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ABN 62 007 157 182

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22 February 2008

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

Patties Foods Limited 31 December 2007 Half Year Report

As required by ASX listing rule 4.2A, I attach the following documents in relation to the half year ended 31 December 2007;

- Appendix 4D – Half Year Report
- Commentary on results for the period; and
- Half Year Report – including Directors Report, Financial Report and Independent Auditors Review Report.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Philip Thomas", written over a white background.

Philip Thomas
Company Secretary



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Patties Foods Limited

ABN 62 007 157 182

Appendix 4D

Half-year financial report

Including additional Appendix 4D disclosures

31 December 2007

ASX Code: PFL

Results for Announcement to the Market

Results for the half year ending 31 December 2007.
(all comparisons are for the half year ended 31 December 2006)

Patties Foods Limited
ABN 62 007 157 182

Company Result

	Direction of movement	% Change	A\$'000
Revenue from ordinary activities	Up	37.9%	\$85,212
Earnings before interest and taxation (EBIT)	Up	16.6%	\$11,689
EBIT before one-off items	Up	23.3%	\$12,363
Net profit after tax for the period attributable to members	Up	30.1%	\$7,262

Share of net profit/(loss) after tax from Associated Companies

	% Holding	2007 A\$'000	2006 A\$'000
Davies Bakery Pty Ltd	50%	(\$78)	-
Piper Partners Pty Ltd	50%	\$16	-

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

Net Tangible Assets

	31 December 2007	31 December 2006
Net tangible asset backing (per share)*	\$0.20	\$0.34
Net asset backing (per share)	\$0.77	\$0.74

*The reduction in NTA backing resulted primarily from the acquisition of \$22.4m of intangibles in Creative Gourmet and Chefs Pride funded by additional debt in May 2007.

Dividends

	31 December 2007	31 December 2006
Interim dividend (per share)	2.8 cents	2.8 cents
Franking	Fully franked	Fully franked

On 21st February 2008, the Directors of the Company resolved to pay a dividend of 2.8 cents per share. The record date for entitlement to the dividend is 20th March 2008, and the dividend is expected to be paid on or around 15th April 2008.

No dividend reinvestment plans were in operation during the period ended 31 December 2007. There is no current intention to implement a dividend reinvestment plan.

Commentary in relation to the Half Year Result

The company has posted a strong result for the half year ended 31 December 2007 with EBIT, before one-off items, of \$12.4m, up 23.3% on the prior half year.

Whilst the half year EBIT has been impacted by manufacturing inefficiencies and product mix as discussed below, NPAT has benefited from a favorable taxation rate resulting from continuing levels of deductible expenditure.

Retail Market

PFL remains the major participant in the retail frozen savoury category with an increased market share of 52.4% MAT at 31 December 2007 (vs prior year of 50.3%) and growth in sales of 5.1% (compared with competitors combined decline of 4.2%).

The company increased its market share of the retail frozen desserts category to 37.0% MAT at 31 December 2007 (vs prior year of 32.8%) with growth in sales of 19.0% (compared with competitors combined growth of 6.9%).

Foodservice Market

The half year saw the successful rollout of the dedicated foodservice field team and continued integration of the Chefs Pride product range. The Company continued to achieve double digit growth in Foodservice.

Operations

The capital expansion program for the production facilities at Bairnsdale is progressing well. The new fruit pie line was commissioned in January 2008, with the new savoury pie line and 10,000 pallet freezer warehouse both on track for completion by the end of the financial year.

The Silverwater operations (obtained through the acquisition of Creative Gourmet & Chefs Pride in May 2007) has expanded its production facilities to meet growth in demand. The sales and marketing functions have now been fully integrated into the PFL structure.

The Davies Bakery Joint Venture is now operational and producing both fresh and frozen product. Operations were only commissioned in December 2008 and accordingly, PFL incurred a net loss after tax of \$78k in its results for the half year due to the startup.

As previously foreshadowed, strong sales performance has resulted in existing production facilities working at capacity. Margins for the half year have been impacted by large increases in the number of product lines which has caused some production to be undertaken less efficiently in order to satisfy increased demand. The focus for the next half year will be to overcome these issues, particularly with the commissioning of the new lines mentioned above.

Additionally, the Company continues to experience some pressure in relation to certain raw material costs and is taking measures to contain these through securing long term supply contracts and seeking the implementation of increases in pricing where applicable.

New Product Development

New product development generated significant additional sales for the half year and comprised products including;

- Patties Gluten Free
- Four'N Twenty Hungry Man
- Four'N Twenty Jaffles
- Patties Party Pizzas
- Creative Gourmet Crepes
- Nannas Café Moments

Other one-off items material to the result of the group

As foreshadowed at the Annual General Meeting of the company in November 2007, the company incurred a write-off in relation to financial difficulties experienced by a US distributor. The impact on the half year result was \$476k before tax.

Additionally, the company has incurred costs in relation to the restructure of the management of the company of \$120k in the half year to December 2007. There is a similar amount expected to be incurred in the following half year.

These items, along with the startup operating loss in the Davies Bakery Joint Venture (see Operations above), resulted in a reduction in NPBT of the company of \$674k for the half year to December 2007. (\$495k after tax)

Events occurring after reporting date

As at 31 December 2007, the Company had in place a finance facility which was due for renewal on 31 July 2008 (the "Facility"). On the basis that the Facility in place at the reporting date was due for renewal within 12 months of the reporting date, the Company has been required to classify interest bearing liabilities of \$57.5m, which were the subject of this Facility, as current liabilities for reporting purposes under the accounting standards.

On 21 February 2008, the Company had agreed an extension of its existing finance facility to 31 January 2009. Had this agreement been reached prior to the reporting date, the liabilities of \$57.5m, would have been classified as non-current liabilities. The Directors therefore do not consider the deficit in current assets over current liabilities as classified in the half year accounts to be reflective of the true working capital position of the Company.

On 4th February 2008, the Company sent shareholders a Notice of General Meeting to be held on 5 March 2008. The notice was accompanied by an Explanatory Memorandum. The purpose of the General Meeting is;

- To seek shareholder approval for a proposed restructure of the Company's shareholding with the ultimate aim of enabling unitholders in the Company's largest shareholder, the Rijs Family Trust, to hold shares directly in the Company, rather than beneficially through being a unitholder in the Rijs Family Trust, and
- To seek approval for the allocation of options to two of the Company's executive directors under the Patties Long Term Incentive Plan

The Company will be announcing the second round of the Exempt Employee Plan Offer (“the Offer”), under the Company’s existing Exempt Employee Share Plan. Eligible employees, who elect to accept the offer, will be issued with new shares in the Company in March 2008, up to a value of \$1,000, based on the weighted average trading price of the Company’s shares for a 5 day period at the close of the Offer period (expected to be on or around 14 March 2008).

Except for those items discussed above, no other matter or circumstance has arisen since 31 December 2007 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 attached condensed half year financial report contain all the information required by ASX listing rule 4.2A.

The financial result has been subject to a half year review by PricewaterhouseCoopers.

Further information contact:
Philip Thomas
Company Secretary
0408 352 065

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Patties Foods Limited

ABN 62 007 157 182

**Interim financial report
for the half-year ended 31 December
2007**

Contents

	Page
Directors' report	1
Financial report	4
Directors' declaration	16
Independent review report to the members	17

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Directors' report

Your directors present their report on the company for the half-year ended 31 December 2007.

Directors

The following persons were directors of Patties Foods Limited ("the Company") during the whole of the half-year and up to the date of this report:

Ernest W Barr
Richard C Rijs
Henricus J Rijs
Peter T Kempen
J Curt Leonard
Michele J Allan

Richard C Rijs ceased to be the Managing Director and Chief Executive Officer on 21 November 2007, but remains as a non-executive Director. Michele J Allan succeeded Mr Rijs as Managing Director and Chief Executive Officer effective 21 November 2007.

Dividends - Patties Foods Limited

Dividends paid to members during the financial period were as follows:

	2007 \$'000
Final ordinary dividend for the year ended 30 June 2007 of 4.4 cents per fully paid share paid on 10 October 2007	<u>6,118</u> <u>6,118</u>

Review of operations and activities

The Company has posted a strong result for the half year ended 31 December 2007 achieving revenue growth of 39% (2006 - 9%) compared to the corresponding half year. Revenue from the sale of goods was \$84.8m (2006 - \$61.1m) with net profit after tax of \$7.3m (2006 - \$5.6m).

Growth has been driven by a number of factors including revenue growth and increased market share in the retail sector, continued growth in the foodservice sector with the successful rollout of a dedicated field team, and the contribution from the Creative Gourmet Pty Ltd and Chefs Pride Pty Ltd businesses which were acquired on 31 May 2007.

The Company is progressing well in its capital expansion program for the production facilities at Bairnsdale, contributing the majority of the \$11.2m capital expenditure for the half year. This has been predominantly funded through existing debt facilities.

On 1 July 2007, the Company completed an investment in a 50% joint venture formed to enhance its production capabilities. The total consideration of \$7.7m for the investment was comprised of \$3.1m for the half year to 31 December 2007, as well as conversion of a loan, with a balance at 30 June 2007 of \$4.6m, to equity.

Matters subsequent to the end of the financial year

Classification of interest bearing liabilities

As at 31 December 2007, the Company had in place a finance facility which was due for renewal on 31 July 2008 ("the Facility"). On the basis that the Facility in place at the reporting date was due for renewal within 12 months of the reporting date, the Company has been required to classify interest bearing liabilities of \$57.5m, which were the subject of this Facility, as current liabilities for reporting purposes in accordance with AASB101 *Presentation of Financial Statements*.

On 21 February 2008, the Company had agreed an extension of its existing finance facility to 31 January 2009. Had this agreement been reached prior to the reporting date, the liabilities of \$57.5m, would have been classified as non-current liabilities. The Directors therefore do not consider the deficit in current assets over current liabilities as classified in the half year accounts to be reflective of the true working capital position of the Company.

General Meeting

On 4 February 2008 the Company sent Shareholders a Notice of General Meeting to be held on 5 March 2008. This notice was accompanied by an Explanatory Memorandum. The purpose of the General Meeting is:

- (a) to seek shareholder approval for a proposed restructure of the Company's shareholdings. This restructure has the ultimate aim of enabling Unitholders in the Company's largest shareholder, the Rijs Family Trust, to hold shares directly in the company, rather than beneficially through being a unitholder in the Rijs Family Trust, and
- (b) to seek approval for the allocation of options to two of the Company's Executive Directors under the Patties Long term Incentive Plan.

Matters subsequent to the end of the financial year (continued)

Exempt Employee Plan Offer

The Company will be announcing the second round of the Exempt Employee Plan Offer ("the Offer"), under the Company's existing Exempt Employee Share Plan ("the Plan"). The Plan was initially introduced to coincide with the Company's successful Initial Public Offering, dated 6 November 2006. Eligible Employees, who elect to accept the Offer, will be issued with new shares in the Company in March 2008, up to a value approximating \$1,000, based on the weighted average of the trading price of the Company's shares for a 5 day period at the close of the Offer period (expected to be on or around 14 March 2008).

Except for the above, no matter or circumstance has arisen since 31 December 2007 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 years, or
- (c) the Company's state of affairs in future financial years.

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 3.

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 and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.



Peter T. Kempen
Director

Melbourne
22 February 2008

PricewaterhouseCoopers
ABN 52 780 433 757


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Auditor's Independence Declaration

As lead auditor for the review of Patties Foods Limited for the half year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been:

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

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


Andrew Mill
Partner
PricewaterhouseCoopers

Melbourne
22 February 2008

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Contents

	Page
Interim financial report	
Income statement	5
Balance sheet	6
Statement of changes in equity	7
Cash flow statement	8
Notes to the financial statements	9
Directors' declaration	16
Independent review report to the members	17

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by Patties Foods Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This interim financial report covers the half year to 31 December 2007 and the corresponding half year to 31 December 2006.

Patties Foods Limited
Consolidated income statement
For the half-year ended 31 December 2007

		Half-year	
	Notes	2007 \$'000	2006 \$'000
Revenue from continuing operations			
Sale of goods	3	84,758	61,066
Other revenue from ordinary activities	3	<u>454</u>	<u>748</u>
		85,212	61,814
Other income	4	129	56
Expenses			
Cost of sales of goods		(51,616)	(35,312)
Other expenses from ordinary activities			
Sales logistics expenses		(7,290)	(5,568)
Marketing and selling expenses		(10,330)	(7,944)
Administration expenses		(3,985)	(2,322)
Other expenses		(252)	(244)
Finance costs	5	(2,116)	(2,453)
Share of net profits/(losses) of associated companies accounted for using the equity method		<u>(62)</u>	<u>-</u>
Profit before income tax		9,690	8,027
Income tax expense		<u>(2,428)</u>	<u>(2,446)</u>
Profit from continuing operations		<u>7,262</u>	<u>5,581</u>
Profit attributable to members of Patties Foods Limited		<u>7,262</u>	<u>5,581</u>
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:			
Basic and diluted earnings per share	13	5.2	5.0

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

Patties Foods Limited
Consolidated balance sheet
As at 31 December 2007

		31 December 2007 \$'000	30 June 2007 \$'000
	Notes		
ASSETS			
Current assets			
Cash and cash equivalents		1,287	2,651
Receivables		30,979	33,715
Inventories		<u>18,674</u>	<u>22,025</u>
Total current assets		<u>50,940</u>	<u>58,391</u>
Non-current assets			
Other financial assets		8,387	5,335
Property, plant and equipment		55,192	46,218
Deferred tax assets		3,212	3,525
Intangible assets		<u>78,537</u>	<u>78,303</u>
Total non-current assets		<u>145,328</u>	<u>133,381</u>
Total assets		<u>196,268</u>	<u>191,772</u>
LIABILITIES			
Current liabilities			
Payables		12,300	18,914
Borrowings	14	65,397	5,840
Provisions		2,867	2,806
Derivative financial instruments		6	435
Current tax liabilities		<u>295</u>	<u>2,031</u>
Total current liabilities		<u>80,865</u>	<u>30,026</u>
Non-current liabilities			
Borrowings	14	925	49,253
Deferred tax liabilities		7,481	6,935
Provisions		<u>137</u>	<u>143</u>
Total non-current liabilities		<u>8,543</u>	<u>56,331</u>
Total liabilities		<u>89,408</u>	<u>86,357</u>
Net assets		<u>106,860</u>	<u>105,415</u>
EQUITY			
Contributed equity	7	68,583	68,583
Reserves	8(a)	(4)	(305)
Retained profits	8(b)	<u>38,281</u>	<u>37,137</u>
Total equity		<u>106,860</u>	<u>105,415</u>

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

Patties Foods Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2007

	Notes	Half-year	
		2007 \$'000	2006 \$'000
Total equity at the beginning of the half-year		105,415	38,324
Changes in the fair value of cash flow hedges, net of tax	8	301	-
Profit for the half-year		7,262	5,581
Contributions of equity, net of transaction costs	6, 7	-	127,142
Buy-back of Cumulative Converting Preference Shares after conversion to ordinary shares	7	-	(67,725)
Dividends paid	9	(6,118)	(850)
Total equity at the end of the half-year		106,860	102,472

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

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Patties Foods Limited
Consolidated cash flow statement
For the half-year ended 31 December 2007

		Half-year	
Notes	2007	2006	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)	94,668	71,694	
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(81,564)</u>	<u>(63,736)</u>	
Income tax paid	13,104	7,958	
Borrowing costs paid	<u>(3,433)</u>	<u>(3,006)</u>	
Net cash inflow from operating activities	12 <u>7,636</u>	<u>2,484</u>	
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired	(313)	-	
Payments for property, plant and equipment	(10,983)	(14,080)	
Investment in associate	(3,114)	-	
Loans paid/(repaid) by related parties	179	3,309	
Proceeds from sale of property, plant and equipment	5	-	
Interest received	<u>117</u>	<u>451</u>	
Net cash (outflow) from investing activities	(14,109)	(10,320)	
Cash flows from financing activities			
Proceeds from issues of ordinary shares	-	96,882	
Proceeds from borrowings	12,558	-	
Payments for ordinary shares bought back	-	(67,725)	
Repayment of borrowings	(1,331)	(12,092)	
Dividends paid to company's shareholders	<u>(6,118)</u>	<u>(850)</u>	9
Net cash inflow from financing activities	5,109	16,215	
Net increase (decrease) in cash and cash equivalents	(1,364)	8,379	
Cash and cash equivalents at the beginning of the half-year	<u>2,651</u>	<u>992</u>	
Cash and cash equivalents at end of the half-year	1,287	9,371	

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

Contents of the notes to the financial statements

		Page
1	Summary of significant accounting policies	10
2	Segment information	10
3	Revenue	10
4	Other income	11
5	Profit for the half-year	11
6	Equity securities issued	12
7	Contributed equity	12
8	Retained profits	13
9	Dividends	13
10	Contingencies	14
11	Commitments	14
12	Reconciliation of profit after income tax to net cash inflow from operating activities	14
13	Earnings per share	15
14	Current/Non Current Liabilities - Borrowings	15

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1 Summary of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by Patties Foods Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(a) Basis of preparation of half-year financial report

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 periods presented, unless otherwise stated.

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 and certain classes of property, plant and equipment.

2 Segment information

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

3 Revenue

	Half-year ended	
	2007	2006
	\$'000	\$'000
From continuing operations		
<i>Sales revenue</i>		
Sale of goods	84,758	61,066
<i>Other revenue</i>		
Interest	117	451
Caravan Park income	337	297
	454	748
	85,212	61,814

4 Other income

	Half-year ended	
	2007 \$'000	2006 \$'000
Net gain on disposal of property, plant and equipment	5	-
Government grants	38	22
Royalties	36	32
Commission	2	2
Other	48	-
	<u>129</u>	<u>56</u>

5 Profit for the half-year

	Half-year ended	
	2007 \$'000	2006 \$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Buildings	247	-
Property, plant and equipment	1,755	1,934
Total depreciation	<u>2,002</u>	<u>1,934</u>
<i>Amortisation</i>		
Intangibles	79	-
<i>Employee benefits</i>		
Employee benefits expense	16,133	11,922
<i>Finance costs</i>		
Interest and finance charges paid/payable	2,116	2,453
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	1,008	928
<i>Provision against assets (refer to (a) below):</i>		
Trade receivables	450	-
Inventories	26	-
	<u>476</u>	<u>-</u>
<i>Management restructuring</i>		
Management restructuring provision	120	-

(a) Provision against assets

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

6 Equity securities issued

	2007 Shares	2006 Shares	2007 \$'000	2006 \$'000
Issues of ordinary shares during the half-year				
Employee share scheme issues	-	148,460	-	260
Ordinary shares issued, net of transaction costs *	-	58,551,768	-	96,882
Conversion of Cumulative Converting Preference Shares	-	19,052,580	-	30,000
	<u>-</u>	<u>77,752,808</u>	<u>-</u>	<u>127,142</u>

The issue of ordinary shares and the conversion of Cumulative Converting Preference Shares in the prior year was in relation to the company's successful Initial Public Offering which occurred on 6 November 2006 and offered in accordance with company's Prospectus dated 5 October 2006.

	Half-year ended	
	2007 \$'000	2006 \$'000
* Reconciliation of ordinary shares issued, net of transaction costs		
Ordinary shares issued (58,551,768 x \$1.75)	-	102,465
less: Transaction costs accounted for in Equity	-	(7,976)
add: Deferred tax assets on transaction costs	-	2,393
	<u>-</u>	<u>96,882</u>

7 Contributed equity

	31 December 2007 Shares	30 June 2007 Shares	31 December 2007 \$'000	30 June 2007 \$'000
(a) Share capital				
Ordinary shares				
Fully paid	<u>139,052,580</u>	<u>139,052,580</u>	<u>68,583</u>	<u>68,583</u>

(b) Movements in ordinary share capital

There has been no movement in the ordinary share capital for the half-year ended 31 December 2007.

(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.

8 Retained profits

	31 December 2007 \$'000	30 June 2007 \$'000
(a) Reserves		
Hedging reserve - cash flow hedges	<u>(4)</u>	<u>(305)</u>
Movements:		
<i>Hedging reserve - cash flow hedges</i>		
Balance at the beginning of the financial year	(305)	-
Revaluation - gross	429	(435)
Deferred tax	(128)	130
Balance	<u>(4)</u>	<u>(305)</u>

(b) Retained profits

Movements in retained profits were as follows:

	31 December 2007 \$'000	30 June 2007 \$'000
Retained profits at the beginning of the financial year	37,137	29,138
Profit for the year	7,262	12,744
Dividends	(6,118)	(4,745)
Balance	<u>38,281</u>	<u>37,137</u>

9 Dividends

Half-year ended	
2007	2006
\$'000	\$'000

(a) Ordinary shares

Final dividend for the year ended 30 June 2007 of 4.4 cents (2006 - .85 cents) per fully paid share paid on 10 October 2007 (2006 - 11 August 2006)

Fully franked based on tax paid @ 30%	<u>6,118</u>	850
Total dividends provided for or paid	<u>6,118</u>	<u>850</u>

(b) Dividends not recognised at the end of the half-year

In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 2.8 cents (2006 - 2.8 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 15 April 2008 out of retained profits at 31 December 2007, but not recognised as a liability at the end of the half-year, is

	<u>3,893</u>	<u>3,893</u>
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10 Contingencies

(a) Contingent liabilities

Australian Taxation Office audit

The Australian Taxation Office (ATO) began an audit in FY2006, of the company's tax returns in relation to preceding financial years. This audit also encompassed related party transactions between the company and its then parent entity, Gippsland Bakeries Pty Ltd as trustee for the Rijs Family Trust. At the date of issue of these financial statements, the audit remains in progress. During the course of the audit, the ATO has indicated a potential issue with the company, which, if this were crystallised, would result in the company incurring a tax liability of approximately \$200,000, excluding any deemed interest and penalties. To the extent that this potential under-payment relates to items which would be claimed in future periods, the company would record this amount as a deferred tax benefit, with the difference being recorded as a tax expense.

The company has not made any provision in the accounts for the potential liability because it remains of the view that it has a reasonably arguable position in response to the ATO's claims.

11 Commitments

(a) Capital commitments

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

	31 December 2007 \$'000	30 June 2007 \$'000
<i>Property, plant and equipment</i>		
Within one year	2,756	6,321
Later than one year but not later than five years	74	-
	<u>2,830</u>	<u>6,321</u>

(b) Inventory commitments

Commitments in relation to inventory purchases:

Within one year	8,240	8,955
Later than one year and not later than five years	-	707
	<u>8,240</u>	<u>9,662</u>

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

	Half-year ended	
	2007 \$'000	2006 \$'000
Profit for the year	7,262	5,581
Depreciation and amortisation	2,081	1,934
Change in operating assets and liabilities		
(Increase) decrease in trade debtors	2,735	2,575
Decrease (Increase) in inventories	3,351	(677)
(Increase) decrease in deferred tax assets	313	(2,097)
(Increase) decrease in other operating assets	(356)	145
(Decrease) increase in trade creditors	(6,615)	(4,079)
Increase (decrease) in provision for income taxes payable	(1,736)	(849)
Increase (decrease) in deferred tax liabilities	546	(8)
Increase (decrease) in other provisions	55	(41)
Net cash (outflow) inflow from operating activities	<u>7,636</u>	<u>2,484</u>

13 Earnings per share

	Half-year ended	
	2007 Cents	2006 Cents
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	5.2	5.0
Profit attributable to the ordinary equity holders of the company	5.2	5.0

(b) Reconciliations of earnings used in calculating earnings per share

	Half-year ended	
	2007 \$'000	2006 \$'000
<i>Basic earnings per share</i>		
Profit from continuing operations	7,262	5,581

(c) Number of shares used as the denominator

	Half-year ended	
	2007 Number	2006 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	139,052,580	111,885,567

Basis of calculation

For the half year ended 2006, calculated as 100,000,000 shares from 1 July 2006 to 2 November 2006, and 139,052,580 shares from 3 November 2006 to 31 December 2006.

For the half year ended 2007, calculated as 139,052,580 shares from 1 July 2007 to 31 December 2007.

14 Current/Non Current Liabilities - Borrowings

As at 31 December 2007, the Company had in place a finance facility which was due for renewal on 31 July 2008 ("the Facility"). On the basis that the Facility in place at the reporting date was due for renewal within 12 months of the reporting date, the Company has been required to classify interest bearing liabilities of \$57.5m, which were the subject of this Facility, as current liabilities for reporting purposes in accordance with AASB101 *Presentation of Financial Statements*.

On 21 February 2008, the Company had agreed an extension of its existing finance facility to 31 January 2009. Had this agreement been reached prior to the reporting date, the liabilities of \$57.5m, would have been classified as non-current liabilities. The Directors therefore do not consider the deficit in current assets over current liabilities as classified in the half year accounts to be reflective of the true working capital position of the Company.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 4 to 15 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 entity's financial position as at 31 December 2007 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-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.

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



Peter T Kempen
Director

Melbourne
22 February 2008

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**Independent Auditor's Review Report
to the members of Patties Foods Limited**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Patties Foods Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Patties Foods Limited Group (the consolidated entity). The consolidated entity comprises both Patties Foods Limited (the company) and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Patties Foods Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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**Independent Auditor's Review Report
to the members of Patties Foods Limited**

(continued)

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

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

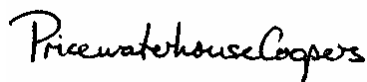
Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Patties Foods Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.



PricewaterhouseCoopers


Andrew Mill
Partner

Melbourne
22 February 2008

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