8,049

32 Investments in associates (continued)

(b) Summarised financial information of associates

The Group's share of the results of its principal associates and their aggregated assets (including goodwill) and liabilities are as follows:

	Ownership Interest %	Group's share of: Assets $'000	Liabilities $'000	Revenues $'000	Profit/(loss) $'000
2010					
Piper Partners Pty Ltd	50	236	231	165	14
Davies Bakery (Aust) Pty Ltd	50	10,930	2,847	14,596	325
		11,166	3,078	14,761	339
2009					
Piper Partners Pty Ltd	50	216	232	87	(8)
Davies Bakery (Aust) Pty Ltd	50	10,141	2,626	10,224	96
		10,357	2,858	10,311	88

All of the above associates are incorporated in Australia.

The above disclosures are based on the unaudited financial statements of Piper Partners Pty Ltd and audited financial statements of Davies Bakery (Aust) Pty Ltd.

33 Reconciliation of profit after income tax to net cash inflow from operating activities

(a) Reconciliation to cash at the end of the year

Cash and cash equivalents as shown in the balance sheet is reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated 2010 $'000	2009 $'000
Cash and cash equivalents	**357**	1,155
Balances per statement of cash flows	**357**	1,155

33 Reconciliation of profit after income tax to net cash inflow from operating activities (continued)

(b) Reconciliation of net cash inflow (outflow) from operating activities to profit (loss)

	Consolidated	
	2010 **$'000**	2009 $'000
Profit for the year	**15,733**	11,262
Depreciation and amortisation	**5,940**	6,051
Net loss on sale of property, plant and equipment	**89**	18
Transfer of interest income to Investing cash flows	**(24)**	(192)
Fair value adjustment to derivatives	**211**	(317)
Share of (profits)/losses of associates and joint venture partnership not received as dividends or distributions	**(339)**	(88)
(Increase) decrease in trade debtors	**3,387**	(5,423)
(Increase) in inventories	**(10,065)**	(1,616)
Decrease in deferred tax assets	**630**	203
(Increase) decrease in other operating assets	**550**	(590)
Increase) in trade creditors	**3,908**	3,576
Increase (Decrease) in provision for income taxes payable	**2,156**	(1,131)
Increase in deferred tax liabilities	**(1)**	228
Increase (decrease) in derivative financial instruments	**(427)**	577
Increase in other provisions	**365**	683
Net cash inflow from operating activities	**22,113**	13,241

34 Earnings per share

	Consolidated	
	2010 **Cents**	2009 Cents
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**11.3**	8.1
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**11.3**	8.1

(c) Reconciliation of earnings used in calculating earnings per share

	Consolidated	
	2010 **$'000**	2009 $'000
Basic and diluted earnings per share		
Profit from continuing operations	**15,733**	11,262

34 Earnings per share (continued)

(d) Weighted average number of shares used as the denominator

	Consolidated 2010 Number	Consolidated 2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**138,908,853**	138,797,343
Options	**884,987**	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**139,793,840**	138,797,343

(e) Information concerning the classification of securities

(i) Options

Options granted to employees under the Long Term Incentive Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 35.

35 Share-based payments

(a) Long Term Incentive Plan

The Long Term Incentive Plan is designed to provide long-term incentives for senior managers to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options that will vest depends on the achievement of specified compound annual earnings per share (EPS) growth. Once vested, the options remain exercisable for a period of four years in the case of Tranche One and three years in the case of Tranche Two. Options are granted under the plan for no consideration.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange (ASX) during the period deemed appropriate by the Board.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Balance at end of the year Number
Consolidated - 2010						
2 December 2009	2 December 2016	$0.90	-	3,000,000	-	3,000,000
27 January 2010	2 December 2016	$1.33	-	600,000	-	600,000
Total			-	3,600,000	-	3,600,000
Weighted average exercise price			$-	$0.97	$-	$0.97

35 Share-based payments (continued)

No options expired during the periods covered by the above tables. No options were exercised subsequent to year end.

The weighted average remaining contractual life of share options outstanding at the end of the period was 6.43 years (2009 - N/A).

Fair value of options granted
The assessed fair value at grant date of options granted during the year ended 30 June 2010 was 46 cents per option (2009 - N/A cents). The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2010 included:

(a) options are granted for no consideration and vest based on achievement of specified compound annual EPS growth. Vested options are exercisable for a period of four years after vesting in the case of Tranche One options and three years after vesting in the case of Tranche Two.

(b) exercise price: $0.97 (2009 - N/A)

(c) vesting date: 2 December 2012 and 2 December 2013.

(d) grant date: 2 December 2009 and 27 January 2010 (2009 - N/A)

(e) expiry date: 2 December 2016 (2009 - N/A)

(f) share price at grant date: $1.285 - 2 December 2009 and $1.30 - 27 January 2010 (2009 - N/A)

(g) expected price volatility of the Company's shares: 45% (2009 - N/A)

(h) expected dividend yield: 5.5% (2009 - N/A)

(i) risk-free interest rate: 4.96% (2009 - N/A)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(b) Employee share scheme

An Exempt Employee Plan Offer under which shares may be issued by the Company to employees for no up front cash consideration was established as part of the Initial Public Offer. The first round of the Exempt Employee Plan Offer was conducted in November 2006, the second in March 2008 and the third in March 2009.

Under the fourth round of the Exempt Employee Plan Offer conducted in March 2010, eligible employees were granted 826 Offer Shares (being approximately $1,000 worth of fully paid Offer Shares at the offer price of $1.21) in Patties Foods Limited. Successful Plan applicants would have their pre tax salary or wages reduced by approximately $1,000 in equal instalments, over a 12 month period.

Shares issued under the exempt employee plan offer may not be sold until the earlier of three years after issue or cessation of employment by the Group. During this period, the eligible employee will have legal ownership of the shares and all other rights (including dividend and voting rights), but may not sell, grant a security over or otherwise dispose of those shares. In all other respects the shares rank equally with other fully paid ordinary shares on issue.

Eligible employees are all full time and part time employees as at the date the offer is made and are still employed at the date the shares are allocated. Casual employees are not eligible to participate.

The price of the shares is determined by the trading price of Patties Foods Limited shares on the Australian Securities Exchange for the five trading days immediately following the end of the offer period.

It is proposed that offers under the Exempt Employee Share Plan will be made annually. Salary or bonus sacrifice arrangements, where applicable, will be entered into by the participants for a period of 12 months. Offers will be up to $1,000 worth of shares.

35 Share-based payments (continued)

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were $247,000 in 2010 (2009: $0) for the consolidated entity.

36 Parent entity financial information

	Parent entity	
	2010	2009
	$'000	$'000
Balance sheet		
Current assets	**71,819**	58,788
Non-current assets	**158,502**	148,931
Total assets	**230,321**	207,719
Current liabilities	**47,721**	22,642
Non-current liabilities	**69,214**	73,988
Total liabilities	**116,935**	96,630
Shareholders' equity		
Contributed equity	**68,329**	68,194
Reserves	**70**	(317)
Retained earnings	**44,987**	43,212
	113,386	111,089
Profit or loss for the year	**13,672**	11,262
Total comprehensive income	**13,884**	10,945

(a) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009.

(b) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2010, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $1,161,000 (30 June 2009 - $2,375,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

In the directors' opinion:

(a) the financial statements and notes set out on pages 24 to 71 are in accordance with the *Corporations Act 2001,* including:
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

Chris Riordan
Chairman

Melbourne
23 August 2010

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of Patties Foods Limited

Report on the financial report

We have audited the accompanying financial report of Patties Foods Limited (the company), which comprises the balance sheet as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Patties Foods Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Patties Foods Limited (continued)

Independence

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

.Auditor's opinion

In our opinion:

(a) the financial report of Patties Foods Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;*and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 8 to 14 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Patties Foods Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Patties Foods Limited (the company) for the year ended 30 June 2010 included on the Patties Foods Limited web site. The company's directors are responsible for the integrity of the Patties Foods Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

Pricewaterhouse Coopers

PricewaterhouseCoopers

John O'Donoghue
Partner

Melbourne
23 August 2010

The shareholder information set out below was applicable as at 31 July 2010.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding			Class of equity security holder			
			Ordinary shares		Redeemable preference shares	Convertible notes
			Shares	Options		
1	-	1000	600	-	-	-
1,001	-	5,000	1,529	-	-	-
5,001	-	10,000	509	-	-	-
10,001	-	100,000	655	-	-	-
100,001	and over		65	-	-	-
			3,358	-	-	-

There were no holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
M F Custodians Ltd	24,287,723	17.48
Mr Adrian Rijs & Mrs Louise Rijs (A & L Rijs Family no. 2 A/C)	11,311,503	8.14
N&F Rijs Pty Ltd (N & F Rijs Family A/C)	9,345,348	6.73
Ludamon Pty Ltd (Marich Family A/C)	8,106,706	5.84
Hank Pty Ltd (Ankh Family A/C)	7,995,091	5.76
JP Morgan Nominees Australia Ltd	7,296,474	5.25
The Estate of Peter Anthony Rijs	6,411,656	4.62
The Myer Family Investments Pty Ltd	5,000,000	3.60
ANZ Nominees Ltd (Cash Income A/C)	4,795,137	3.45
National Nominees Limited	3,570,075	2.57
Ernest Wolfgang Barr	3,161,944	2.28
Cogent Nominees Pty Ltd (SMP Accounts)	1,984,208	1.43
Peter Leslie Dennison	1,682,163	1.21
NRR Pty Ltd	1,310,000	0.94
Mr Michael Thomas Bartholomew	1,247,323	0.90
EMK Investments Pty Ltd	1,164,955	0.84
John Ernest Gleave	841,081	0.61
Citicorp Nominees Pty Ltd	745,603	0.54
RBC Dexia Investor Services Australia Nominees Pty Ltd (Bkcust A/C)	740,000	0.53
Mondalu Pty Ltd (RC & MW Rijs Super fund A/C)	734,645	0.53
	101,731,635	73.25

C. Substantial holders

Substantial holders in the Company as per last notice disclosed to ASX are set out below:

	Number held	Percentage
Ordinary shares		
Richard C Rijs	15,253,007	10.99%
The Myer Family Company Pty Ltd	13,907,957	10.02%
Adrian & Louise Rijs	11,311,503	8.14%
N & F Rijs	9,345,348	6.73%
Aviva Investors Australia Limited	8,518,885	6.14%
Harry Rijs	8,395,901	6.00%

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.