



ABN 62 007 157 182

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24 August 2009

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

**Patties Foods Limited (PFL) - Results for announcement to the market – Year ended 30 June 2009.**

In accordance with the ASX Listing Rule 4.3A, the following information in respect of the year ended 30 June 2009 is transmitted for lodgement:

1. Year end report announcement;
2. Appendix 4E – Preliminary Final Report and Dividend Announcement for the year ended 30 June 2009; and
3. Directors' Report and Financial Report for the year ended 30 June 2009.

Yours faithfully

**PHILIP THOMAS**  
Company Secretary



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## FINANCIAL YEAR END ANNOUNCEMENT

The Board of Patties Foods Ltd today announced the Company's financial result for the year ended 30 June 2009.

### Group summary result

\$m	FY09	FY08	% Change
Sales Revenue	\$179.2	\$164.0	9.3%
EBITDA	\$26.3	\$26.9	-2.1%
EBIT	\$20.3	\$22.5	-9.8%
Reported NPAT	\$11.3	\$13.8	-18.7%
EPS (cents)	8.1	10.0	-19.0%
Dividend per year (cents)	4.5	7.3	-38.4%
EBIT – before one-off items	\$21.0	\$23.9	-12.1%
NPAT – before one-off items	\$11.8	\$15.0	-21.3%

The Company experienced a strong year in sales growth, recording revenue of \$179.2m, up 9.3% on the prior year. This was driven by good growth from the Out-of-Home Division (foodservice, catering, petrol and convenience and franchise channels).

Despite the strong sales growth, reductions in margins caused the normalised NPAT to reduce by 21.3% to \$11.8m. The principal drivers of this disappointing trading result were:

- Difficulties in completing commissioning of the new bakery plant in the first half, which led to unacceptable customer supply levels (with resultant deletions) and increased production costs
- Increased promotional activity in the second half to regain market share and shelf presence
- Higher fruit costs and increased competition in the Creative Gourmet / Chef's Pride business.

The manufacturing inefficiencies have been remedied with plant performance gaining momentum through the second half to firstly restore and then improve on previous plant efficiency levels. This improvement has been achieved by optimising the new equipment and introduction of a Continuous Improvement program across the Bairnsdale plant. The fourth quarter has shown increased output rates, reduced waste and improved labour efficiencies.

### Highlights for the year were:

- Records sales revenue driven by an 19% increase in the Out-Of-Home Division
- Major contract secured in the petrol and convenience channel in the fourth quarter driving growth in FY2010
- Significant improvement in manufacturing efficiencies and customer supply levels during the second half
- Successful product launches of extended Four n Twenty Hungry Man range, Nanna's fruit pie range, and Wedgwood and Snowy River ranges of savoury value products.
- Successful brand building initiative with Four n Twenty "Magic Salad Plate" campaign.
- Recruited new management team and additional directors.



### **Dividend**

A final fully franked dividend of 2.5 cents per share ( FY08: 4.5cps) has been declared. The total dividend per ordinary share for FY09 is 4.5cps (FY08: 7.3cps). The reduction in the dividend payout ratio reflects the directors' view of the need for a prudent capital management strategy in the current economic environment. The record date for entitlement for the final dividend is 15 September 2009 and the dividend payment date is expected to be 9 October 2009.

### **Capital Management**

Total borrowings at 30 June 2009 were \$70.5m, well within total facilities limits of \$80.1m, with the company meeting all borrowing covenants. The Company successfully secured a longer term debt facility on a 2 year rolling basis with the first review occurring in December 2010. Approximately 50% of the Company's borrowings are at an attractive fixed rate using interest rate swaps with a mixture of 2, 3, 4 and 5 year terms.

Borrowings reduced by \$7.9m in the 6 months to 30 June 2009 as a result of improved working capital management. Total net cash flow generated from operating activities in FY2009 was \$13.2m with \$11.8m being generated in the second half.

### **Outlook**

Led by newly appointed Chairman, Chris Riordan, Patties Foods Limited views the future with confidence. The company has a unique market leading position in frozen branded food products across many retail food categories and continues to build market share in the growing foodservice, catering and petrol and convenience channels. The company now has state-of-the-art production capability to meet increasing consumer demand for savoury and dessert products.

The new management team has already successfully increased the focus on operational excellence, which has driven improved production performance during the second half of FY2009. The continued strong demand across all channels driven by investment in sales and marketing resources and the continuation of the new contracts gained in the fourth quarter of FY2009 are expected to provide good earnings growth in the savoury business.

In addition, the restructured Chef's Pride/Creative Gourmet production model is expected to provide a lower cost platform for future growth.

With the expected continuing improvement in factory efficiencies, the branded In-Home segment and the Davies bakery business, the continuing growth of the Out-of-Home business and reduced interest expense, we look forward to an improved trading result in FY2010.

For further information refer to [www.patties.com.au](http://www.patties.com.au) or [www.asx.com.au](http://www.asx.com.au) (ASX:PFL) or contact Greg Bourke, Managing Director on 03 8540 9100.

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## 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 2009
Previous corresponding period is the financial year ended	30 June 2008

### 2. Results for announcement to the market

				A\$'000
Revenue from ordinary activities ( <i>item 2.1</i> )	up	9.3%	to	179,213
Net profit (loss) from ordinary activities after tax attributable to members ( <i>Item 2.2</i> )	down	18.7%	to	11,262
Net profit (loss) for the period attributable to members ( <i>Item 2.3</i> )	down	18.7%	to	11,262
<b>Dividends</b> ( <i>item 2.4</i> )		Amount per security		Franked amount per security
Interim dividend		2.0¢		2.0¢
Final dividend		2.5¢		2.5¢
Record date for determining entitlements to the final dividend ( <i>item 2.5</i> ):		15 September 2009		
Brief explanation of any of the figures reported above necessary to enable the figures to be understood ( <i>item 2.6</i> ): Please refer to the commentary in the review of operations and activities section of the director's report and the Year End Report Announcement accompanying this Preliminary Final Report.				

3. **Statement of financial performance** (*item 3*): see attachment

4. **Statement of financial position** (*item 4*): see attachment

5. **Statement of cash flows** (*item 5*): see attachment

**6. Dividends (item 6)**

	Date of Payment	Total amount of dividend \$A'000
Interim dividend - year ended 30 June 2009	15 April 2009	\$2,776
Final dividend - year ended 30 June 2008	10 October 2008	\$6,246

The record date for entitlement to the final dividend is 15 September 2009, and the dividend is expected to be paid on the 9<sup>th</sup> October 2009.

**Amount per security**

	Amount per security	Franked amount per security @ 30% tax
<b>Total dividend:</b> Current year	4.5¢	4.5¢
Previous year	7.3¢	7.3¢

**Total dividend on all securities paid in period**

	Current period \$A'000	Previous corresponding period - \$A'000
Ordinary securities	\$9,022	\$10,011
<b>Total dividends paid in period</b>	<b>\$9,022</b>	<b>\$10,011</b>

**7. There is currently no dividend reinvestment plan in place (item 7)**

**8. Statement of retained earnings (item 8) - see attachment**

**9. Net tangible assets per security (item 9)**

	Current period	Previous corresponding period
Net tangible asset backing (per share)	\$0.23	\$0.22
Net asset backing (per share)	\$0.80	\$0.79

**10. Details of entities over which control has been gained or lost (item 10)**  
Not Applicable

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

	<b>% Holding</b>	<b>2009 A\$'000</b>	<b>2008 A\$'000</b>
Davies Bakery Pty Ltd	50%	\$96	(\$481)
Piper Partners Pty Ltd	50%	(\$8)	(\$7)

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 (item 12)**

All significant information is disclosed in this appendix and its attachments

**13. Foreign Entities accounting standards (item 13)**

Not Applicable

**14. Commentary on results for the period (item 14)**

Please refer to the commentary in the review of operations and activities section of the director's report and the Year End Report Announcement accompanying this Preliminary Final Report.

**15. Audit of the financial report (item 15)**

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

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# **Patties Foods Limited**

ABN 62 007 157 182

## **Financial Statements for the year ended 30 June 2009**

**Patties Foods Limited** ABN 62 007 157 182  
**Financial Statements - 30 June 2009**

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**Directors**

Christopher Riordan  
*Chairman*

Gregory J Bourke  
*Managing Director*

Richard C Rijs

Henricus J Rijs

J Curt Leonard

Ernest W Barr

Gregory Dhnaram

**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**

Clayton Utz  
333 Collins St  
Melbourne Vic 3000

**Bankers**

Westpac Bank Limited  
Level 7, 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](http://www.patties.com.au)

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## 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 2009.

### 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:

Richard C Rijs  
 Henricus J Rijs  
 J Curt Leonard  
 Ernest W Barr

Christopher Riordan was appointed as a director and Chairman on 7 July 2009 and continues in office at the date of this report.

Michele J Allan was a director from the beginning of the financial year until her resignation as Managing Director on 21 August 2008. She resigned as Chief Executive Officer on 23 September 2008.

Gregory Dhnaram was appointed as an independent non executive director effective 23 September 2008 and continues in office at the date of this report.

Gregory J Bourke was appointed as Managing Director effective 26 March 2009 and continues in office at the date of this report.

Peter T Kempen was a director and Chairman from the beginning of the financial year until his resignation on 5 November 2008.

Ernest Barr was appointed as Acting Chairman from 5 November 2008 until 7 July 2009.

### Principal activities

During the year the principal continuing activities of the company 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:

	2009 \$'000	2008 \$'000
Final ordinary dividend for the year ended 30 June 2008 of 4.5 cents (2007 - 4.4 cents) per fully paid share paid on 10 October 2008	6,246	6,118
Interim ordinary dividend for the year ended 30 June 2009 of 2.0 cents (2008 - 2.8 cents) per fully paid share paid on 15 April 2009	<u>2,776</u>	<u>3,893</u>
	<u>9,022</u>	<u>10,011</u>

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final dividend of \$3,470,000 (2.5 cents per fully paid share) expected to be paid on 9 October 2009 out of retained profits at 30 June 2009.

The dividend will be fully franked. Total dividends for FY2009 are therefore 4.5 cents per share (FY2008: 7.3 cents per share). The dividend payout ratio is 55% (FY2008: 73%).

## Review of operations and activities

The Group experienced a strong year in sales growth, recording revenue of \$179.2m, up 9.3% on the prior year. This was driven by good growth from the Out-Of-Home Division (foodservice, catering, petrol and convenience and franchise channels).

Despite the strong sales growth, reductions in margins caused the normalised NPAT to reduce by 21.3% to \$11.8m. The principal drivers of this disappointing trading result were:

- Difficulties in completing commissioning of the new bakery plant in the first half, which led to unacceptable customer supply levels (with resultant deletions) and increased production costs
- Increased promotional activity in the second half to regain market share and shelf presence
- Higher fruit costs and increased competition in the Creative Gourmet / Chef's Pride business.

The manufacturing inefficiencies have been remedied with plant performance gaining momentum through the second half to firstly restore and then improve on previous plant efficiency levels. This improvement has been achieved by optimising the new equipment and introduction of a Continuous Improvement program across the Bairnsdale plant. The fourth quarter has shown increased output rates, reduced waste and improved labour efficiencies.

### Highlights for the year were:

- Record sales revenue driven by an 19% increase in the Out-Of-Home Division
- Major contract secured in the petrol and convenience channel in the fourth quarter driving further growth in FY2010
- Significant improvement in manufacturing efficiencies and customer supply levels during the second half
- Successful product launches of extended Four n Twenty Hungry Man range, Nanna's fruit pie range, and Wedgwood and Snowy River ranges of savoury value products
- Successful brand building initiative with Four n Twenty "Magic Salad Plate" campaign
- Recruited new management team and additional directors.

(a)

### Financial Performance

Net profit after tax (NPAT) for the year reduced 18.7% to \$11.3m. After adjusting for one-off items, described below, the normalised NPAT was \$11.8m, down 21.3% from the prior year.

Earnings before interest, tax, depreciation and amortisation (EBITDA) reduced slightly by 2.1% to \$26.3m.

FY2009 was the second year of operation of the Group's investment in the Davies Bakery (Aust) Pty Ltd. business and improved earnings were achieved. Further improvement is expected in FY2010.

The effective tax rate for the year was 26.2% due to deductions for R&D tax concessions and benefits from the Capital Investment Allowance.

(b)

### One-off items impacting on full year maintainable result

One-off items were payments of mutually agreed sums made by the company to former senior executives and related costs in connection with their departure from the Company. The total after tax impact of these one-off factors on NPAT for FY2009 was a reduction of \$535k (\$764k before tax). FY2008 one-off items totalled \$1.175m NPAT.

**Review of operations and activities (continued)**

(c) **Sales**

The investment in the growing Out-of-Home Division has resulted in revenue increase of 19% on prior year. This was achieved through capturing greater penetration of the petrol & convenience, catering and franchise channels.

Revenue from the In-Home Division (retail supermarkets) was up 4% over the prior year. Supply constraints reported at the Half Year, which caused out of stocks and deletions, were reversed in the second half and this enabled a resurgent performance. Category market shares also recovered and commenced a positive trend during the second half.

Monthly market shares in the frozen savoury segment increased by 6.2 percentage points from December 2008 to June 2009.

The Frozen Fruit market continues to be highly competitive with heavy discounting, however we have maintained market leadership with the Creative Gourmet brand.

(d) **Marketing and Innovation**

The Group continues to support its portfolio of market leading brands which include Four'n Twenty, Nannas, Patties, Herbert Adams, Snowy River, Wedgwood, Creative Gourmet and Chefs Pride.

Marketing activity in FY2009 was focused on driving demand for our core range of products during key seasonal peaks. A broad range of consumer promotions were conducted throughout the financial year, including the Four'n Twenty Magic Salad Plate promotion, Creative Gourmet "Kitchenaid" promotion, and Patties DVD promotion. The company remains committed to driving baseline sales growth and brand exposure through appropriate venue sponsorship and targeted consumer and end user activity.

A review of Innovation and R&D processes during FY2008 resulted in a renewed & improved focus on New Product Development. Benefits were realised towards the end of FY2009, assisting in delivering growth for our leading brands in new and existing markets in both In-Home and Out-of-Home markets. This investment will continue to give benefits in FY2010.

(e) **Operations**

Customer supply levels improved significantly in the second half from the disappointing first half performance. An improved bakery operation has been taken into FY2010 with the company focused on maintaining and building the efficiency improvements as we improve our operational excellence capability. Benefits from investment in capital expenditure projects continue to be identified, and will be reviewed and implemented consistent with cash flow forecasts.

A strategic review of the frozen fruit operation at Silverwater NSW has identified financial benefits from relocation into the Bairnsdale facility. This is planned to occur early in the second half of FY10.

The Davies joint venture operation continues to provide good service to the company by helping meet peak demand and by providing year round specialist short run capability.

(f) **Risk management**

The Group completed a detailed Risk Assessment identifying strategic, operational and financial risks to the business. A detailed mitigation and action plan is in place. Key insurances were recently reviewed and revised where appropriate as part of this process.

The Group also completed a review of the National Greenhouse and Energy Reporting Act 2007 (NGER) requirements to ensure compliance when the new reporting framework is introduced in FY 2010. While it is clear there will be higher input costs from the impact of carbon costs, we do not expect any significant structural or strategic negative impacts.

**Review of operations and activities (continued)**

(g) **Financial position**

Net assets of the company increased by \$1.9m (1.7%) to \$111.1 m over the prior financial year. Net assetbacking per share and net tangible asset backing per share both also increased over the prior year.

(h) **Dividend.**

A final fully franked dividend of 2.5 cents per share ( FY08: 4.5cps) has been declared. The total dividend per ordinary share for FY09 is 4.5cps (FY08: 7.3cps). The reduction in the dividend payout ratio reflects the directors' view of the need for a prudent capital management strategy in the current economic environment.

The record date for entitlement for the final dividend is 15 September 2009 and the dividend payment date is expected to be 9 October 2009.

(i) **Capital management**

Total borrowings at 30 June 2009 were \$70.5m, well within total facilities limits of \$80.1m, with the company meeting all borrowing covenants. The Group successfully secured a longer term debt facility on a 2 year rolling basis with the first review occurring in December 2010. Approximately 50% of the Company's borrowings are at an attractive fixed rate using interest rate swaps with a mixture of 2, 3, 4 and 5 year terms.

Borrowings reduced by \$7.9m in the 6 months to 30 June 2009 as a result of improved working capital management. Total net cash flow generated from operating activities in FY2009 was \$13.2m with \$11.8m being generated in the second half.

The Group conducted an on-market share buyback between April 2008 and May 2009. A total of 381,237 shares were purchased under the buyback at a weighted average price of \$1.05 per share.

The Group also concluded the successful third round offer of its Exempt Employee Share Plan in April 2009. The offer was taken up by 137 eligible employees purchasing \$1,000 worth of shares each.

(j) **Sustainability and Corporate and Social Responsibility**

The Group continues to provide benefits back to the community by supporting national charity partners. In particular we support Challenge through the national sponsorship of the Biggest Aussie Pie Night raising funds for cancer research, Foodbank through donations of food products, Open Family, Reach and the Variety Club. In addition, we provide ongoing support for the Gippsland community via local sporting clubs, educational institutions, special events and groups.

**Earnings per share - Consolidated**

	<b>2009</b>	<b>2008</b>
	<b>Cents</b>	<b>Cents</b>
<b>(a) Basic and diluted earnings per share</b>		
Profit from continuing operations attributable to the ordinary equity holders of the company	<u>8.1</u>	<u>10.0</u>

The Group had a reduction in its earnings per share (EPS) for the year to 8.5 cents after adding back one-off items (8.1 cents reported).

**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**

Since 30 June 2009 Patties Foods Limited has :

- announced the planned relocation and integration of the frozen fruit operation at Silverwater NSW into the main manufacturing facility in Bairnsdale. This is planned to occur in the second half of FY2010.
- appointed Mr Christopher Riordan as Chairman of the Board

Except for items discussed above, no other matter or circumstance has arisen since 30 June 2009 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**

Led by newly appointed Chairman Chris Riordan, Patties Foods Limited views the future with confidence. The company has a unique market leading position in frozen branded food products across many retail food categories and continues to build market share in the growing foodservice, catering and petrol and convenience channels. The company now has state-of-the-art production capability to meet increasing consumer demand for savoury and dessert products.

The new management team has already successfully increased the focus on operational excellence, which has driven improved production performance during the second half of FY2009. The continued strong demand across all channels driven by investment in sales and marketing resources and continuation of the new contracts gained in the fourth quarter of FY2009 are expected to provide good earnings growth in the savoury business. In addition, the restructured Chef's Pride/Creative Gourmet production model is expected to provide a lower cost platform for future growth.

With the expected continuing improvement in factory efficiencies, the branded In-Home segment and the Davies bakery business, the continuing growth of the Out-of-Home business and reduced interest expense, we look forward to an improved trading result in FY2010.

#### **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* and *Waste Minimisation & Management Act 1995*.

In New South Wales the company's premises at Silverwater have licences in respect of trade waste issued by the Sydney Water Corporation.

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 first measurement period for this Act ran from 1 July 2008 to 30 June 2009. The Group has implemented systems and processes for the collection and calculation of the data required and will be able to prepare and submit its initial report to the Greenhouse and Energy data Officer by 31 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

**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**

None.

### **Former directorships in last 3 years**

None.

### **Special responsibilities**

Managing Director.

Member of remuneration and nomination committee.

### **Interests in shares**

138,800 ordinary shares in Patties Foods Limited.

**Gregory Dhnaram** *Non Executive Director.*

### **Experience and expertise**

Currently Chief Executive Officer of Favco Group.

30 years experience with Woolworths Ltd.; 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 remuneration and nomination committee.

Member of Audit Risk and Compliance committee.

### **Interests in shares**

None.

**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**

11,437,275 ordinary shares in Patties Foods Limited.

**Information on directors (continued)**

**Henricus J Rijs** *Executive Director*

**Experience and expertise**

A director since 1989 and Deputy Managing Director since 2005.

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**

Member of remuneration and nomination committee.

**Interests in shares**

8,185,588 ordinary shares in Patties Foods Limited.

**J Curt Leonard** *BMktg & Bus. Admin, MBA* *Independent Non-Executive Director*

**Experience and expertise**

Independent 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**

Member of remuneration and nomination committee.

Member of audit, risk and compliance committee.

**Interests in shares**

2,061,172 ordinary shares in Patties Foods Limited.

**Ernest W Barr** *BA, Dr. Uni. (h.c)* *Independent Non-Executive Director*

**Experience and expertise**

Independent 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 remuneration and nomination committee.

Member of audit, risk and compliance committee.

Acting Chairman.

**Interests in shares**

3,823,464 ordinary shares in Patties Foods Limited.

#### Company secretary

Mr Philip Thomas *BBUS, MCommLaw, GradDipCSP, FCIS, F.Fin, ASA, AICD* was appointed to the position of Company secretary on 5 November 2008.

Mr Thomas has a significant amount of experience in similar roles in other public listed companies.

Ms Bethany Schofield resigned from the position of Company secretary on 5 November 2008.

#### 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 2009, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees			
			Audit, Risk and Compliance		Remuneration and Nomination	
	A	B	A	B	A	B
Peter T Kempen	3	4	1	1	*	*
Michele J Allan	2	2	*	*	*	*
Richard C Rijs	13	13	*	*	2	2
Henricus J Rijs	13	13	*	*	2	2
J Curt Leonard	13	13	3	3	2	2
Ernest W Barr	13	13	3	3	2	2
Gregory J Bourke	5	5	*	*	2	2
Gregory Dhnaram	11	11	1	2	2	2

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 remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements

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

#### A Principles used to determine the nature and amount of remuneration

The objective of the Group's executive remuneration is to ensure reward for performance is competitive and appropriate for the results delivered. The structure aligns executive reward with achievement of strategic objectives and the creation of value for shareholders.

The board has established a remuneration and nomination committee to assist the board by providing advice in relation to remuneration packages of key management, non executive directors and executive directors, equity based incentive plans and other employee benefit programs. The Corporate Governance Statement provides further information on the role of this committee.

All executives receive a base salary (which is based on market competition), superannuation, fringe benefits and performance incentives. The remuneration and nomination committee reviews executive packages annually by reference to the Group performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

#### Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. 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 is not present at any discussions relating to the determination of his own remuneration.

The remuneration of the non-executive directors is not calculated as a commission or percentage of profits or operating revenue.

**Remuneration report (continued)**

**A Principles used to determine the nature and amount of remuneration (continued)**

*Directors' fees*

The Constitution provides that the company may pay directors a maximum total amount of directors' fees determined by the company 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 currently stands at \$600,000 per annum and was resolved by the board in May 2006. This was approved by the shareholders at the AGM on 21 November 2007.

The Chairman's remuneration is inclusive of additional yearly fees for chairing committees appointed by the board. No fees are paid for committee memberships.

*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.

*Executive pay*

The key management reward structure has three components:

- base salary and benefits, including superannuation
- short term performance incentives, and
- long term incentives in the form of options and performance rights (not yet commenced).

The combination of these comprises the executive's total remuneration.

*Base pay and benefits*

Structured as a total remuneration package (TRP) which consists of base salary, superannuation and fringe benefits. Some individuals have chosen to sacrifice some of their pay to increase payments towards superannuation.

Key management personnel are each employed under individual contract agreements, the terms and conditions of which, are comparable to people holding similar positions in similar organisations.

*Short-term incentives*

As part of their package, executives are entitled to receive a specified percentage of their TRP (10%-14%) by way of a performance linked cash incentive payment. The relevant executive is entitled to receive part or all of the short term incentive as a cash payment incentive if the company achieves certain specified Earnings Before Interest and Tax (EBIT) targets and the executive achieves specified individual performance targets. The total cash incentive is structured to provide sufficient incentive to the executive to achieve the targets set while being reasonable in the circumstances. The company has predetermined benchmarks which must be met in order to trigger any payments under the incentive program. No incentive was paid for the 2009 financial year.

*Long-term incentives*

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

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

The Board has not yet granted any options or rights under the Plan but is currently reviewing the Plan with a view to grants being made in the near future.

**Remuneration report (continued)**

**B Details of remuneration**

*Amounts of remuneration*

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

The key management personnel of both the Company and the Group includes the directors as per pages 7 to 8 above and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- M Knaap - Chief Financial Officer
- B Schofield - Former Chief Financial Officer and Company Secretary

In addition, the following persons must be disclosed under the *Corporations Act 2001* as they are among the 5 highest remunerated Group and/or Company executives

- B Hillen - National Retail Sales Manager
- J Munro - Manager GM Engineering and Capital Works

Changes since year end

- C Riordan was appointed as Director and Chairman on 7 July 2009

**Key management personnel and other executives of the Group**

2009	Short-term employee benefits		Post-employment benefits	Long-term benefits		Total
	Cash salary and fees	Non monetary benefits	Super-annuation	Long service leave	Termination benefits	
Name	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>						
Peter T Kempen***	38,042	-	5,899	-	-	43,941
J Curt Leonard	-	-	59,950	-	-	59,950
Ernest W Barr - Acting Chairman	99,971	-	-	-	-	99,971
Richard C Rijs	-	14,050	45,900	-	-	59,950
Gregory Dhnaram#	-	-	44,963	-	-	44,963
<b>Sub-total non-executive directors</b>	<b>138,013</b>	<b>14,050</b>	<b>156,712</b>	-	-	<b>308,775</b>
<i>Executive directors</i>						
Michele J Allan^***	91,629	-	28,780	-	680,000	800,409
Gregory J Bourke^#	227,766	-	120,094	-	-	347,860
Henricus J Rijs^	142,254	9,759	76,077	43,740	-	271,830
<i>Other key management personnel (Group)</i>						
B Schofield****	162,259	1,000	28,178	-	-	191,437
M Knaap*	87,841	-	9,229	-	-	97,070
B Hillen^	106,143	7,464	98,761	418	-	212,786
J Munro^	193,395	23,486	31,207	2,326	-	250,414
<b>Total key management personnel compensation (Group)</b>	<b>1,149,300</b>	<b>55,759</b>	<b>549,038</b>	<b>46,484</b>	<b>680,000</b>	<b>2,480,581</b>

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

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

\* Appointed 16 February 2009.

\*\* M Allan resigned as a director on 21 August 2008 and as Chief Executive Officer on 23 September 2008.

\*\*\* ceased employment effective 5 November 2008.

\*\*\*\* resigned effective 5 February 2009.

#Appointed 23 September 2008.

**Remuneration report (continued)**

**B Details of remuneration (continued)**

Amounts of remuneration (continued)

2008	Short-term employee benefits		Post - employment benefits	Long-term benefits		Total \$
	Cash salary and fees \$	Non monetary benefits \$	Super-annuation \$	Long service leave \$	Termination benefits \$	
<i>Non-executive directors</i>						
Peter T Kempen - Chairman	82,500	-	37,400	-	-	119,900
J Curt Leonard	-	-	59,950	-	-	59,950
Ernest W Barr	60,000	-	-	-	-	60,000
Richard Rijs***	136,828	40,855	35,963	2,976	-	216,622
<b>Sub-total non-executive directors</b>	<b>279,328</b>	<b>40,855</b>	<b>133,313</b>	<b>2,976</b>	<b>-</b>	<b>456,472</b>
<i>Executive directors</i>						
Michele J Allan*^	215,833	-	84,962	-	-	300,795
Henricus J Rijs^	164,115	25,481	32,428	3,065	-	225,089
<i>Other key management personnel (Group)</i>						
B Schofield	143,501	249	31,250	-	-	175,000
M Bartholomew****	133,329	18,168	9,886	2,620	132,258	296,261
A Beeson*****	172,953	24,286	41,268	-	-	238,507
<b>Total key management personnel compensation (Group)</b>	<b>1,109,059</b>	<b>109,039</b>	<b>333,107</b>	<b>8,661</b>	<b>132,258</b>	<b>1,692,124</b>
<i>Other Company and Group executives</i>						
V Crawley*****	186,499	25,812	14,492	2,737	92,085	321,625
B Hillen	78,054	21,876	92,194	2,702	-	194,826
J Munro	133,880	17,893	27,394	2,794	-	181,961

\* the amounts for M Allan who resigned as a director on 21 August 2008 and as Chief Executive Officer on 23 September 2008 include Director's Fees (\$21,372).

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

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

\*\* ceased to be the Managing Director and Chief Executive Officer on 21 November 2007 but remained as a non-executive Director.

\*\*\* ceased employment effective 19 December 2007.

\*\*\*\* resigned effective 30 March 2008.

\*\*\*\*\* resigned effective 28 March 2008.

**C Service agreements**

There are no service agreements with any directors. Key management personnel and other specified executives are employed under the standard terms and conditions of employment of the Group. There is no term on these arrangements, standard notice periods apply and no termination entitlement other than statutory entitlements.

**Loans to directors and executives**

There are no loans to directors or executives at 30 June 2009 other than loans to executives of up to \$1,000 under standard terms of the Group's exempt employee share plan.

**Insurance of officers**

During the financial year, Patties Foods Limited paid a premium of \$46,794 (2008: \$49,375) 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 company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

#### Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

#### Non-audit services

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

The board of directors has considered the position and, in accordance with advice received from the audit, risk and compliance 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 committee to ensure they do not impact the impartiality and objectivity of the auditor
- 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 30.

#### 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 14.

#### Rounding of amounts

The company 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.



Ernest W Barr  
Director

Melbourne  
24 August 2009

PricewaterhouseCoopers  
ABN 52 780 433 757

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## Auditor's Independence Declaration

As lead auditor for the audit of Patties Foods Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- 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  
24 August 2009

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## Corporate Governance Statement

Patties Foods Limited (the Company) and the Board of Directors are committed to achieving the highest level of corporate governance of the Company and its controlled entities (the Group). The Board and management have adopted a set of policies to establish a framework for the Board to discharge its corporate governance responsibilities on behalf of the shareholders. The Groups' Corporate Governance statement is structured with reference to the Corporate Governance Principles and Recommendations (2nd Edition) issued by the Australian Stock Exchange (ASX) Corporate Governance Council, which are as follows:

Principle 1 – Lay solid foundations for management and oversight

Principle 2 – Structure the Board to add value

Principle 3 – Promote ethical and responsible decision making

Principle 4 – Safeguard integrity in financial reporting

Principle 5 – Make timely and balanced disclosure

Principle 6 – Respect the rights of shareholders

Principle 7 – Recognise and manage risk

Principle 8 – Remunerate fairly and responsibly

The Company's corporate governance policies were in place from 1 July 2008 to 30 June 2009 and were fully compliant with the Council's best practice except for Principle 2. The ASX Corporate Governance Council's recommendation is that a majority of the Board should comprise independent directors. At 30 June 2009, the Patties Board consists of three independent directors (Mr. E.W. Barr, Mr. J.C. Leonard, and Mr. G.J. Dhnaram) and three non independent directors, who are considered non independent due to their management roles or former management roles within the Company (Mr. G.J. Bourke, Mr R.C. Rijs and Mr H.J. Rijs) or their significant shareholdings or association with significant shareholdings in the Company (Mr R.C. Rijs and Mr H.J. Rijs). With the appointment of Mr. Christopher Riordan as Chairman on 7 July 2009 the Board now has a majority of independent directors.

The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Company's main corporate governance practices is set out below.

### **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 Company.

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.

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on directors". There are four non-executive directors, three of whom are deemed independent under the principles set out below, and two executive directors at the date of signing the directors' report.

**Directors' independence**

Each 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 Company 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 Company'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 Company's expense.

**Term of office**

The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election. The Managing Director will not retire by rotation.

**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 Company's senior executives. The Chairman is an independent director.

The Managing Director is responsible for implementing Group strategies and policies. These are separate roles undertaken by separate people.

Where considered appropriate, non-executive members of the Board may meet to discuss issues affecting the Company, facilitated by the independent Chairman, 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 2009, and the number of meetings attended by each director is disclosed on page 9.

The commitments of non-executive directors are considered by the remuneration and nomination committee prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance 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 audit, risk and compliance committee. Committee members are appointed for a three 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.

Other committees may be established by the Board as and when required. Membership of the Board committees will be based on the needs of Patties Foods, 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.

### **Nomination Committee**

The nomination committee consists of the following directors with the majority being non-executive:

Ernest W Barr (Chairman)  
J Curt Leonard  
Richard.C.Rijs  
Harry J. Rijs  
Gregory. J. Dhnaram  
Gregory J. Bourke

Details of these directors' attendance at remuneration and nomination committee meetings are set out in the directors' report on page 9.

The nomination committee operates in accordance with a charter. The main responsibilities of the committee are to:

- conduct an annual review of the membership of the board having regard to present and future needs of the company and to make recommendations on board composition and appointments
- conduct an annual review of and conclude on the independence of each director
- propose candidates for board vacancies
- oversee the annual performance assessment program
- oversee board succession including the succession of the Chair
- assess the effectiveness of the induction process.

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 company and the current and future needs of the board and company. The board and the committee are also aware of the advantages of board renewal and succession planning.

### **Board Performance**

The Board is putting processes in place to provide regular assessment and reporting of the performance of the Board, Board committees, individual directors and the Managing Director. As a result of the significant changes to the board during FY2009 the Board will commence conducting a review in FY2010 of its effectiveness and the effectiveness of the Board committees and individual directors on an annual basis.

Following each review:

- the performance of individual directors will be discussed by the Chairman with each director (and in the case of the Chairman, by a director chosen by the Board for the purpose), and
- the performance of the Board and Board committees will be discussed by the Board at its next meeting after the conclusion of the review.

A review in relation to performance for the year ended 30 June 2009 will take place during the next financial year.

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

#### **Code of Conduct**

The Company 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 Company, 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 Company 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 Company.

#### **Securities trading**

The purchase and sale of company securities by directors and senior management is only permitted 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 Company Secretary or the Chief Financial Officer in advance.

The Company endeavours to ensure 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 Company. 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 Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition, and operational results are in accordance with relevant accounting standards.

##### ***Audit, risk and compliance committee***

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

The audit, risk and compliance committee operates in accordance with a charter.

The committee has a minimum of three non-executive directors, with the majority being independent. The audit, risk and compliance committee consists of the following non-executive directors:

Ernest W Barr (Chairman)  
J Curt Leonard  
Gregory. J. Dhnaram

Details of these directors' qualifications and attendance at audit, risk and compliance committee meetings are set out in the directors' report on pages 7 - 9. The Chairman of the committee is the Acting Chairman of the Board at 30 June 2009.

All members of the audit committee are financially literate and have an appropriate understanding of the industry in which the Group operates.

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
- monitor and review the propriety of any related party transactions, and
- ensure compliance with laws and regulations.

In fulfilling its responsibilities, the audit, risk and compliance committee receives regular reports from management and meets with the external auditors at least once a year, or more frequently if necessary.

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

The Company and audit, risk and compliance 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 has been 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 director's report and in note 30 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

**Principle 5 - Make timely and balanced disclosure**

***Continuous disclosure and shareholder communication***

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

- ensure that the Company, 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 Company, and
- promote investor confidence in the integrity of the Company and its securities

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

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

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 Company in relation to the preparation of the financial statements, and
- the independence of the auditor in relation to the conduct of the audit.

## Principle 7 - Recognise and manage risk

### **Risk management and assessment**

The Board, through the audit, risk and compliance committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Company 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 Company'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 Company'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.

## 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:

Ernest W Barr (Chairman)  
J Curt Leonard  
Richard.C.Rijs  
Harry J. Rijs  
Gregory J. Dhnaram  
Gregory J. Bourke

Details of these directors' attendance at remuneration and nomination committee meetings are set out in the directors' report on page 9.

The remuneration and nomination committee operates in accordance with a charter. The main responsibilities of the committee 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 Company's recruitment, retention and termination policies as well as succession plans of key management and executives
- review the Company's superannuation arrangements
- recommend individuals for nomination as members of the Board and its committees
- consider those aspects of the Company remuneration policies and packages, including equity based incentives, which should be subject to shareholder approval, and

The committee has a minimum of three directors, with the majority being non-executive.

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.

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**Patties Foods Limited** ABN 62 007 157 182  
**Financial Statements - 30 June 2009**

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This financial report covers both Patties Foods Limited as an individual entity and 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 - 5 in the directors' report which is not part of this financial report.

The financial report was authorised for issue by the directors on 24 August 2009. 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](http://www.patties.com.au).

**Patties Foods Limited**  
**Income statements**  
**For the year ended 30 June 2009**

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Revenue from continuing operations</b>					
Sale of goods	5	178,363	163,008	150,882	134,955
Other revenue from ordinary activities	5	850	942	820	903
		<u>179,213</u>	<u>163,950</u>	<u>151,702</u>	<u>135,858</u>
<b>Other income</b>	6	<b>(46)</b>	365	<b>(47)</b>	360
<b>Expenses</b>					
Cost of sales of goods		<b>(110,898)</b>	(99,083)	<b>(91,256)</b>	(80,720)
Other expenses from ordinary activities					
Distribution		<b>(17,790)</b>	(13,824)	<b>(15,630)</b>	(11,865)
Sales and Marketing		<b>(19,300)</b>	(18,864)	<b>(18,259)</b>	(16,578)
Administration		<b>(10,101)</b>	(8,785)	<b>(9,816)</b>	(7,709)
Other		<b>(713)</b>	(585)	<b>(595)</b>	(585)
Finance costs	7	<b>(5,184)</b>	(4,187)	<b>(5,172)</b>	(4,180)
Share of net profits/(losses) of associated companies accounted for using the equity method		<u>88</u>	<u>(488)</u>	<u>-</u>	<u>-</u>
<b>Profit before income tax</b>		<b>15,269</b>	18,499	<b>10,927</b>	14,581
Income tax expense	8	<b>(4,007)</b>	(4,653)	<b>(2,808)</b>	(3,338)
<b>Profit from continuing operations</b>		<b><u>11,262</u></b>	<u>13,846</u>	<b><u>8,119</u></b>	<u>11,243</u>
Profit is attributable to:					
Equity holders of Patties Foods Limited		<u>11,262</u>	<u>13,846</u>	<u>8,119</u>	<u>11,243</u>
		<b><u>11,262</u></b>	<u>13,846</u>	<b><u>8,119</u></b>	<u>11,243</u>
		<b>Cents</b>	Cents		
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:</b>					
Basic and diluted earnings per share	36	<b>8.1</b>	10.0		

*The above income statements should be read in conjunction with the accompanying notes.*

**Patties Foods Limited**  
**Balance sheets**  
**As at 30 June 2009**

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	9	1,155	2,098	1,142	1,423
Receivables	10	36,727	32,081	36,726	30,108
Inventories	11	19,540	17,925	16,762	11,240
Current tax receivables	12	1,366	-	2,223	-
<b>Total current assets</b>		<b>58,788</b>	52,104	<b>56,853</b>	42,771
<b>Non-current assets</b>					
Investments accounted for using the equity method	13	8,049	7,961	-	-
Other financial assets	14	-	-	34,575	34,575
Property, plant and equipment	15	61,977	62,451	60,777	61,100
Intangible assets	17	78,905	79,366	56,520	56,788
<b>Total non-current assets</b>		<b>148,931</b>	149,778	<b>151,872</b>	152,463
<b>Total assets</b>		<b>207,719</b>	201,882	<b>208,725</b>	195,234
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Payables	18	17,058	13,481	24,326	10,506
Borrowings	19	2,349	9,527	2,320	9,495
Derivative financial instruments	20	266	-	266	-
Provisions	21	2,969	2,764	2,773	2,594
Current tax liabilities	22	-	1,131	-	575
<b>Total current liabilities</b>		<b>22,642</b>	26,903	<b>29,685</b>	23,170
<b>Non-current liabilities</b>					
Borrowings	23	68,178	61,150	68,120	61,054
Deferred tax liabilities	16,24	4,920	4,488	4,763	4,336
Provisions	25	579	100	524	57
Derivative financial instruments	20	311	-	311	-
<b>Total non-current liabilities</b>		<b>73,988</b>	65,738	<b>73,718</b>	65,447
<b>Total liabilities</b>		<b>96,630</b>	92,641	<b>103,403</b>	88,617
<b>Net assets</b>		<b>111,089</b>	109,241	<b>105,322</b>	106,617
<b>EQUITY</b>					
Contributed equity	26	68,194	68,269	68,194	68,269
Reserves	27(a)	(317)	-	(317)	-
Retained profits	27(b)	43,212	40,972	37,445	38,348
<b>Total equity</b>		<b>111,089</b>	109,241	<b>105,322</b>	106,617

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

**Patties Foods Limited**  
**Statements of changes in equity**  
**For the year ended 30 June 2009**

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Total equity at the beginning of the financial year</b>		<b>109,241</b>	105,415	<b>106,617</b>	105,394
Changes in the fair value of cash flow hedges, net of tax	27	(317)	305	(317)	305
Profit for the year		<u>11,262</u>	<u>13,846</u>	<u>8,119</u>	<u>11,243</u>
<b>Total recognised income and expense for the year</b>		<b><u>10,945</u></b>	<b><u>14,151</u></b>	<b><u>7,802</u></b>	<b><u>11,548</u></b>
On market share buy back	26	(214)	(330)	(214)	(330)
Employee share scheme issue	26	139	146	139	146
Selective buy back of shares from the Rijs Family trust (via Bairnsdale Services Pty Ltd)	26	-	(32,879)	-	(32,879)
Issue of shares to Rijs Family Trust beneficiaries (Bairnsdale Services Pty Ltd shareholders)	26	-	32,879	-	32,879
Transaction costs of Rijs Family Trust shareholding restructure	26	-	(130)	-	(130)
Dividends provided for or paid	28	<u>(9,022)</u>	<u>(10,011)</u>	<u>(9,022)</u>	<u>(10,011)</u>
		<b><u>(9,097)</u></b>	<b><u>(10,325)</u></b>	<b><u>(9,097)</u></b>	<b><u>(10,325)</u></b>
<b>Total equity at the end of the financial year</b>		<b><u>111,089</u></b>	<b><u>109,241</u></b>	<b><u>105,322</u></b>	<b><u>106,617</u></b>

*The above statements of changes in equity should be read in conjunction with the accompanying notes.*

**Patties Foods Limited**  
**Cash flow statements**  
**For the year ended 30 June 2009**

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers (inclusive of goods and services tax)		190,535	182,110	158,596	150,785
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(166,159)</u>	<u>(154,629)</u>	<u>(134,473)</u>	<u>(124,805)</u>
		24,376	27,481	24,123	25,980
Income tax paid		(5,940)	(5,043)	(5,048)	(4,317)
Borrowing costs paid		<u>(5,195)</u>	<u>(4,277)</u>	<u>(5,183)</u>	<u>(4,222)</u>
<b>Net cash inflow from operating activities</b>	35	<u>13,241</u>	<u>18,161</u>	<u>13,892</u>	<u>17,441</u>
<b>Cash flows from investing activities</b>					
Payment for purchase of subsidiaries, net of cash acquired		-	(350)	-	(350)
Payments for property, plant and equipment	15	(5,175)	(21,340)	(5,129)	(21,028)
Payments for investments		-	(3,114)	-	(3,114)
Proceeds from sale of property, plant and equipment		41	-	-	-
Loans paid/(repaid) by related parties	32(g)	-	93	-	93
Interest received		<u>193</u>	<u>228</u>	<u>162</u>	<u>189</u>
<b>Net cash (outflow) from investing activities</b>		<u>(4,941)</u>	<u>(24,483)</u>	<u>(4,967)</u>	<u>(24,210)</u>
<b>Cash flows from financing activities</b>					
Proceeds from issues of ordinary shares and other equity securities		-	146	-	146
Payments for shares bought back		(72)	(330)	(75)	(330)
Proceeds from borrowings		9,635	17,571	9,635	17,318
Share issue and buy-back transaction costs		-	(130)	-	(130)
Repayment of borrowings		(9,784)	(1,782)	(9,744)	(1,656)
Hedging reserve		-	305	-	305
Dividends paid to company's shareholders	28	<u>(9,022)</u>	<u>(10,011)</u>	<u>(9,022)</u>	<u>(10,011)</u>
<b>Net cash (outflow) inflow from financing activities</b>		<u>(9,243)</u>	<u>5,769</u>	<u>(9,206)</u>	<u>5,642</u>
<b>Net (decrease) in cash and cash equivalents</b>		(943)	(553)	(281)	(1,127)
Cash and cash equivalents at the beginning of the financial year		<u>2,098</u>	<u>2,651</u>	<u>1,423</u>	<u>2,550</u>
<b>Cash and cash equivalents at end of year</b>	9	<u>1,155</u>	<u>2,098</u>	<u>1,142</u>	<u>1,423</u>

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

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## 1 Summary of significant accounting policies

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

### (a) Basis of preparation

This general purpose financial report has 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 in conformity with AIFRS 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.

### (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 2009 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 purchase method of accounting is used to account for the acquisition of subsidiaries 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.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company.

#### (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 in the parent entity financial statements using the cost method and in the consolidated financial statements 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 34).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

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

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

### (d) Foreign currency translation

#### (i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity 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 the income statement, 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 on a time proportion basis taking into account the interest rates applicable to the financial assets.

#### (iii) *Dividends*

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

#### (iv) *Caravan Park income*

The company 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 company 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 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.

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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### *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 15). 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 other short-term and long-term payables. 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 31). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (i) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

## 1 Summary of significant accounting policies (continued)

### (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 cash flow statement presentation purposes, 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 on the balance sheet.

### (l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. 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

#### *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.

### (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:

#### *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 company 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).

## 1 Summary of significant accounting policies (continued)

### (n) Investments and other financial assets (continued)

#### *impairment*

Collectibility of loans and receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of loans and 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.

### (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 hedge 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.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 20. Movements in the hedging reserve in shareholders' equity are shown in note 27. 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 equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement 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 the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### *(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 the income statement 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 the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

## 1 Summary of significant accounting policies (continued)

### (p) Property, plant and equipment (continued)

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.

### (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 company for an indefinite period. Therefore, the brand is carried at cost without amortisation, but is 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) Trademarks

Trademarks are inextricably linked with brand names which have been assessed by the directors as having indefinite useful lives. The trademarks are also considered to have an indefinite life. Therefore, the trademarks are carried at cost without amortisation and are tested for impairment in accordance with note 1(j).

### (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 the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

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 date.

## 1 Summary of significant accounting policies (continued)

### (t) Borrowing costs

Borrowing costs are expensed as incurred.

Borrowing costs include interest on bank bills, hire purchase charges, and establishment costs associated with raising long-term borrowings.

### (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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value 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) Wages and salaries, annual leave and sick leave

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) Long service leave

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.

### (w) Contributed equity

Ordinary shares are classified as equity.

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 the 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 2009 were nil (2008: nil).

### (y) Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders 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.

## 1 Summary of significant accounting policies (continued)

### (y) Earnings per share (continued)

#### (ii) Diluted earnings per share

Diluted earnings per share is the same as basic earnings per share for the Group.

### (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 company 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 report. Amounts in the financial report 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 2009 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

#### (i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

#### (ii) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]*

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to qualifying assets.

#### (iii) AASB-I 13 *Customer Loyalty Programmes*

AASB-I 13 is applicable to annual reporting periods commencing on or after 1 July 2008. It provides guidance on the accounting for customer loyalty programmes and requires that the fair value of the consideration received/receivable in respect of a sale transaction is allocated between the award credits and the other components of the sale. The Group does not operate any customer loyalty programmes. AASB-I 13 will therefore have no impact on the Group's financial statements.

#### (iv) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007 8 *Amendments to Australian Accounting Standards arising from AASB 101*

A revised AASB 101 was issued in September 2007 is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. Application of the revised standard will not affect any of the amounts recognised in the financial statements but will remove some of the disclosures currently required.

## 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 and parent entity are 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 FY2008 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. 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 reporting date was as follows:

	30 June 2009			30 June 2008		
	USD \$'000	NZD \$'000	EUR \$'000	USD \$'000	NZD \$'000	EUR \$'000
Trade payables	(671)	(158)	-	(133)	(34)	-
Forward exchange contracts						
- buy foreign currency (cash flow hedges)	1,600	-	-	-	-	-
- buy foreign currency (held for trading)	553	-	237	-	-	-
Net exposure	1,482	(158)	237	(133)	(34)	-

The Parent's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2009			30 June 2008		
	USD \$'000	NZD \$'000	EUR \$'000	USD \$'000	NZD \$'000	EUR \$'000
Trade payables	-	(158)	-	(133)	(34)	-
Forward exchange contracts						
- buy foreign currency (cash flow hedges)	1,600	-	-	-	-	-
- buy foreign currency (held for trading)	553	-	237	-	-	-
Net exposure	2,153	(158)	237	(133)	(34)	-

## 2 Financial risk management (continued)

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 rate using interest rate swaps to achieve this when necessary. During 2009 and 2008, the Group's borrowings were at both fixed and variable rates and were denominated in Australian Dollars. During 2009, the Group's variable interest rate was based on BBSY and a margin.

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

	30 June 2009 Balance \$'000	30 June 2008 Balance \$'000
Bank overdrafts and bank bills	70,135	37,000
Other secured finance	-	8,640
Interest rate swaps (notional principal amount)	(35,000)	-
Net exposure to cash flow interest rate risk	<u>35,135</u>	<u>45,640</u>

### Group sensitivity

At 30 June 2009, 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 \$246,000 lower/higher (2008 - \$251,000 lower/higher), mainly as a result of higher/lower interest expense from variable rate borrowings.

### Company sensitivity

The Company's sensitivity to interest rate risk would have been the same as the Group's (above).

### (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 and the Company had access to the following undrawn borrowing facilities at the reporting date:

	Consolidated		Parent entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
- Expiring beyond one year	<u>10,458</u>	<u>4,628</u>	<u>10,458</u>	<u>4,628</u>

## 2 Financial risk management (continued)

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

### Maturities of financial liabilities

The tables below analyse the Group's and Company'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.

Group - At 30 June 2009	Less than 12 months	Between 1 and 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>				
Non-interest bearing	18,057	-	18,057	18,057
Variable rate*	6,096	70,033	76,129	70,135
Fixed rate	279	178	457	392
<b>Total non-derivatives</b>	<u>24,432</u>	<u>70,211</u>	<u>94,643</u>	<u>88,584</u>
<b>Derivatives</b>				
<b>Interest rate swaps</b>				
- net settled	(70)	(241)	(311)	(311)
<b>Forward foreign exchange contracts</b>				
- (inflow)	(3,378)	-	(3,378)	-
- outflow	3,112	-	3,112	-
Total	<u>(266)</u>	<u>-</u>	<u>(266)</u>	<u>(266)</u>
<b>Total derivatives</b>	<u>(336)</u>	<u>(241)</u>	<u>(577)</u>	<u>(577)</u>
Group - At 30 June 2008	Less than 12 months	Between 1 and 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>				
Non-interest bearing	14,612	-	14,612	14,612
Variable rate*	8,640	37,650	46,290	46,290
Fixed rate	24,462	734	25,196	25,037
<b>Total non-derivatives</b>	<u>47,714</u>	<u>38,384</u>	<u>86,098</u>	<u>85,939</u>

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

## 2 Financial risk management (continued)

Parent - At 30 June 2009	Less than 12 months	Between 1 and 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>				
Non-interest bearing	14,803	-	14,803	14,803
Variable rate*	6,096	70,033	76,129	70,135
Fixed rate	243	106	349	305
<b>Total non-derivatives</b>	<u>21,142</u>	<u>70,139</u>	<u>91,281</u>	<u>85,243</u>
<b>Derivatives</b>				
<b>Interest rate swaps</b>				
- net settled	(70)	(241)	(311)	(311)
<b>Forward foreign exchange contracts</b>				
- (inflow)	(3,378)	-	(3,378)	-
- outflow	3,112	-	3,112	(266)
Total	(266)	-	(266)	(266)
<b>Total derivatives</b>	<u>(336)</u>	<u>(241)</u>	<u>(577)</u>	<u>(577)</u>
Parent - At 30 June 2008	Less than 12 months	Between 1 and 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>				
Non-interest bearing	11,081	-	11,081	11,081
Variable rate*	8,640	37,554	46,194	46,194
Fixed rate	24,422	616	25,038	24,909
<b>Total non-derivatives</b>	<u>44,143</u>	<u>38,170</u>	<u>82,313</u>	<u>82,184</u>

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

### (d) Fair value estimation

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

The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar 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 assets fair value less costs to sell and value-in-use. These calculations require the use of assumptions. Refer to note 17 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 \$22,500 and the income tax expense by \$22,500 if unfavourable, or
- decrease the income tax liability by \$22,500 and the income tax expense by \$22,500 if favourable.

##### (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

#### **Business segments**

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

## 5 Revenue

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>From continuing operations</b>				
<i>Sales revenue</i>				
Sale of goods	<b>178,363</b>	163,008	<b>150,882</b>	134,955
<i>Other revenue</i>				
Interest	<b>192</b>	228	<b>162</b>	189
Caravan Park revenue	<b>658</b>	714	<b>658</b>	714
	<b>850</b>	942	<b>820</b>	903
	<b>179,213</b>	163,950	<b>151,702</b>	135,858

## 6 Other income

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Government grants (a)	<b>(68)</b>	249	<b>(68)</b>	249
Royalties	<b>53</b>	56	<b>53</b>	56
Sundry	<b>(31)</b>	60	<b>(32)</b>	55
	<b>(46)</b>	365	<b>(47)</b>	360

### (a) Government grants

Regional development and environmental grants of \$45,369 (2008: \$249,414) were recognised as other income by the Company during the financial year. Development grants accrued as at 30 June 2008 of \$113,102 had unfulfilled conditions during the financial year and were written back. The Group did not benefit from any other forms of government assistance.

## 7 Expenses

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Profit before income tax includes the following specific expenses:</b>				
<i>Depreciation</i>				
Buildings	934	594	934	594
Property, plant and equipment	<u>4,656</u>	<u>3,577</u>	<u>4,519</u>	<u>3,380</u>
Total depreciation	<u>5,590</u>	<u>4,171</u>	<u>5,453</u>	<u>3,974</u>
<i>Amortisation</i>				
Intangible assets	<u>461</u>	<u>261</u>	<u>268</u>	<u>261</u>
Total amortisation	<u>461</u>	<u>261</u>	<u>268</u>	<u>261</u>
<i>Employee benefits expense</i>	33,222	28,941	31,176	26,581
<i>Finance costs</i>				
Interest and finance charges paid/payable	5,184	4,187	5,172	4,180
<i>Rental expense relating to operating leases</i>				
Minimum lease payments	2,166	2,246	1,839	1,929
Net loss on foreign currency derivatives not qualifying as hedges	124	-	124	-
Research and development	432	627	410	624
<i>Impairment losses - financial assets</i>				
Trade receivables	34	6	34	6
<i>One-off items</i>				
Charge to provision for non-recoverable receivable	-	470	-	470
Management restructuring costs	764	374	764	374
Transaction costs	-	141	-	141
Share of loss of associate accounted for using the equity method (in start up phase)	-	481	-	481

## 8 Income tax expense

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Income tax expense</b>				
Current tax	3,586	4,579	2,244	3,433
Deferred tax	432	1,078	427	885
(Under)/over provision of tax in prior periods	<u>(11)</u>	<u>(1,004)</u>	<u>137</u>	<u>(980)</u>
	<u>4,007</u>	<u>4,653</u>	<u>2,808</u>	<u>3,338</u>
Deferred income tax expense included in income tax expense comprises:				
Decrease in deferred tax assets (note 16)	203	484	220	451
Increase in deferred tax liabilities (note 24)	<u>229</u>	<u>594</u>	<u>207</u>	<u>434</u>
	<u>432</u>	<u>1,078</u>	<u>427</u>	<u>885</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
Profit from continuing operations before income tax expense	<u>15,269</u>	<u>18,499</u>	<u>10,927</u>	<u>14,581</u>
Tax at the Australian tax rate of 30% (2008 - 30%)	4,581	5,550	3,278	4,374
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Entertainment	29	22	29	16
Share of net profit of associates	(26)	147	-	-
Research and Development	(113)	(113)	(113)	(113)
Capital Allowances	(189)	-	(189)	-
Sundry items	<u>(111)</u>	<u>51</u>	<u>(181)</u>	<u>41</u>
	4,171	5,657	2,824	4,318
Adjustments for current tax of prior periods	(11)	(1,004)	137	(980)
Adjustments for deferred tax of prior periods	<u>(153)</u>	<u>-</u>	<u>(153)</u>	<u>-</u>
	<u>(164)</u>	<u>(1,004)</u>	<u>(16)</u>	<u>(980)</u>
Total income tax expense	<u>4,007</u>	<u>4,653</u>	<u>2,808</u>	<u>3,338</u>
<b>(c) Amounts recognised directly in equity</b>				
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				
Net deferred tax - debited (credited) directly to equity (notes 16 and 24)	<u>(93)</u>	<u>-</u>	<u>(93)</u>	<u>-</u>
<b>(d) Tax consolidation legislation</b>				

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 groups' financial statements.

## 9 Current assets - Cash and cash equivalents

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash in hand	2	34	2	6
Cash at bank	<u>1,153</u>	<u>2,064</u>	<u>1,140</u>	<u>1,417</u>
	<u>1,155</u>	<u>2,098</u>	<u>1,142</u>	<u>1,423</u>

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

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Balances as above	<u>1,155</u>	<u>2,098</u>	<u>1,142</u>	<u>1,423</u>
Balances per statement of cash flows	<u>1,155</u>	<u>2,098</u>	<u>1,142</u>	<u>1,423</u>

### (b) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 2.

### (c) Cash in hand

These are non-interest bearing.

### (d) Cash at bank

The average effective interest rate on short term bank deposits was 3.86% (2008 - 6.75%).

## 10 Current assets - Receivables

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade receivables	43,794	35,682	43,794	33,014
Provision for claims, discounts, rebates and allowances	(8,416)	(5,280)	(8,416)	(4,998)
Provision for doubtful receivables	(23)	(469)	(23)	(469)
	<u>35,355</u>	<u>29,933</u>	<u>35,355</u>	<u>27,547</u>
Loan to related party	-	-	-	469
	<u>-</u>	<u>-</u>	<u>-</u>	<u>469</u>
<b>Other receivables</b>				
Other receivables	274	307	273	307
Employee share purchase loans	144	113	144	113
	<u>418</u>	<u>420</u>	<u>417</u>	<u>420</u>
Prepayments	954	1,728	954	1,672
	<u>36,727</u>	<u>32,081</u>	<u>36,726</u>	<u>30,108</u>

### (a) Credit risk

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

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Not past due	39,653	31,774	39,653	30,159
Past due 1 - 30 days	841	894	841	59
Past due 31 - 60 days	1,646	1,202	1,646	1,139
Past due 60+ days	1,654	1,811	1,654	1,657
	<u>43,794</u>	<u>35,681</u>	<u>43,794</u>	<u>33,014</u>

As of 30 June 2009, a trade receivable of \$22,518 (2008 - \$464,318) was 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 doubtful receivables are as follows:

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
At 1 July	469	18	469	14
Provision for doubtful receivables recognised during the year	34	455	34	455
Receivables written off during the year as uncollectible	(480)	(4)	(480)	-
	<u>23</u>	<u>469</u>	<u>23</u>	<u>469</u>

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.

## 10 Current assets - Receivables (continued)

### (b) Other receivables

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

### (c) Effective interest rates and credit risk

None of the items in this note are interest bearing so there is no interest rate risk. Credit risk of current receivables is set out in note 2.

### (d) 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		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Raw materials and stores				
- at cost	8,016	7,325	5,440	3,600
Finished goods				
- at cost	10,160	9,539	9,958	6,579
Other inventories				
- at cost	141	186	141	186
Spare parts				
- at net realisable value	1,223	875	1,223	875
	<u>19,540</u>	<u>17,925</u>	<u>16,762</u>	<u>11,240</u>

### (a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2009 amounted to \$83,257,803 (2008: \$68,978,971).

Inventories written down to net realisable value during the year ended 30 June 2009 amounted to \$195,857 (2008: \$542,322).

## 12 Current assets - Current tax receivables

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current tax receivable	<u>1,366</u>	-	<u>2,223</u>	-

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

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Investment in associates (note 34)	<u>8,049</u>	<u>7,961</u>	-	-

### (a) Investments in associates

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

#### 14 Non-current assets - Other financial assets

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Investments in subsidiaries (note 33)	-	-	26,126	26,126
Investments in associates (note 34)	-	-	8,449	8,449
	<u>-</u>	<u>-</u>	<u>34,575</u>	<u>34,575</u>

These financial assets are carried at cost.

#### 15 Non-current assets - Property, plant and equipment

Consolidated	Construction in progress \$'000	Land and buildings \$'000	Plant and equipment \$'000	Leased plant & equipment \$'000	Equipment held at 3rd parties \$'000	Total \$'000
<b>At 1 July 2007</b>						
Cost or fair value	5,545	17,190	40,275	752	2,732	66,494
Accumulated depreciation	-	(997)	(17,317)	(149)	(1,813)	(20,276)
Net book amount	<u>5,545</u>	<u>16,193</u>	<u>22,958</u>	<u>603</u>	<u>919</u>	<u>46,218</u>
<b>Year ended 30 June 2008</b>						
Opening net book amount	5,545	16,193	22,958	603	919	46,218
Additions	17,609	3	3,241	-	487	21,340
Transfers	(68)	-	(1,490)	622	-	(936)
Depreciation charge	-	(594)	(3,165)	(180)	(232)	(4,171)
Closing net book amount	<u>23,086</u>	<u>15,602</u>	<u>21,544</u>	<u>1,045</u>	<u>1,174</u>	<u>62,451</u>
<b>At 30 June 2008</b>						
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	<u>23,086</u>	<u>15,602</u>	<u>21,544</u>	<u>1,045</u>	<u>1,174</u>	<u>62,451</u>
<b>Year ended 30 June 2009</b>						
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	<u>250</u>	<u>23,361</u>	<u>35,263</u>	<u>967</u>	<u>2,136</u>	<u>61,977</u>
<b>At 30 June 2009</b>						
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	<u>250</u>	<u>23,361</u>	<u>35,263</u>	<u>967</u>	<u>2,136</u>	<u>61,977</u>

**15 Non-current assets - Property, plant and equipment (continued)**

Parent	Construction in progress \$'000	Land and buildings \$'000	Plant and equipment \$'000	Leased plant & equipment \$'000	Equipment held at 3rd parties \$'000	Total \$'000
<b>At 1 July 2007</b>						
Cost or fair value	5,477	17,190	39,019	752	2,732	65,170
Accumulated depreciation	-	(997)	(17,297)	(149)	(1,813)	(20,256)
Net book amount	<u>5,477</u>	<u>16,193</u>	<u>21,722</u>	<u>603</u>	<u>919</u>	<u>44,914</u>
<b>Year ended 30 June 2008</b>						
Opening net book amount	5,477	16,193	21,722	603	919	44,914
Additions	17,609	3	2,929	-	487	21,028
Transfers	-	-	(1,490)	622	-	(868)
Depreciation charge	-	(594)	(2,968)	(180)	(232)	(3,974)
Closing net book amount	<u>23,086</u>	<u>15,602</u>	<u>20,193</u>	<u>1,045</u>	<u>1,174</u>	<u>61,100</u>
<b>At 30 June 2008</b>						
Cost or fair value	23,086	17,192	40,395	1,374	3,219	85,266
Accumulated depreciation	-	(1,590)	(20,202)	(329)	(2,045)	(24,166)
Net book amount	<u>23,086</u>	<u>15,602</u>	<u>20,193</u>	<u>1,045</u>	<u>1,174</u>	<u>61,100</u>
<b>Year ended 30 June 2009</b>						
Opening net book amount	23,086	15,602	20,193	1,045	1,174	61,100
Additions	250	934	2,465	-	1,481	5,130
Transfers	(23,086)	7,759	15,327	-	-	-
Depreciation charge	-	(934)	(3,827)	(173)	(519)	(5,453)
Closing net book amount	<u>250</u>	<u>23,361</u>	<u>34,158</u>	<u>872</u>	<u>2,136</u>	<u>60,777</u>
<b>At 30 June 2009</b>						
Cost or fair value	250	25,886	58,187	1,374	4,700	90,397
Accumulated depreciation	-	(2,525)	(24,029)	(502)	(2,564)	(29,620)
Net book amount	<u>250</u>	<u>23,361</u>	<u>34,158</u>	<u>872</u>	<u>2,136</u>	<u>60,777</u>

### 16 Non-current assets - Deferred tax assets

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>The balance comprises temporary differences attributable to:</b>				
Employee benefits	1,064	898	989	834
Fixed assets	334	401	334	401
Capitalised transaction costs	1,165	1,549	1,165	1,549
Cash flow hedges	93	-	93	-
	<u>2,656</u>	<u>2,848</u>	<u>2,581</u>	<u>2,784</u>
<b>Other</b>				
Doubtful Debts	7	141	7	141
Accruals	175	52	169	52
Sub-total other	<u>182</u>	<u>193</u>	<u>176</u>	<u>193</u>
Total deferred tax assets	<u>2,838</u>	<u>3,041</u>	<u>2,757</u>	<u>2,977</u>
Set-off of deferred tax liabilities pursuant to set-off provisions (note 24)	<u>(2,838)</u>	<u>(3,041)</u>	<u>(2,757)</u>	<u>(2,977)</u>
Net deferred tax assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax assets to be recovered within 12 months	-	-	-	-
Deferred tax assets to be recovered after more than 12 months	<u>2,838</u>	<u>3,041</u>	<u>2,757</u>	<u>2,977</u>
	<u>2,838</u>	<u>3,041</u>	<u>2,757</u>	<u>2,977</u>

Movements - Consolidated	Employee benefits \$'000	Fixed assets \$'000	Capitalised transaction costs \$'000	Cash flow hedges \$'000	Doubtful debts \$'000	Other \$'000	Total \$'000
<b>At 1 July 2007</b>	884	338	2,030	130	-	143	3,525
(Charged)/credited to the income statement	14	63	(481)	(130)	141	(91)	(484)
<b>At 30 June 2008</b>	<u>898</u>	<u>401</u>	<u>1,549</u>	<u>-</u>	<u>141</u>	<u>52</u>	<u>3,041</u>
<b>At 30 June 2008</b>	898	401	1,549	-	141	52	3,041
(Charged)/credited to the income statement	166	28	(479)	-	(134)	123	(296)
Credited directly to equity	-	-	-	93	-	-	93
<b>At 30 June 2009</b>	<u>1,064</u>	<u>429</u>	<u>1,070</u>	<u>93</u>	<u>7</u>	<u>175</u>	<u>2,838</u>

### 16 Non-current assets - Deferred tax assets (continued)

Movements - Parent	Employee benefits \$'000	Fixed Assets \$'000	Capitalised transaction costs \$'000	Cash flow hedges \$'000	Doubtful debts \$'000	Other \$'000	Total \$'000
<b>At 1 July 2007</b>	787	338	2,030	130	-	143	3,428
(Charged)/credited to the income statement	47	63	(481)	(130)	141	(91)	(451)
<b>At 30 June 2008</b>	<u>834</u>	<u>401</u>	<u>1,549</u>	<u>-</u>	<u>141</u>	<u>52</u>	<u>2,977</u>
<b>At 30 June 2008</b>	834	401	1,549	-	141	52	2,977
(Charged)/credited to the income statement	155	28	(479)	-	(134)	117	(313)
(Charged)/credited directly to equity	-	-	-	93	-	-	93
<b>At 30 June 2009</b>	<u>989</u>	<u>429</u>	<u>1,070</u>	<u>93</u>	<u>7</u>	<u>169</u>	<u>2,757</u>

### 17 Non-current assets - Intangible assets

Consolidated	Goodwill \$'000	Brands \$'000	Distribution rights \$'000	Other \$'000	Non-compete covenant \$'000	Total \$'000
<b>At 1 July 2007</b>						
Cost	825	54,565	794	22,119	-	78,303
Accumulated amortisation and impairment	-	-	-	-	-	-
Net book amount	<u>825</u>	<u>54,565</u>	<u>794</u>	<u>22,119</u>	<u>-</u>	<u>78,303</u>
<b>Year ended 30 June 2008</b>						
Opening net book amount	825	54,565	794	22,119	-	78,303
Acquisition of subsidiary transaction costs	-	-	-	322	-	322
Final purchase price allocation	11,194	10,921	-	(22,441)	463	137
Transfers from Property, plant and equipment	-	-	-	941	-	941
Transfers from accumulated amortisation	-	-	-	(76)	-	(76)
Amortisation charge	-	-	(159)	(102)	-	(261)
Closing net book amount	<u>12,019</u>	<u>65,486</u>	<u>635</u>	<u>763</u>	<u>463</u>	<u>79,366</u>
<b>At 30 June 2008</b>						
Cost	12,019	65,486	794	941	463	79,703
Accumulated amortisation and impairment	-	-	(159)	(178)	-	(337)
Net book amount	<u>12,019</u>	<u>65,486</u>	<u>635</u>	<u>763</u>	<u>463</u>	<u>79,366</u>
<b>Year ended 30 June 2009</b>						
Opening net book amount	12,019	65,486	635	763	463	79,366
Amortisation charge	-	-	(159)	(109)	(193)	(461)
Closing net book amount	<u>12,019</u>	<u>65,486</u>	<u>476</u>	<u>654</u>	<u>270</u>	<u>78,905</u>
<b>At 30 June 2009</b>						
Cost	12,019	65,486	794	941	463	79,703
Accumulated amortisation and impairment	-	-	(318)	(287)	(193)	(798)
Net book amount	<u>12,019</u>	<u>65,486</u>	<u>476</u>	<u>654</u>	<u>270</u>	<u>78,905</u>

**17 Non-current assets - Intangible assets (continued)**

Parent	Goodwill \$'000	Brands \$'000	Distribution rights \$'000	Other \$'000	Total \$'000
<b>At 1 July 2007</b>					
Cost	825	54,565	794	-	56,184
Accumulated amortisation and impairment	-	-	-	-	-
Net book amount	<u>825</u>	<u>54,565</u>	<u>794</u>	<u>-</u>	<u>56,184</u>
<b>Year ended 30 June 2008</b>					
Opening net book amount	825	54,565	794	-	56,184
Transfers from Property, plant and equipment	-	-	-	941	941
Transfers of accumulated amortisation	-	-	-	(76)	(76)
Amortisation charge	-	-	(159)	(102)	(261)
Closing net book amount	<u>825</u>	<u>54,565</u>	<u>635</u>	<u>763</u>	<u>56,788</u>
<b>At 30 June 2008</b>					
Cost	825	54,565	794	941	57,125
Accumulated amortisation and impairment	-	-	(159)	(178)	(337)
Net book amount	<u>825</u>	<u>54,565</u>	<u>635</u>	<u>763</u>	<u>56,788</u>
<b>Year ended 30 June 2009</b>					
Opening net book amount	825	54,565	635	763	56,788
Amortisation charge	-	-	(159)	(109)	(268)
Closing net book amount	<u>825</u>	<u>54,565</u>	<u>476</u>	<u>654</u>	<u>56,520</u>
<b>At 30 June 2009</b>					
Cost	825	54,565	794	941	57,125
Accumulated amortisation and impairment	-	-	(318)	(287)	(605)
Net book amount	<u>825</u>	<u>54,565</u>	<u>476</u>	<u>654</u>	<u>56,520</u>

**(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.

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

### 17 Non-current assets - Intangible assets (continued)

2008	Goodwill \$'000	Brands \$'000
Sweet and savoury frozen bakery product business	-	54,565
Caravan Park	825	-
Frozen fruit product business	11,194	10,921
	<u>12,019</u>	<u>65,486</u>

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

CGU	Growth rate **		Discount rate ***	
	2009 %	2008 %	2009 %	2008 %
Sweet and savoury frozen bakery product business	6.0	6.0	12.9	11.2
Caravan Park	1.0	1.0	11.8	11.2
Frozen fruit product business	7.0	5.0	13.1	11.2

\*\* Growth rate is used to extrapolate cash flows beyond the budget period for the forecast period to 2014.

\*\*\* 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.

### 18 Current liabilities - Payables

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade payables	13,114	10,180	11,625	7,163
Amounts due to subsidiary	-	-	9,522	-
Other payables	3,944	3,301	3,179	3,343
	<u>17,058</u>	<u>13,481</u>	<u>24,326</u>	<u>10,506</u>

#### (a) Risk exposure

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

## 19 Current liabilities - Borrowings

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Secured</b>				
Lease liabilities (note 31)	249	887	220	855
Other secured finance	-	8,640	-	8,640
Bank bills (a)	<u>2,100</u>	<u>-</u>	<u>2,100</u>	<u>-</u>
Total secured current borrowings	<u>2,349</u>	<u>9,527</u>	<u>2,320</u>	<u>9,495</u>

### (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 23.

### (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 23.

## 20 Derivative financial instruments

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Current liabilities</b>				
Forward foreign exchange contracts - cash flow hedges ((a)(i))	142	-	142	-
Forward foreign currency contracts - held for trading ((a)(ii))	<u>124</u>	<u>-</u>	<u>124</u>	<u>-</u>
Total current derivative financial instrument liabilities	<u>266</u>	<u>-</u>	<u>266</u>	<u>-</u>
<b>Non-current liabilities</b>				
Interest rate swaps - cash flow hedges ((a)(iii))	<u>311</u>	<u>-</u>	<u>311</u>	<u>-</u>
Total non-current derivative financial instrument liabilities	<u>311</u>	<u>-</u>	<u>311</u>	<u>-</u>
Total derivative financial instrument liabilities	<u>577</u>	<u>-</u>	<u>577</u>	<u>-</u>

### (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.

## 20 Derivative financial instruments (continued)

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.

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 has further entered into forward exchange contracts which do not satisfy the requirements for hedge accounting. These contracts are subject to the same risk management policies as all other derivative contracts, see note 2 for details. They are 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 50% (2008 - 0%) 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 2009 a loss of \$296,925 was reclassified into profit and loss (2008 - \$0) and included in finance cost. There was no hedge ineffectiveness in the current year.

## 21 Current liabilities - Provisions

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee benefits	<u>2,969</u>	<u>2,764</u>	<u>2,773</u>	<u>2,594</u>

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

The current provision for long service leave includes 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 is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current long service leave obligation expected to be settled after 12 months	<u>121</u>	<u>169</u>	<u>108</u>	<u>169</u>

## 22 Current liabilities - Current tax liabilities

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Income tax	-	1,131	-	575

## 23 Non-current liabilities - Borrowings

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Secured</b>				
Bank bills	68,035	60,500	68,035	60,500
Lease liabilities (note 31)	143	650	85	554
Total secured non-current borrowings	<u>68,178</u>	<u>61,150</u>	<u>68,120</u>	<u>61,054</u>
Total non-current borrowings	<u>68,178</u>	<u>61,150</u>	<u>68,120</u>	<u>61,054</u>

### (a) Secured liabilities and assets pledged as security

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

Bank overdrafts and bank loans	68,035	60,500	68,035	60,500
Lease liabilities	392	1,537	305	1,409
Other secured finance	-	8,640	-	8,640
Bank bills	2,100	-	2,100	-
Total secured liabilities	<u>70,527</u>	<u>70,677</u>	<u>70,440</u>	<u>70,549</u>

The bank bills are secured by first ranking fixed and floating charges over all the assets and undertakings of the company and first ranking registered mortgages over the company'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 company is subject to certain covenants within the facility. These are:

- (i) senior debt cover ratio to be less than 3.5 times;
- (ii) interest cover ratio to be greater than 3 times; and
- (iii) capital adequacy ratio to be greater than 45%

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

### 23 Non-current liabilities - Borrowings (continued)

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Current</b>					
<i>Floating charge</i>					
Cash and cash equivalents	9	1,155	2,098	1,142	1,423
Receivables	10	36,727	32,081	36,726	30,108
Inventories	11	19,539	17,925	16,761	11,240
Total current assets pledged as security		<u>57,421</u>	<u>52,104</u>	<u>54,629</u>	<u>42,771</u>
<b>Non-current</b>					
<i>First mortgage</i>					
Freehold land and buildings	15	23,361	15,602	23,361	15,602
<i>Finance lease</i>					
Plant and equipment	15	967	1,045	872	1,045
<i>Floating charge</i>					
Other financial assets	14	8,049	-	34,575	34,575
Plant and equipment	15	35,263	21,544	34,158	20,193
Total non-current assets pledged as security		<u>67,640</u>	<u>38,191</u>	<u>92,966</u>	<u>71,415</u>
Total assets pledged as security		<u>125,061</u>	<u>90,295</u>	<u>147,595</u>	<u>114,186</u>

#### (b) Fair value

The carrying amounts and fair values of borrowings at balance date are:

Group	2009		2008	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
<b>On-balance sheet</b>				
<i>Non-traded financial liabilities</i>				
Bank bills	70,135	70,135	60,500	60,500
Other secured finance	-	-	8,640	8,640
Lease liabilities	392	392	1,537	1,537
Other unsecured finance	-	-	34	34
	<u>70,527</u>	<u>70,527</u>	<u>70,711</u>	<u>70,711</u>

Parent entity	2009		2008	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
<b>On-balance sheet</b>				
<i>Non-traded financial liabilities</i>				
Bank bills	70,135	70,135	60,500	60,500
Other secured finance	-	-	8,640	8,640
Lease liabilities	305	305	1,537	1,537
Other unsecured finance	-	-	34	34
	<u>70,440</u>	<u>70,440</u>	<u>70,711</u>	<u>70,711</u>

The fair value of borrowings equals their carrying amount, as the impact of discounting is not significant.

## 23 Non-current liabilities - Borrowings (continued)

### (c) Risk exposures

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

## 24 Non-current liabilities - Deferred tax liabilities

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>The balance comprises temporary differences attributable to:</b>				
Brand names	6,500	6,500	6,500	6,500
Intangible assets	297	364	64	148
Depreciation	<u>935</u>	<u>657</u>	<u>935</u>	<u>657</u>
	<u>7,732</u>	<u>7,521</u>	<u>7,499</u>	<u>7,305</u>
<i>Other</i>				
Interest on financed asset deposits	-	8	-	8
Other	<u>26</u>	<u>-</u>	<u>21</u>	<u>-</u>
Sub-total other	<u>26</u>	<u>8</u>	<u>21</u>	<u>8</u>
Total deferred tax liabilities	<u>7,758</u>	<u>7,529</u>	<u>7,520</u>	<u>7,313</u>
Set-off of deferred tax assets pursuant to set-off provisions (note 16)	<u>(2,838)</u>	<u>(3,041)</u>	<u>(2,757)</u>	<u>(2,977)</u>
Net deferred tax liabilities	<u>4,920</u>	<u>4,488</u>	<u>4,763</u>	<u>4,336</u>
<b>Movements:</b>				
Opening balance at 1 July	7,529	6,935	7,313	6,879
Charged/(credited) to the income statement (note 8)	<u>229</u>	<u>594</u>	<u>207</u>	<u>434</u>
Closing balance at 30 June	<u>7,758</u>	<u>7,529</u>	<u>7,520</u>	<u>7,313</u>
Deferred tax liabilities to be settled within 12 months	-	-	-	-
Deferred tax liabilities to be settled after more than 12 months	<u>7,758</u>	<u>7,529</u>	<u>7,520</u>	<u>7,313</u>
	<u>7,758</u>	<u>7,529</u>	<u>7,520</u>	<u>7,313</u>

## 25 Non-current liabilities - Provisions

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee benefits	<u>579</u>	<u>100</u>	<u>524</u>	<u>57</u>

## 26 Contributed equity

	Parent entity		Parent entity	
	2009 Shares	2008 Shares	2009 \$'000	2008 \$'000
<b>(a) Share capital</b>				
Ordinary shares Fully paid	<u>138,797,343</u>	<u>138,873,680</u>	<u>68,194</u>	<u>68,269</u>

### (b) Movements in ordinary share capital:

Date	Details	Number of shares	\$'000
1 July 2007	Opening balance	139,052,580	68,583
	Employee share scheme issues	126,000	146
	Selective buy back of shares from the Rijs Family Trust (via Bairnsdale Services Pty Ltd)	(66,659,488)	(32,879)
	Issue of shares to Rijs Family Trust beneficiaries (Bairnsdale Services Pty Ltd shareholders)	66,659,488	32,879
	Less: transaction costs accounted for in equity for Rijs Family Trust shareholding restructure	-	(130)
	On market share buyback	<u>(304,900)</u>	<u>(330)</u>
30 June 2008	Balance	138,873,680	68,269
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	<u>170,292</u>	<u>139</u>
30 June 2009	Balance	<u>138,797,343</u>	<u>68,194</u>

### (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

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 and the second in March 2008.

Under the third round of the Exempt Employee Plan Offer conducted in March 2009, eligible employees were granted 1,225 Offer Shares (being approximately \$1,000 worth of fully paid Offer Shares at the offer price of \$0.82) 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.

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.

## 26 Contributed equity (continued)

### (e) Capital risk management

The Group's and the Company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they 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 and the Company 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 2009 was 53% (2008: 53%).

The Group's capital management strategy in 2009 was unchanged from 2008.

## 27 Reserves and retained profits

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Reserves</b>				
Hedging reserve - cash flow hedges	<u>(317)</u>	-	<u>(317)</u>	-
<b>Movements:</b>				
<i>Hedging reserve - cash flow hedges</i>				
Opening balance 1 July	-	(305)	-	(305)
Revaluation - gross (notes 16 and 24)	452	435	452	435
Deferred tax	<u>(135)</u>	<u>(130)</u>	<u>(135)</u>	<u>(130)</u>
Balance 30 June	<u>317</u>	-	<u>317</u>	-
<b>(b) Retained profits</b>				
Movements in retained profits were as follows:				
Balance 1 July	40,972	37,137	38,348	37,116
Net profit for the year	11,262	13,846	8,119	11,243
Dividends	<u>(9,022)</u>	<u>(10,011)</u>	<u>(9,022)</u>	<u>(10,011)</u>
Balance 30 June	<u>43,212</u>	<u>40,972</u>	<u>37,445</u>	<u>38,348</u>

### (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.

## 28 Dividends

	Parent	
	2009 \$'000	2008 \$'000
<b>(a) Ordinary shares</b>		
Final dividend for the year ended 30 June 2008 of 4.5 cents (2007 - 4.4 cents) per fully paid share paid on 10 October 2008 (2007 - 10 October 2007)		
Fully franked based on tax paid @ 30% - 4.5 cents (2007 - 4.4 cents) per share	6,246	6,118
Interim ordinary dividend for the year ended 30 June 2009 of 2.0 cents (2008 - 2.8 cents) per fully paid share paid on 15 April 2009		
Fully franked based on tax paid @ 30% - 2.0 cents (2008 - 2.8 cents) per share	<u>2,776</u>	<u>3,893</u>
Total dividends provided for or paid	<u>9,022</u>	<u>10,011</u>
Dividends paid in cash during the years ended 30 June 2009 and 2008 were as follows:		
Paid in cash	<u>9,022</u>	<u>10,011</u>
	<u>9,022</u>	<u>10,011</u>

	Parent	
	2009 \$'000	2008 \$'000
<b>(b) Dividends not recognised at year end</b>		
In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 2.5 cents per fully paid ordinary share, (2008 - 4.4 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 9 October 2009 out of retained profits at 30 June 2009, but not recognised as a liability at year end, is		
	<u>3,470</u>	<u>6,246</u>

### (c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2009 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 2009.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2008 - 30%)	<u>15,607</u>	<u>14,960</u>	<u>10,599</u>	<u>11,842</u>

The above amounts represent the balance of the franking account as at the end of the financial year, 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.

## 28 Dividends (continued)

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 \$1,487,114 (2008: \$2,794,042).

## 29 Key management personnel disclosures

### (a) Key management personnel compensation

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
Short-term employee benefits	1,205,058	1,218,098	1,205,058	1,218,098
Post-employment benefits	595,521	333,107	595,521	333,107
Long-term benefits	-	8,661	-	8,661
Termination benefits	680,000	132,258	680,000	132,258
	<u>2,480,579</u>	<u>1,692,124</u>	<u>2,480,579</u>	<u>1,692,124</u>

Detailed remuneration disclosures are provided in sections A-C of the remuneration report on pages 9 to 12.

### (b) Equity instrument disclosures relating to key management personnel

#### (i) 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.

2009	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
<b>Directors of Patties Foods Limited</b>				
<b>Ordinary shares</b>				
Name				
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 C Leonard	2,061,172	-	-	2,061,172
E W Barr - Acting Chairman	3,773,464	-	50,000	3,823,464
G Bourke	-	-	138,800	138,800
G Dhnaram	-	-	-	-
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
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.

## 29 Key management personnel disclosures (continued)

2008	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
<b>Name</b>				
<b>Directors of Patties Foods Limited</b>				
<b>Ordinary shares</b>				
P T Kempen	1,288,511	-	160,001	1,448,512
M J Allan	10,500	-	20,000	30,500
R C Rijs	10,657,012	-	654,644	11,311,656
H J Rijs	4,021,644	-	175,000	4,196,644
J C Leonard	1,984,172	-	77,000	2,061,172
E W Barr	3,164,444	-	609,020	3,773,464
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
B A Schofield	6,400	-	8,296	14,696
A Beeson*	328,602	-	(328,602)	-
M Bartholomew*	1,268,297	-	(1,268,297)	-

\* Change during the year is due to resignation.

## 30 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		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>(a) Audit services</b>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	<u>203,600</u>	<u>281,800</u>	<u>203,600</u>	<u>281,800</u>
Total remuneration for audit services	<u>203,600</u>	<u>281,800</u>	<u>203,600</u>	<u>281,800</u>
<b>(b) Non-audit services</b>				
Other accounting services	<u>8,800</u>	<u>16,090</u>	<u>8,800</u>	<u>16,090</u>
Total remuneration for non-audit services	<u>8,800</u>	<u>16,090</u>	<u>8,800</u>	<u>16,090</u>
	<u>212,400</u>	<u>297,890</u>	<u>212,400</u>	<u>297,890</u>

## 31 Commitments

### (a) Capital commitments

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

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<i>Property, plant and equipment</i>				
Payable:				
Within one year	<u>2,375</u>	<u>871</u>	<u>2,375</u>	<u>871</u>
	<u>2,375</u>	<u>871</u>	<u>2,375</u>	<u>871</u>

### (b) Lease commitments : Group as lessee

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	<u>1,048</u>	<u>1,309</u>	<u>710</u>	<u>987</u>
Later than one year but not later than five years	<u>1,330</u>	<u>2,066</u>	<u>1,040</u>	<u>1,476</u>
	<u>2,378</u>	<u>3,375</u>	<u>1,750</u>	<u>2,463</u>
Representing:				
Non-cancellable operating leases	<u>2,313</u>	<u>3,216</u>	<u>1,708</u>	<u>2,333</u>
Future finance charges on finance leases	<u>65</u>	<u>159</u>	<u>42</u>	<u>130</u>
	<u>2,378</u>	<u>3,375</u>	<u>1,750</u>	<u>2,463</u>

#### (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		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	<u>1,018</u>	<u>1,234</u>	<u>688</u>	<u>920</u>
Later than one year but not later than five years	<u>1,294</u>	<u>1,982</u>	<u>1,019</u>	<u>1,413</u>
	<u>2,312</u>	<u>3,216</u>	<u>1,707</u>	<u>2,333</u>

#### (ii) Finance leases

The Group leases various plant and equipment with a carrying amount of \$872,000 (2008 - \$1,046,000) 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.

### 31 Commitments (continued)

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Commitments in relation to finance leases are payable as follows:				
Within one year	279	962	243	922
Later than one year but not later than five years	<u>178</u>	<u>734</u>	<u>106</u>	<u>616</u>
Minimum lease payments	<u>457</u>	<u>1,696</u>	<u>349</u>	<u>1,538</u>
Future finance charges	<u>(65)</u>	<u>(159)</u>	<u>(44)</u>	<u>(130)</u>
Recognised as a liability	<u>392</u>	<u>1,537</u>	<u>305</u>	<u>1,408</u>
Total lease liabilities	<u>392</u>	<u>1,537</u>	<u>305</u>	<u>1,408</u>
Representing lease liabilities:				
Current (note 19)	249	887	220	855
Non-current (note 23)	<u>143</u>	<u>650</u>	<u>85</u>	<u>554</u>
	<u>392</u>	<u>1,537</u>	<u>305</u>	<u>1,409</u>

The weighted average interest rate implicit in the leases is 7.23% (2008 - 7.57%).

#### (c) Inventory commitments

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Commitments in relation to inventory purchases payable as follows:				
Within one year	12,379	5,357	6,936	1,613
Later than one year and not later than five years	<u>-</u>	<u>3,265</u>	<u>-</u>	<u>3,225</u>
	<u>12,379</u>	<u>8,622</u>	<u>6,936</u>	<u>4,838</u>

### 32 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 34.

#### (c) Subsidiaries

Interests in subsidiaries are set out in note 33.

#### (d) Key management personnel

Disclosures relating to key management personnel are set out in note 29.

## 32 Related party transactions (continued)

### (e) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>Sales of goods and services</i>				
Sale of raw materials to Davies Bakery (Aust) Pty Ltd	632,617	640,851	632,617	640,851
<i>Purchases of goods</i>				
Finished goods from Davies Bakery (Aust) Pty Ltd	7,823,872	1,726,011	7,823,872	1,726,011
Air flight services from Piper Partners Pty Ltd	140,121	212,846	140,121	212,846
Strategic and financial advice from other related party	25,940	907,089	25,940	907,089
Consultancy services from other related party	47,000	-	47,000	-
	<u>8,036,933</u>	<u>2,845,946</u>	<u>8,036,933</u>	<u>2,845,946</u>
<i>Superannuation contributions</i>				
Contributions to superannuation funds on behalf of employees	2,341,036	2,167,851	2,197,155	1,985,178
<i>Other transactions</i>				
Interest revenue from Davies Bakery (Aust) Pty Ltd	44,104	-	44,104	-
Buy back of ordinary shares from other related party	-	32,878,915	-	32,878,915
Issue of shares to Rijs Family Trust beneficiaries	-	(32,878,915)	-	(32,878,915)
	<u>44,104</u>	<u>-</u>	<u>44,104</u>	<u>-</u>

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

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

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>Current receivables (sales of goods and services)</i>				
Davies Bakery (Aust) Pty Ltd	145,939	136,250	145,939	136,250
<i>Current payables (purchases of goods)</i>				
Davies Bakery (Aust) Pty Ltd	1,117,694	254,035	1,117,694	254,035

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

### 32 Related party transactions (continued)

#### (g) Loans to/from related parties

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
<i>Loans to Davies Bakery (Aust) Pty Ltd</i>				
Beginning of the year	-	5,136,146	-	5,136,146
Transfer to Investment in associate	-	(5,136,146)	-	(5,136,146)
Loans advanced	600,000	-	600,000	-
Loan repayments received	(600,000)	-	(600,000)	-
Interest charged	44,104	-	44,104	-
Interest received	(44,104)	-	(44,104)	-
End of year	-	-	-	-
<i>Loans to related party</i>				
Beginning of the year	-	92,511	-	92,511
Loans advanced	-	-	-	469,077
Loan repayments received	-	(92,511)	-	(92,511)
End of year	-	-	-	469,077

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

There are no loans to directors or executives at 30 June 2009 other than loans to executives of up to \$1,000 under standard terms of the Group's exempt employee share plan.

### 33 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	
			2009 %	2008 %
Chef's Pride Pty Ltd	Australia	Ordinary	100	100
Creative Gourmet Pty Ltd	Australia	Ordinary	100	100

### 34 Investments in associates

	Consolidated	
	2009 \$'000	2008 \$'000
(a) <b>Movements in carrying amounts</b>		
Carrying amount at the beginning of the financial year	7,961	199
Additional investments	-	8,250
Share of profits/(losses) after income tax	88	(488)
Carrying amount at the end of the financial year	<u>8,049</u>	<u>7,961</u>

### 34 Investments in associates (continued)

#### (b) Summarised financial information of associates

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

	Ownership Interest %	Group's share of:			
		Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/(loss) \$'000
<b>2009</b>					
Piper Partners Pty Ltd	50	216	232	87	(8)
Davies Bakery (Aust) Pty Ltd	50	10,141	2,626	10,224	107
		<u>10,357</u>	<u>2,858</u>	<u>10,311</u>	<u>99</u>
<b>2008</b>					
Piper Partners Pty Ltd	50	225	229	86	(7)
Davies Bakery (Aust) Pty Ltd	50	9,379	1,972	6,992	(441)
		<u>9,604</u>	<u>2,201</u>	<u>7,078</u>	<u>(448)</u>

All of the above associates are incorporated in Australia.

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

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

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Profit for the year	11,262	13,846	8,119	11,243
Depreciation and amortisation	6,051	4,434	5,721	4,237
Net loss on sale of property, plant and equipment	18	-	-	-
Transfer of interest income to Investing cash flows	(192)	(228)	(162)	(189)
Fair value adjustment to derivatives	(317)	-	(317)	-
Share of (profits)/losses of associates and joint venture partnership not received as dividends or distributions	(88)	488	-	-
(Increase) decrease in trade debtors	(5,423)	2,041	(7,809)	1,750
(Increase) decrease in inventories	(1,616)	4,100	(5,522)	7,225
Decrease in deferred tax assets	203	484	220	450
(Increase) in other operating assets	(590)	(536)	(1,176)	(1,028)
Increase (decrease) in trade creditors	3,576	(5,640)	13,820	(5,094)
(Decrease) in provision for income taxes payable	(1,131)	(901)	(575)	(1,179)
Increase in deferred tax liabilities	228	593	207	434
Increase (decrease) in derivative financial instruments	577	(435)	577	(435)
Increase (decrease) in other provisions	683	(85)	646	27
Net cash inflow from operating activities	<u>13,241</u>	<u>18,161</u>	<u>13,749</u>	<u>17,441</u>

### 36 Earnings per share

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>Cents</b>	<b>Cents</b>
<b>(a) Basic and diluted earnings per share</b>		
Profit from continuing operations attributable to the ordinary equity holders of the company	8.1	10.0
<b>(b) Reconciliation of earnings used in calculating earnings per share</b>		
	<b>Consolidated</b>	<b>2008</b>
	<b>2009</b>	<b>\$'000</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Basic and diluted earnings per share</i>		
Profit from continuing operations	11,262	13,846
<b>(c) Weighted average number of shares used as the denominator</b>		
	<b>Consolidated</b>	<b>2008</b>
	<b>2009</b>	<b>Number</b>
	<b>Number</b>	<b>Number</b>
<i>Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share</i>	<u>138,797,343</u>	<u>139,040,052</u>

In the directors' opinion:

- (a) the financial statements and notes set out on pages 22 to 68 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 company's and consolidated entity's financial position as at 30 June 2009 and of their 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

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.



Ernest W Barr  
Director

Melbourne  
24 August 2009

**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 sheets as at 30 June 2009, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration for both Patties Foods Limited and 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, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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.

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**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 company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date;
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*, and
- (b) the consolidated financial statements 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 9 to 12 of the directors' report for the year ended 30 June 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



John O'Donoghue  
Partner

Melbourne  
24 August 2009

The shareholder information set out below was applicable as at 31 July 2009.

**A. Distribution of equity securities**

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

Holding	Class of equity security holder			
	Ordinary shares	Options	Redeemable preference shares	Convertible notes
1 - 1000	535	-	-	-
1,001 - 5,000	1,465	-	-	-
5,001 - 10,000	495	-	-	-
10,001 - 100,000	639	-	-	-
100,001 and over	65	-	-	-
	<u>3,199</u>	<u>-</u>	<u>-</u>	<u>-</u>

There were 281 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	24,344,120	17.54
Hank Pty Ltd (Ankh Family A/C)	8,185,588	5.90
The Estate of Peter Anthony Rijs	6,411,656	4.62
A W Rys Pty Ltd	5,971,304	4.30
L A Rijs Pty Ltd	5,340,199	3.85
The Myer Family Investments Pty Ltd	5,000,000	3.60
JP Morgan Nominees Australia Ltd	4,947,528	3.56
F A Rijs Pty Ltd	4,672,674	3.37
NRR Pty Ltd	4,672,674	3.37
National Nominees Limited	4,576,262	3.30
ANZ Nominees Ltd (Cash Income A/C)	4,283,200	3.09
R C Rijs Pty Ltd	4,265,355	3.07
MWR Pty Ltd	3,815,732	2.75
Ernest Wolfgang Barr	2,985,408	2.15
Congent Nominees Pty Ltd (SMP Accounts)	2,826,015	2.04
Peter Leslie Dennison	1,682,163	1.21
Mr Michael Thomas Bartholomew	1,246,752	0.90
Bairnsdale Custodians Pty Ltd	1,241,599	0.89
NRR Pty Ltd	1,240,000	0.89
Cogent Nomimees Pty Ltd	1,147,713	0.83
	<u>98,855,942</u>	<u>71.23</u>

**C. Substantial holders**

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

	Number held	Percentage
Ordinary shares		
The Myer Family Investments Pty Ltd	13,907,957	10.01 %
Richard Rijs	11,437,275	8.19 %
Frank Rijs	8,932,584	6.43 %
Harry Rijs	8,185,588	5.89 %
Aviva Investors Australia Limited	7,058,927	5.09 %

**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.