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25 August 2008

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**Patties Foods Limited (PFL) - Results for announcement to the market – Year ended 30 June 2008**

As required under listing rule 4.3A, please find enclosed the following results for announcement to the market;

- Appendix 4E – Preliminary Financial Report
- Commentary in relation to the Preliminary Financial Report
- Preliminary Financial Statements for the year ended 30 June 2008

Yours sincerely

**BETH SCHOFIELD**  
Company Secretary



# Appendix 4E

## Patties Foods Limited (ASX:PFL)

ABN 62 007 157 182

### Preliminary Final Report

#### Results for announcement to the market

For the financial year ended 30 June 2008

*(With comparatives for the prior period ended 30 June 2007)*

#### Group Result

	Direction of movement	% Change from prior year	A\$'000
Revenue from ordinary activities	Up	29.5%	\$163,950
Earnings before interest and taxation (EBIT)	Up	6.6%	\$22,458
Net profit after tax (from ordinary activities) for the period attributable to members	Up	8.6%	\$13,846
EBIT – before one-off items	Up	13.6%	\$23,930
Net profit after tax (from ordinary activities) for the period attributable to members – before one-off items	Up	17.9%	\$15,021

#### Share of net profit/(loss) after tax from Associates

	% Holding	2008 A\$'000	2007 A\$'000
Davies Bakery Pty Ltd	50%	(\$481)	-
Piper Partners Pty Ltd	50%	(\$7)	-

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

#### Net Tangible Assets

	30 June 2008	30 June 2007
Net tangible asset backing (per share)	\$0.22	\$0.19
Net asset backing (per share)	\$0.79	\$0.76

## Dividends

	30 June 2008	30 June 2007
Interim dividend (per share)	2.8 cents	2.8 cents
Final dividend (per share)	4.5 cents*	4.4 cents
Franking	Fully franked	Fully franked

\*The Directors of the Company have resolved to pay a final dividend of 4.5 cents per share. The record date for entitlement to the dividend is 15<sup>th</sup> September 2008, and the dividend is expected to be paid on or around 10<sup>th</sup> October 2008.

No dividend reinvestment plans were in operation during the period ended 30 June 2008. There is no current intention to implement a dividend reinvestment plan.

## Commentary in relation to the full year result

### Highlights

Patties Foods Limited (PFL or the Company), continues to operate as a market leader in the manufacture and marketing of frozen branded food products in Australia. Highlights underlining the result achieved for the year ended 30 June 2008 include;

- Successful commissioning of the significant capital expenditure program in manufacturing facilities at Bairnsdale is substantially complete
- Strong contribution from Creative Gourmet/ Chefs Pride business acquired in May 2007 in line with management expectations
- Solid sales growth (29.5% on prior year) from the traditional retail market and gains from the investment made in the foodservice market in recent years
- Earnings per share growth of 7% after adjusting for one-off items

The Company also made good progress in addressing the challenges which it identified at the half year in manufacturing which were impacting on margins and profitability.

### Financial Performance

The Company experienced a strong year in terms of sales growth, recording revenue of \$164.0m, up 29.5% on the prior year. This was driven by good growth from both the existing retail and foodservice segments of the business as well as a positive contribution from the Creative Gourmet/ Chefs Pride (Silverwater) business acquired in May 2007.

Net profit after tax (NPAT) for the year increased 8.6% to \$13.8m. After adjusting for one-off items described below, the normalised NPAT for the Company was \$15.0m or 17.9% higher than the prior year.

Whilst earnings before interest and taxation (EBIT) increased for the Company over the prior year, margins continued to be impacted by issues in manufacturing caused largely

by an increased number of products (SKUs) being produced and therefore a higher level of line changeovers in the Bairnsdale facility. This was exacerbated by the disruption caused during the commissioning of two new production lines. The Company has undertaken actions to address these issues in the second half of FY2008 and expects to see further improvement in FY2009 EBIT margins as a result.

FY2008 was also the first year of operation of the Company's joint venture associate, Davies Bakery (Aust) Pty Ltd. Building of the facility was completed in October 2007 and commissioning of the facility continued throughout FY2008. Accordingly, this entity has posted a start-up loss for the financial year which is not considered to be reflective of its ongoing operating capacity.

The Company continues to monitor increasing raw material input prices and its ability to recover these increases. Movements in meat prices in particular are expected to present some challenges. The Company has a number of strategies to manage this risk. Supplies for a large portion of other major input costs are contracted for at least the first half of FY2009.

The effective tax rate for the year was 25.2% due to deductions for R&D tax concessions and the effect of prior year tax provision adjustments.

Interest costs are expected to be greater in FY2009 due to increased rates, additional borrowings for the capital expenditure program in FY2008 as well as the expiry of fixed rate borrowing of \$23.5m which converted to floating rate debt in July 2008.

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

As highlighted in the Company's half year results release, there are a number of one-off items impacting the after tax operating results of the Company. These include;

- Write-off of receivable from a US distributor who experienced financial difficulties (\$333k)
- Termination costs in relation to restructuring of the Company's management structure (\$262k)
- Startup operating loss from commissioning new facilities at Davies joint venture operation (\$481k)
- Additionally, the company has written off transaction costs in relation to a potential acquisition that was not completed during the financial year (\$99k)

The total after tax impact of these one-off items on NPAT for FY2008 was \$1.2m (\$1.5m before tax).

## **Retail Sales**

Growth in the Company's largest market continued to be pleasing with retail sales growth of 10% on prior year in traditional pastry products, or 30% on prior year including the frozen berries business. PFL also maintained strong market share positions in its key segments as follows;

- Frozen savoury – 50.9% (MAT)
- Frozen desserts (including frozen berries) – 35.4% (MAT)

This was a particularly solid result given the high level of competitor price promotional activity experienced in the latter part of the financial year in the Company's largest category of frozen savoury, and the entry of significant new competitors in the high growth frozen berries category.

## **Foodservice Sales**

The Company has invested heavily in growing its direct sales force presence in this category of the market with a view to taking market share, and diversifying its revenues away from its traditional retail market.

This strategy has started to gain traction with growth of 12% being achieved in FY2008 in PFL's traditional pastry business. This business has again benefited from winning some large national customers during the year, the full benefits of which will be reflected in FY2009. It has also benefited from the addition of the Chefs Pride product offering of frozen berries, vegetables and bistro products providing access to a broader customer profile within the foodservice sector. Sales growth including this business was 30%.

## **Marketing, R&D and Innovation**

PFL continues to make large investments in its portfolio of market leading brands which include Four'n Twenty, Nannas, Patties, Herbert Adams, Snowy River, Creative Gourmet and Chefs Pride.

Total marketing spend in FY2008 was largely focussed on driving the core range and baseline sales growth through appropriate venue sponsorship and targeted consumer and end user activity. The Company will continue to lead the savoury pastry market and invest in growing the market through initiatives such as the launch of its Magic Salad Plate campaign in July 2008 which is expected to provide benefits in FY2009.

Activity also included the development of new products to enhance the recently acquired Creative Gourmet brand in retail, and enhancing the Company's savoury pie offering in line with its Foodservice strategy.

A review of Innovation and R&D processes in the second half of FY2008 will deliver targeted new product development in FY2009, assisting in delivering profitable growth for our leading brands in new and existing markets.

## **Operations**

FY2008 has been a significant year in operations for PFL.

The major capital expenditure program embarked upon in late FY2007 is now substantially complete. This has resulted in the following enhancements to the operating facilities at Bairnsdale;

- New 10,000 pallet freezer warehouse enabling reduced reliance on third party warehouse providers and better, centralised management of national stock distribution
- New state-of-the-art savoury pie production line providing increased capacity to service the growing Foodservice market in particular
- Replacement of existing fruit pie production line providing significantly reduced waste and increased flexibility, efficiency and production capability

In addition, a new enterprise bargaining agreement was reached with the Bairnsdale workforce in July 2008 which will provide certainty to the business and the workforce for a further 3 years.

The Silverwater facility was added to the business in May 2007 as part of the acquisition of Creative Gourmet and Chefs Pride and is benefiting from the experience of the existing PFL operations team.

The Davies joint venture operation in Thomastown provides enhanced ability to the business to produce lower volume products and remove some of the complexity from the high volume, long run facility in Bairnsdale. This plant is working towards optimising its operations having commenced production in October 2007.

## **Risk Management**

The Company continues to identify, measure and address risks within the business. Key insurances were recently reviewed and revised where appropriate as part of this process.

PFL also completed a review of its position in relation to the National Greenhouse and Energy Reporting Act 2007 (NGER), which concluded that its investment in reducing its carbon footprint will be beneficial to the Company when the proposed reporting framework is introduced in 2010.

## **Financial Position**

Net assets of the company increased by \$3.8m or 3.6% to \$109.2m over the prior financial year. Net asset backing per share and net tangible asset backing per share both also increased over the prior year.

Capital employed in the business increased by \$20m as a result of the major capital expenditure program in FY2008 which is expected to result in future operating benefits. Key debt ratios increased as a consequence but are still well within borrowing covenants.

Capital expenditure will return to levels in line with depreciation in FY2009 and the focus will be on driving benefits from the investment made in FY2008.

### **Capital Management**

Total borrowings at 30 June 2008 were \$70.6m, with total facilities of \$74.5m. At these levels, the Company's borrowings are well within the borrowing covenants of the facilities. The current facilities have been refinanced to July 2009 and the Company will seek to secure a longer term facility, along with a review of its interest rate hedging strategy in FY2009.

PFL commenced an on-market share buyback in April 2008. A total of 380,000 shares have been purchased under the buyback at a weighted average price of \$1.05 per share which is EPS accretive to the Company. PFL will continue to buy shares at such times and in such circumstances as is considered beneficial to the efficient capital management of the company.

PFL also concluded the successful second round offer of its Exempt Employee Share Plan in April 2008. The offer was taken up by 150 eligible employees purchasing \$1,000 worth of shares each. This plan provides the opportunity for employees to participate in the success of the company with positive incentive benefits for all shareholders.

### **Returns to Shareholders**

The Company achieved an increase in its earnings per share (EPS) for the year to 10.8 cents after adding back one-off items (10.0 cents reported).

Accordingly, the Board has determined that the final dividend will be 4.5 cents per share for FY2008. The dividend will be fully franked. Total dividends for FY2008 are therefore 7.3 cents per share. The dividend payout ratio is 73%.

### **Sustainability and Corporate and Social Responsibility**

PFL continues to provide benefits back to the community in which it operates through ongoing support of national charity partners including Challenge and 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 as well as ongoing investment and support of the Gippsland community in sporting, educational and other events.

In terms of its sustainability activities undertaken during the year, the Company is a signatory to the National Packaging Covenant, its sites are all compliant with EPA and other relevant governmental environmental targets and regulations and it has invested in a stormwater retention and treatment program.

### **Outlook**

The future for the Company in the new financial year looks positive. With the disruption of the significant capital expenditure at Bairnsdale substantially behind us and the benefits the new facilities will bring, coupled with the successful bedding down of the

Creative Gourmet/ Chefs Pride acquisition and the start up of the joint venture company progressing satisfactorily, PFL expects to see improvement in revenue and earnings.

In the current economic climate of low consumer confidence, the Company's products tend to become more attractive to consumers and we have noticed this trend in the latter part of FY2008 and the early part of FY2009. The Company is continuing its expansion into the Foodservice market and this is expected to bring further additional revenue and earnings.

The Company's budget for FY2009 indicates a result which will again meet or exceed the expectations of revenue growth and after tax earnings for FY2009 as set by the financial analysts who cover the Company. Analysts expectations of earnings at the time of this release are in the range of \$15.8m to \$17.4m after tax, and revenue expectations are between \$179.1m and \$185.4m for FY2009. Whilst it is too early to forecast the result for FY2009, the results for the first six weeks are in accordance with the Company's budgeted expectations.

**Events occurring after reporting date.**

No matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

- a) The Company's operations in future financial years, or
- b) The results of those operations in future financial years, or
- c) The Company's state of affairs in future financial years.

This report and the condensed half year financial report contain all the information required by ASX listing rule 4.3A.

The financial report is in the latter stages of being audited by PricewaterhouseCoopers and an unqualified audit opinion is expected.

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)

# **Patties Foods Limited**

ABN 62 007 157 182

## **Preliminary financial statements for the year ended 30 June 2008**

**Patties Foods Limited**  
**Preliminary income statements**  
**For the year ended 30 June 2008**

	Notes	Consolidated		Parent	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Revenue from continuing operations</b>					
Sale of goods	4	163,008	125,225	134,955	123,185
Other revenue from ordinary activities	4	<u>942</u>	<u>1,376</u>	<u>903</u>	<u>1,371</u>
		<b>163,950</b>	<b>126,601</b>	<b>135,858</b>	<b>124,556</b>
<b>Other income</b>	5	<b>365</b>	<b>310</b>	<b>360</b>	<b>310</b>
<b>Expenses</b>					
Cost of sales of goods		<b>(99,083)</b>	(73,313)	<b>(80,720)</b>	(71,884)
Other expenses from ordinary activities					
Distribution		<b>(13,824)</b>	(9,746)	<b>(11,865)</b>	(9,641)
Sales and Marketing		<b>(18,864)</b>	(16,013)	<b>(16,578)</b>	(15,761)
Administration		<b>(8,785)</b>	(5,439)	<b>(7,709)</b>	(5,222)
Other		<b>(585)</b>	(603)	<b>(585)</b>	(603)
Finance costs	6	<b>(4,187)</b>	(3,571)	<b>(4,180)</b>	(3,565)
Share of net profits/(losses) of associated companies accounted for using the equity method		<u>(488)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Profit before income tax</b>		<b>18,499</b>	<b>18,226</b>	<b>14,581</b>	<b>18,190</b>
Income tax expense		<u>(4,653)</u>	<u>(5,482)</u>	<u>(3,338)</u>	<u>(5,467)</u>
Profit from continuing operations		<u><b>13,846</b></u>	<u><b>12,744</b></u>	<u><b>11,243</b></u>	<u><b>12,723</b></u>
Profit is attributable to:					
Equity holders of Patties Foods Limited		<u><b>13,846</b></u>	<u>12,744</u>	<u><b>11,243</b></u>	<u>12,723</u>
		<u><b>13,846</b></u>	<u>12,744</u>	<u><b>11,243</b></u>	<u>12,723</u>
		<b>Cents</b>	<b>Cents</b>		
<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	13	<b>10.0</b>	10.1		

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

**Patties Foods Limited**  
**Preliminary balance sheets**  
**As at 30 June 2008**

	Notes	Consolidated		Parent	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents		2,098	2,651	1,423	2,550
Receivables		32,142	33,715	30,108	30,923
Inventories		17,925	22,025	11,240	18,465
Total current assets		<u>52,165</u>	<u>58,391</u>	<u>42,771</u>	<u>51,938</u>
<b>Non-current assets</b>					
Other financial assets		7,961	5,335	34,575	31,111
Property, plant and equipment		62,451	46,218	61,100	44,914
Deferred tax assets		3,041	3,525	2,977	3,428
Intangible assets		79,366	78,303	56,788	56,184
Total non-current assets		<u>152,819</u>	<u>133,381</u>	<u>155,440</u>	<u>135,637</u>
<b>Total assets</b>		<u>204,984</u>	<u>191,772</u>	<u>198,211</u>	<u>187,575</u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Payables		13,542	19,120	10,506	15,602
Borrowings		9,527	5,634	9,495	5,634
Derivative financial instruments		-	435	-	435
Current tax liabilities		1,131	2,031	575	1,754
Provisions		2,764	2,806	2,594	2,556
Total current liabilities		<u>26,964</u>	<u>30,026</u>	<u>23,170</u>	<u>25,981</u>
<b>Non-current liabilities</b>					
Borrowings		61,150	49,253	61,054	49,253
Deferred tax liabilities		7,529	6,935	7,313	6,879
Provisions		100	143	57	68
Total non-current liabilities		<u>68,779</u>	<u>56,331</u>	<u>68,424</u>	<u>56,200</u>
<b>Total liabilities</b>		<u>95,743</u>	<u>86,357</u>	<u>91,594</u>	<u>82,181</u>
<b>Net assets</b>		<u>109,241</u>	<u>105,415</u>	<u>106,617</u>	<u>105,394</u>
<b>EQUITY</b>					
Contributed equity	7	68,269	68,583	68,269	68,583
Reserves	8(a)	-	(305)	-	(305)
Retained profits	8(b)	40,972	37,137	38,348	37,116
<b>Total equity</b>		<u>109,241</u>	<u>105,415</u>	<u>106,617</u>	<u>105,394</u>

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

**Patties Foods Limited**  
**Preliminary statements of changes in equity**  
**For the year ended 30 June 2008**

	Notes	Consolidated		Parent	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Total equity at the beginning of the financial year</b>		<b>105,415</b>	38,324	<b>105,394</b>	38,324
Changes in the fair value of cash flow hedges, net of tax	8	<b>305</b>	(305)	<b>305</b>	(305)
Profit for the year		<u><b>13,846</b></u>	<u>12,744</u>	<u><b>11,243</b></u>	<u>12,723</u>
<b>Total recognised income and expense for the year</b>		<u><b>14,151</b></u>	<u>12,439</u>	<u><b>11,548</b></u>	<u>12,418</u>
Contributions of equity, net of transaction costs	7	-	127,122	-	127,122
On market share buy back	7	<b>(330)</b>	-	<b>(330)</b>	-
Employee share scheme issue	7	<b>146</b>	-	<b>146</b>	-
Selective buy back of shares from the Rijs Family trust (via Bairnsdale Services Pty Ltd)	7	<b>(32,879)</b>	-	<b>(32,879)</b>	-
Issue of shares to Rijs Family Trust beneficiaries (Bairnsdale Services Pty Ltd shareholders)	7	<b>32,879</b>	-	<b>32,879</b>	-
Transaction costs of Rijs Family Trust shareholding restructure	7	<b>(130)</b>	-	<b>(130)</b>	-
Dividends provided for or paid	9	<b>(10,011)</b>	(4,745)	<b>(10,011)</b>	(4,745)
Buy-back of Cumulative Converting Preference Shares after conversion to ordinary shares	7	-	(67,725)	-	(67,725)
		<u><b>(10,325)</b></u>	<u>54,652</u>	<u><b>(10,325)</b></u>	<u>54,652</u>
<b>Total equity at the end of the financial year</b>		<u><b>109,241</b></u>	<u>105,415</u>	<u><b>106,617</b></u>	<u>105,394</u>

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

**Patties Foods Limited**  
**Preliminary cash flow statements**  
**For the year ended 30 June 2008**

	Notes	Consolidated		Parent	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers (inclusive of goods and services tax)		182,110	137,660	150,435	135,503
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(154,657)</u>	<u>(117,474)</u>	<u>(124,628)</u>	<u>(115,258)</u>
Income tax paid		27,453	20,186	25,807	20,245
Borrowing costs paid		<u>(4,868)</u>	<u>(4,718)</u>	<u>(4,132)</u>	<u>(4,718)</u>
<b>Net cash (outflow) inflow from operating activities</b>		<u><b>18,308</b></u>	<u><b>11,878</b></u>	<u><b>17,453</b></u>	<u><b>11,938</b></u>
<b>Cash flows from investing activities</b>					
Payment for purchase of subsidiaries, net of cash acquired	10	(350)	(24,571)	(350)	(25,776)
Payments for property, plant and equipment		<u>(21,206)</u>	<u>(22,075)</u>	<u>(20,932)</u>	<u>(21,991)</u>
Payments for investments		<u>(3,114)</u>	-	<u>(3,114)</u>	-
Payments for intangibles		-	(794)	-	(794)
Loans repaid		-	1,297	-	-
Loan to associate		-	(5,136)	-	(5,136)
Proceeds from sale of property, plant and equipment		-	280	-	280
Loans paid/(repaid) by related parties		237	3,924	237	3,924
Interest received		<u>228</u>	<u>731</u>	<u>189</u>	<u>726</u>
<b>Net cash (outflow) inflow from investing activities</b>		<u><b>(24,205)</b></u>	<u><b>(46,344)</b></u>	<u><b>(23,970)</b></u>	<u><b>(48,767)</b></u>
<b>Cash flows from financing activities</b>					
Proceeds from issues of ordinary shares and other equity securities		146	102,466	146	102,466
Payments for shares bought back		(330)	(67,725)	(330)	(67,725)
Proceeds from borrowings		17,451	17,280	17,318	17,280
Share issue and buy-back transaction costs		(130)	(7,580)	(130)	(7,580)
Repayment of borrowings		<u>(1,782)</u>	<u>(3,571)</u>	<u>(1,603)</u>	<u>(1,309)</u>
Dividends paid to company's shareholders	9	<u>(10,011)</u>	<u>(4,745)</u>	<u>(10,011)</u>	<u>(4,745)</u>
<b>Net cash inflow (outflow) from financing activities</b>		<u><b>5,344</b></u>	<u><b>36,125</b></u>	<u><b>5,390</b></u>	<u><b>38,387</b></u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(553)</b>	1,659	<b>(1,127)</b>	1,558
Cash and cash equivalents at the beginning of the financial year		<u>2,651</u>	<u>992</u>	<u>2,550</u>	<u>992</u>
<b>Cash and cash equivalents at end of year</b>		<u><b>2,098</b></u>	<u><b>2,651</b></u>	<u><b>1,423</b></u>	<u><b>2,550</b></u>

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

## **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*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Patties Foods Limited complies with International Financial Reporting Standards (IFRS).

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

#### *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 2.

### **(b) Principles of consolidation**

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Patties Foods Limited ("company" or "parent entity") as at 30 June 2008 and the results of all subsidiaries for the year then ended. Patties Foods Limited 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(d)).

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 Patties Foods Limited.

#### *(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 12).

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) 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.

### **(e) 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.

### **(f) 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.

## 2 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 whether goodwill and indefinite lived intangibles have suffered any impairment, in accordance with the accounting policy stated in note 1(e). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions.

#### (ii) *Net realisable value of inventory*

The Group review inventory on hand at year end to determine whether it is carried at the lower of cost and net realisable value and where necessary creates a provision.

#### (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.

## 3 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.

## 4 Revenue

	Consolidated		Parent	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
<b>From continuing operations</b>				
<i>Sales revenue</i>				
Sale of goods	<u>163,008</u>	125,225	<u>134,955</u>	<u>123,185</u>
<i>Other revenue</i>				
Interest	228	731	189	726
Caravan Park income	<u>714</u>	<u>645</u>	<u>714</u>	<u>645</u>
	<u>942</u>	<u>1,376</u>	<u>903</u>	<u>1,371</u>
	<u>163,950</u>	<u>126,601</u>	<u>135,858</u>	<u>124,556</u>

## 5 Other income

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Government grants	249	248	249	248
Royalties	56	57	56	57
Sundry	60	5	55	5
	<u>365</u>	<u>310</u>	<u>360</u>	<u>310</u>

## 6 Expenses

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Profit before income tax includes the following specific expenses:</b>				
<i>Depreciation</i>				
Buildings	594	242	594	242
Property, plant and equipment	<u>3,579</u>	<u>3,611</u>	<u>3,382</u>	<u>3,591</u>
Total depreciation	<u>4,173</u>	<u>3,853</u>	<u>3,976</u>	<u>3,833</u>
<i>Amortisation</i>				
Intangible assets	<u>261</u>	-	<u>261</u>	-
Total amortisation	<u>261</u>	-	<u>261</u>	-
Employee benefits expense	26,731	24,666	24,704	24,390
	-	-	-	-
<i>Finance costs</i>				
Interest and finance charges paid/payable	4,187	3,571	4,180	3,565
<i>Net loss on disposal of property, plant and equipment</i>	-	108	-	108
<i>Rental expense relating to operating leases</i>				
Minimum lease payments	3,839	1,754	2,892	1,750
<i>One-off items</i>				
Charge to provision for non-recoverable receivable*	476	-	476	-
Management restructuring costs	374	-	374	-
Transaction costs	141	-	141	-
Share of loss of associate accounted for using the equity method	481	-	481	-

\* Provision for write off of non recoverable receivable arising from the Company's distributor in the United States, and associated obsolete packaging.

## 7 Contributed equity

	Parent entity		Parent entity	
	2008 Shares	2007 Shares	2008 \$'000	2007 \$'000
<b>(a) Share capital</b>				
Ordinary shares				
Fully paid	<u>138,873,680</u>	<u>139,052,580</u>	<u>68,269</u>	<u>68,583</u>

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

Date	Details	Number of shares	\$'000
1 July 2006	Opening balance	100,000,000	9,186
	Cumulative Converting Preference Shares converted to ordinary shares	19,052,580	30,000
	Employee share scheme issues	148,460	260
	Ordinary shares issued	58,551,768	102,466
	Share buyback	(38,700,228)	(67,725)
	Less: transaction costs accounted for in equity	-	(8,005)
	Add: Deferred tax asset recognised directly in equity	-	2,401
30 June 2007	Balance	<u>139,052,580</u>	<u>68,583</u>
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	(304,900)	(330)
30 June 2008	Balance	<u>138,873,680</u>	<u>68,269</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.

Under the second round of the Exempt Employee Plan Offer conducted in March 2008, eligible employees were granted 840 Offer Shares (being approximately \$1,000 worth of fully paid Offer Shares at the offer price of \$1.19) 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.

## 7 Contributed equity (continued)

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

### (e) Initial Public Offering - November 2006

The company completed a successful Initial Public Offering and was admitted to the Australian Stock Exchange on 6 November 2006. The listing necessitated a restructure of the company's original shareholding comprising the conversion of cumulating convertible preference shares to ordinary shares, the issue of additional ordinary shares and the buyback of original shares.

### (f) Rijs Family Trust Shareholding Restructure - March 2008

Shareholders voted at an Extraordinary General Meeting held on 5 March 2008 to approve the restructure of the Company's shareholding. The restructure resulted in the Company's largest shareholder, the Rijs Family Trust, holding their shares directly in the Company rather than beneficially through being a unitholder in the Rijs Family Trust. This restructure was effected by way of an intermediary company set up for the purpose - Bairnsdale Services Pty Ltd. The Company incurred \$130,000 worth of expenses in relation to the EGM.

## 8 Reserves and retained profits

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>(a) Reserves</b>				
Hedging reserve - cash flow hedges	-	(305)	-	(305)
<b>Movements:</b>				
<i>Hedging reserve - cash flow hedges</i>				
Opening balance 1 July	(305)	-	(305)	-
Revaluation - gross	435	(435)	435	(435)
Deferred tax	(130)	130	(130)	130
Closing balance 30 June	<u>-</u>	<u>(305)</u>	<u>-</u>	<u>(305)</u>
<b>(b) Retained profits</b>				
Movements in retained profits were as follows:				
Balance 1 July	37,137	29,138	37,116	29,138
Net profit for the year	13,846	12,744	11,243	12,723
Dividends	(10,011)	(4,745)	(10,011)	(4,745)
Balance 30 June	<u>40,972</u>	<u>37,137</u>	<u>38,348</u>	<u>37,116</u>

## 9 Dividends

	Parent	
	2008 \$'000	2007 \$'000
<b>(a) Ordinary shares</b>		
Final dividend for the year ended 30 June 2007 of 4.4 cents (2006 - 0.85 cents) per fully paid share paid on 10 October 2007 (2006 - 11 August 2006)		
Fully franked based on tax paid @ 30% - 4.4 cents (2006 - 0.85 cents) per share	6,118	850
Interim dividend for the year ended 30 June 2008 of 2.8 cents (2007 - 2.8 cents) per fully paid share paid on 15 April 2008	-	-
Fully franked based on tax paid @ 30% - 2.8 cents (2007 - 2.8 cents) per share	<u>3,893</u>	<u>3,895</u>
Total dividends provided for or paid	<u>10,011</u>	<u>4,745</u>
Dividends paid in cash during the years ended 30 June 2008 and 2007 were as follows:		
Paid in cash	<u>10,011</u>	<u>4,745</u>
	<u>10,011</u>	<u>4,745</u>

	Parent	
	2008 \$'000	2007 \$'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 4.5 cents per fully paid ordinary share, (2007 - 4.4 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 10 October 2008 out of retained profits at 30 June 2008, but not recognised as a liability at year end, is		
	<u>6,246</u>	<u>6,118</u>

## 10 Business combination

### (a) Summary of acquisition

On 31 May 2007 Patties Foods Limited purchased 100% of the issued share capital of the related businesses of Chef's Pride Pty Ltd and Creative Gourmet Pty Ltd with a purchase consideration of \$25,776,000. In accordance with paragraph 69 of AASB 3 Business Combinations, the Company determined initial accounting for the business combination on a provisional basis at 30 June 2007.

In the year ended 30 June 2008 additional transaction costs of \$350,000 were incurred and as at 30 June 2008 the accounting for the business combination had been finalised.

### (b) Purchase consideration

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Outflow of cash to acquire subsidiary, net of cash acquired				
Cash consideration	350	25,776	350	25,776
Less:				
Cash acquired	<u>-</u>	<u>1,205</u>	<u>-</u>	<u>1,205</u>
Outflow of cash	<u>350</u>	<u>24,571</u>	<u>350</u>	<u>24,571</u>

## 10 Business combination (continued)

### (c) Assets and liabilities acquired

The provisional allocation to 'Brands, other identifiable intangibles and goodwill' at 30 June 2007 has been finalised in the current year as follows:

	Provisional allocation \$'000	Final allocation \$'000
Cash	1,205	1,205
Trade receivables	2,637	2,637
Inventories	3,711	3,711
Plant and equipment	1,175	1,214
Deferred tax asset	97	97
Other current assets	130	130
Loans to related parties	1,298	1,298
Brand names and trademarks	22,119	10,921
Goodwill	-	11,196
Intangible assets: non-compete covenants	-	463
Trade payables	(3,698)	(3,698)
Hire purchase payables	(298)	(298)
Bank bills	(2,000)	(2,000)
Provision for employee benefits	(322)	(322)
Current tax provisions	(171)	(171)
Deferred tax liability	(107)	(257)
Net assets	<u>25,776</u>	<u>26,126</u>

## 11 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):

			2008 %	2007 %
Chef's Pride Pty Ltd	Australia	Ordinary	100	100
Creative Gourmet Pty Ltd	Australia	Ordinary	100	100

## 12 Investments in associates

Consolidated	
2008 \$'000	2007 \$'000

### (a) Movements in carrying amounts

Carrying amount at the beginning of the financial year	199	165
Additional investments	8,250	34
Share of profits\losses) after income tax	(488)	-
Carrying amount at the end of the financial year	<u>7,961</u>	<u>199</u>

## 12 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 \$'000
<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>9,704</u>	<u>2,201</u>	<u>7,078</u>	<u>(448)</u>
<b>2007</b>					
Piper Partners Pty Ltd	50	252	249	111	(1)
Davies Bakery (Aust) Pty Ltd	-	-	-	-	-
		<u>302</u>	<u>249</u>	<u>111</u>	<u>(1)</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.

## 13 Earnings per share

	Consolidated	
	2008 Cents	2007 Cents
<b>(a) Basic and diluted earnings per share</b>		
Profit from continuing operations attributable to the ordinary equity holders of the company	10.0	10.1
<b>(b) Reconciliation of earnings used in calculating earnings per share</b>		
	Consolidated 2008 \$'000	2007 \$'000
<i>Basic and diluted earnings per share</i>		
Profit from continuing operations	13,846	12,744
<b>(c) Weighted average number of shares used as the denominator</b>		
	Consolidated 2008 Number	2007 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share</i>	<u>139,040,052</u>	<u>125,678,409</u>