Patties Foods Ltd
ABN 62 007 157 182

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27 August 2012

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

Patties Foods Limited (PFL) - Results for announcement to the market - Year ended 30 June 2012

In accordance with the ASX Listing Rule 4.3A, the following information in respect of the year ended 30 June 2012 is transmitted for lodgement:

1. Year end report announcement

2. Appendix 4E - Preliminary Final Report and Dividend Announcement for the year ended 30 June 2012; and

3. Directors' Report and Financial Report for the year ended 30 June 2012.

Yours faithfully

MICHAEL KNAAP
Company Secretary

For further information refer to www.patties.com.au or contact:

Greg Bourke, Managing Director
03 8540 9100

2012 FINANCIAL YEAR RESULTS ANNOUNCEMENT

NET PROFIT AFTER TAX UP 6% TO $19.5m.
FULLY FRANKED ANNUAL DPS INCREASE OF 6.5% to 8.2c.

The Board of Patties Foods Limited (PFL) today announced the Company's financial result for the year ended 30 June 2012.

Group summary result

$m	FY2012	FY2011	% Change
Sales Revenue	$235.8	$216.8	8.8%
EBITDA	$38.7	$36.7	5.6%
EBIT	$31.6	$29.9	5.7%
NPAT	$19.5	$18.4	6.0%
EPS (cents)	14.0	13.2	6.1%
DPS (cents)	8.2	7.7	6.5%
Net Debt	$70.5	$59.7	(18.1%)
Cash Inflow from Operations	$9.4	$22.7	(58.6%)
Net Debt to Equity ratio	51.8%	46.4%	
Return on Equity (pa.) (1)	14.7%	14.8%	

(1) Return on Equity is calculated using the average equity over the financial year.

The Company again recorded increased earnings with 6.0% growth from the previous corresponding period in Net Profit after Tax (NPAT) to $19.5m for the full year to 30 June 2012.

Commenting on the results, PFL Chairman, Mr Chris Riordan said: "A 6% growth in earnings in difficult trading conditions is a pleasing result. The Board and management are committed to driving further earnings growth through continued and increased investment in our brands."

Managing Director, Mr Greg Bourke said, "It is pleasing to deliver another record trading result in FY12. In a trading environment where consumers continue to shop for value, strong revenue growth of 8.8% has been achieved through product innovation, new contracts and growth in branded products.

In the second half we started a number of new strategic initiatives including the installation of packing automation to drive further manufacturing efficiencies, an export growth plan, and the launch of new branded products."

Highlights for the year were:

- Maintained market share leadership in all categories.
- Continued reduction in manufacturing conversion costs from Continuous Improvement initiatives.
- The launch of 17 new branded products in Q4F12.
- Strong growth of Four'n Twenty brand in Out Of Home channels driven by growth in Petrol and Convenience retailers and sporting venues.
- Strong growth of Nanna's Frozen Fruit.
- Successfully integrated two national supply contracts, BP and RFG's Brumby's chain.
- A focus on new export opportunities

Dividend

A fully franked final dividend of 4.4 cents per share (FY11: 4.2 cps) has been declared. The total dividend per ordinary share for FY12 is 8.2 cps, an increase of 6.5% on the previous corresponding period (FY11: 7.7 cps). The record date for entitlement is 17 September 2012 and the payment date is 8 October 2012.

Capital Management

PFL maintains conservative gearing with a net debt to equity ratio[2] of 51.8% at 30 June 2012 (46.4% at 30 June 2011). Net Debt increased $10.8m to $70.5m (30 June 2011 $59.7m) to support up-weighted capital expenditure and working capital needs. Total net cash flow generated from operating activities in FY12 was $9.4m (FY11: $22.1m) being impacted by high May/June sales, inventory increase to support revenue growth and increased tax payments. Furthermore, interest cover[3] was strong at 6.5x representing an improvement on the previous corresponding period (FY11: 6.1x).

Outlook

Despite the continued challenging trading conditions and expected rising input costs, we are committed to driving further earnings growth through:

- Supporting and growing our strong brands. An increase in our research and development resources will assist in growing the pipeline of innovative new products;
- Disciplined control of costs;
- Developing new domestic sales channels;
- Growing export sales;
- Improved manufacturing efficiencies, including the benefit of the completed automation project.

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

About Patties Foods

Patties Foods Limited (ASX:PFL) listed in November 2006 and is the leading Australian-owned branded frozen food company, with market leadership in the frozen savoury, frozen dessert and frozen fruit segments.

Iconic brands in the Patties Foods portfolio include Four'N Twenty, Herbert Adams, Nanna's, Patties, Creative Gourmet and Chef's Pride. PFL manufactures and markets quality food products for the supermarket, petrol and convenience, catering and general foodservice channels in all parts of Australia.

Four'n Twenty is Australia's favourite pie. It is the number 1 branded range of pies in Australia across all retail markets including supermarkets and convenience stores. It is the number 1 selling pie at the footy being available at most major sporting venues in Australia.

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

Appendix 4E Preliminary Final Report

Name of entity

Patties Foods Limited

ABN or equivalent company reference: ABN 62 007 157 182

1. Reporting period

Report for the financial year ended	30 June 2012
Previous corresponding period is the financial year ended	30 June 2011

2. Results for announcement to the market

				A$'000
Revenue from ordinary activities *(item 2.1)*	up	8.8%	to	235,843
Earnings before interest, tax, depreciation & amortisation (EBITDA)	up	5.6%	to	38,691
Earnings before interest and tax (EBIT)	up	5.7%	to	31,640
Net profit (loss) from ordinary activities after tax attributable to members *(Item 2.2 & 2.3)*	up	6.0%	to	19,482

Dividends (*item 2.4*)	Date paid / payable	Amount per security	Franked amount per security
Interim dividend			
Current reporting period	13 APR 2012	3.8¢	3.8¢
Previous corresponding period	14 APR 2011	3.5¢	3.5¢
Final dividend			
Current reporting period	8 OCT 2012	4.4¢	4.4¢
Previous corresponding period	7 OCT 2011	4.2¢	4.2¢
Record date for determining entitlements to the final dividend (*item 2.5*):	17 September 2012		

Brief explanation *(item 2.6)*:
Please refer to the commentary in the review of operations and activities section of the directors' report and the 2012 Financial Year Results Announcement accompanying this Preliminary Final Report.

3. Statement of financial performance: see attached Financial Report

4. Statement of financial position: see attached Financial Report

5. **Statement of cash flows**: see attached Financial Report

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

	Current period $A'000	Previous corresponding period - $A'000
Interim Dividend Paid	$5,281	$4,862
Final Dividend Payable	$6,116	$5,838

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

8. **Statement of retained earnings**: see attached Financial Report

9. **Net tangible assets per security**

	Current period	Previous corresponding period
Net tangible asset backing (per share)	$0.41	$0.35
Net asset backing (per share)	$0.98	$0.92

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

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

	% Holding	**2012 A$'000**	**2011 A$'000**
Davies Bakery Pty Ltd	50%	$1,140	$713
Piper Partners Pty Ltd	50%	($12)	($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**
All significant information is disclosed in this appendix and its attachments

13. **Foreign Entities accounting standards**
Not Applicable

14. **Commentary on results for the period**
Please refer to the commentary in the review of operations and activities section of the director's report and the 2012 Financial Year Results Announcement accompanying this Preliminary Final Report.

15. **Audit of the financial report**

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

Patties Foods Limited

ABN 62 007 157 182

Annual report
for the year ended 30 June 2012

Patties Foods Limited ABN 62 007 157 182
Annual report - 30 June 2012

Contents

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

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Patties Foods Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2012.

Directors
Gregory J Bourke
Gregory J Dhnaram
J Curt Leonard
Henricus J Rijs
Richard C Rijs
Christopher J Riordan
John P Schmoll

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

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

	2012 $'000	2011 $'000
Final ordinary dividend for the year ended 30 June 2011 of 4.2 cents (2010-3.5 cents) per fully paid share paid on 7 October 2011	5,838	4,862
Interim ordinary dividend for the year ended 30 June 2012 of 3.8 cents (2011-3.5 cents) per fully paid share paid on 13 April 2012	5,281	4,862
	11,119	9,724

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final dividend of $6,116,000 (4.4 cents per fully paid) share expected to be paid on 8 October 2012. The dividend will be fully franked. Total dividends for FY2012 are therefore 8.2 cents per share (FY2011: 7.7 cents per share). The dividend payout ratio is 58% (FY2011: 58%).

Review of operations and activities
The Group's net profit after tax for the year ended 30 June 2012 (FY2012) amounted to $19,482,000, an increase of 6.0% on the previous corresponding period (FY2011: $18,381,000).

The key points of the improved result were:

- Continued strong revenue growth of 8.8% ($19,026,000) to $235,843,000;
- Continued manufacturing efficiencies;
- Competitive pricing pressure impacting margins; and
- Effective cost control notwithstanding an increased logistics costs to support the revenue growth.

The basic earnings per share were 14.0 cents (FY2011: 13.2 cents).

Further information is contained in the 2012 Financial Year Results Announcement accompanying the Financial Statements.

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

Matters subsequent to the end of the financial year

No other matter or circumstance has arisen since 30 June 2012 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

Despite the continued challenging trading conditions and expected rising input costs, we are committed to driving further earnings growth through:

- Supporting and growing our strong brands. An increase in our research and development resources will assist in growing the pipeline of innovative new products;
- Disciplined control of costs;
- Developing new domestic sales channels;
- Growing export sales;
- Improved manufacturing efficiencies, including the benefit of the completed automation project.

Environmental regulation

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

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

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

The National Greenhouse and Energy Reporting Act 2007 requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and submitted its 2010/11 report to the Greenhouse and Energy Data Officer on 25 October 2011.

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

Information on directors
Chris J Riordan LLB *Non-Executive Chairman.*

Experience and expertise
Over 22 years experience as a non-executive director of numerous public and private companies, including 12 years as a director (7 as Chairman) of SPC LTD., 4 years (3 years as Deputy Chairman) as a director of Golden Circle Ltd. and 6 years as a director of Wingara Wine Group Pty Ltd. Chris is a practising lawyer with over 40 years of experience specialising in commercial and corporate law.

Other current directorships
Chairman, Radio Rentals Limited & Australian Glass Group Pty Ltd.

Former directorships in last 3 years
None.

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

Interests in shares and options
130,372 ordinary shares in Patties Foods Limited.

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

Experience and expertise
Non-executive director since 2003.
Over 31 years experience working with the Mars Group, including General Manager of Mars Confectionery, Managing Director of Uncle Bens and Managing Director of Mars Australia and New Zealand.
Served as President, Asia Pacific, of all Mars business and Director of the Managing Board of Mars Incorporated global business.

Other current directorships
None.

Former directorships in last 3 years
Non-executive director of Select Harvests Limited (2004-2008).
Chairman of Select Harvests Limited (2008-2012).

Special responsibilities
Deputy Chairman of the Board
Member of Remuneration and Nomination Committee.

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

Information on directors (continued)
Gregory J Bourke BBus, CPA, MBA, AICD *Managing Director*.

Experience and expertise
Over 30 years experience in finance and general management executive roles including 20 years at George Weston Foods Ltd in Australia and New Zealand, serving as Chief Financial Officer of Don's Smallgoods, Southern Regions General Manager Weston Milling Australia and Group General Manager of Weston Milling New Zealand.

Other current directorships
Davies Bakery Pty Ltd.
Australian Food and Grocery Council

Former directorships in last 3 years
None

Special responsibilities
Managing Director.

Interests in shares
367,500 ordinary shares in Patties Foods Limited.

Gregory J Dhnaram *Non-Executive Director*

Experience and expertise
Currently Chief Executive Officer of Favco Group.
30 years experience with a major Australian supermarket chain, including a number of senior positions at both State and National levels.
Extensive experience in buying, marketing, operations, strategic planning and all aspects of retail.

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

Former directorships in last 3 years
None.

Special responsibilities
Member of Audit and Risk Committee.

Interests in shares
200,000 ordinary shares in Patties Foods Limited.

Information on directors (continued)
Henricus J Rijs *Non-Executive Director*

Experience and expertise
A director since 1989.
A son of the founders of Patties Foods Ltd, Harry joined the family business in 1972 as an apprentice pastry cook and gained hands-on experience in the Baking industry.
Over his four decades at Patties, he gained broad experience in manufacturing, selling, marketing and distribution and held senior management positions in these areas, including sales and marketing manager and deputy managing director.
Resigned as Executive Director and appointed Non-executive director on 1 July 2011.

Other current directorships
Davies Bakery Pty Ltd and Chairman of the Committee for Gippsland.

Former directorships in last 3 years
None

Special responsibilities
Member of Audit and Risk Committee.

Interests in shares
8,177,277 ordinary shares in Patties Foods Limited.

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, dispatch, sales and distribution.

Other current directorships
None.

Former directorships in last 3 years
Davies Bakery Pty Ltd.

Special responsibilities
Member of Remuneration and Nomination Committee.

Interests in shares
14,504,950 ordinary shares in Patties Foods Limited.

Information on directors (continued)
John P Schmoll BComm, FCA, FAICD *Non-Executive Director*

Experience and expertise
Mr. Schmoll completed his executive career on his retirement in 2002 as Chief Financial Officer of Coles Myer Ltd. Prior to this he held senior corporate and professional roles in Australia and South Africa including Arthur Young and Edgars Stores Ltd (South Africa’s largest apparel and home wares retailer). Since his retirement he has accepted various non-executive director positions and undertaken some executive coaching roles. Accordingly he brings to Patties over 35 years of experience in finance, investor relations, information technology and corporate governance, primarily in the distribution and financial sectors.

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

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

Special responsibilities
Chairman of Audit and Risk Committee.

Interests in shares
90,000 ordinary shares in Patties Foods Limited.

Company secretary
Michael Knaap was appointed as company secretary of Patties Foods Ltd (PFL) with effect from 29 February 2012. Michael has held the position of Chief Financial Officer at PFL since 16 February 2009.

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 2012, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees			
			Audit and Risk		Remuneration and Nomination	
	A	B	A	B	A	B
Chris J Riordan	12	12	1	1	3	3
J Curt Leonard	11	12	*	*	3	3
Gregory J Bourke	12	12	*	*	*	*
Gregory J Dhnaram	10	12	3	4	*	*
Henricus J Rijs	12	12	3	3	*	*
Richard C Rijs	11	12	*	*	2	3
John Schmoll	12	12	4	4	*	*

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 non-executive director
** = Not a member of the relevant committee

Remuneration report
The directors present the remuneration report for the year ended 30 June 2012.
The information provided in this remuneration report has been audited as required by section 300A of the *Corporations Act 2001*.

Voting and comments made at the Group's 2011 Annual General Meeting
Patties Foods Limited received more than 98% of "yes" votes on its remuneration report for the 2011 financial year. The Group did not receive any comments at the AGM or throughout the year on its remuneration practices.

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

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

The Board has established a Remuneration and Nomination Committee (Committee) to assist the Board by providing advice in relation to the remuneration packages for key management personnel, which includes non-executive directors and specified senior executives. The charter of the Committee is available on the Company's website. The Committee receives both internal and external advice to assist it in the regular review and decisions relating to remuneration. During FY2012 the Committee received advice from Ernst & Young (E&Y) to assist it in reviewing the long-term incentive plan for the senior executives. The process for the appointment of E&Y and the provision of its advice to the Committee were in accordance with the requirements introduced by recent amendments to the Corporations Act 2001 in relation to remuneration recommendations for key management personnel(ss. 206K and 206L). During the year ending 30 June 2012 no remuneration recommendations as defined by the Corporations Act, were provided by E&Y. The Corporate Governance Statement provides further information on the role of this Committee and the engagement of remuneration consultants.

Key management personnel
In addition to the non-executive directors, listed on page 1 of the Directors' Report, the following senior executives are members of the Patties Leadership Team (PLT) and are regarded as the key management personnel of the Group who have authority and responsibility for planning, directing and controlling the activities of the Group.

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

Senior executive remuneration
The remuneration for senior executives, who are key management personnel, is structured with the following three components:

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

Remuneration report (continued)
Senior executive remuneration (continued)
The combination of these elements comprises each executive's total remuneration.

The Committee review executive remuneration annually taking into account Group performance, executive performance and comparative information from other listed companies in similar industries and the broader market. The objective is that each executive's total remuneration will be market competitive and reflective of performance. In addition, the Committee monitors and reviews the remuneration structure for the senior executives to ensure the continued alignment and balance between Company performance and the potential reward.

The Committee and the Board believe that the above remuneration policy continues to be appropriate to guide the remuneration arrangements for senior executives. However, within this context, the Committee engaged E&Y in 2012 to provide information and advice to support adjustments to the long-term incentive for FY2013. Information on these changes is provided in this report.

Total fixed remuneration
Total Fixed Remuneration (TFR) includes base salary, superannuation and other fixed benefits. Each year, the Committee reviews the performance and TFR for the Managing Director and the Managing Director reviews the performance and TFR for other Senior Executives and provides any recommendations for adjustments to the Committee.

Senior Executives may elect to sacrifice some of their base salary to increase payments towards superannuation or to salary package a motor vehicle.

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

The Managing Director may receive an incentive payment of up to 25%, with other members of the PLT being able to receive an incentive payment of up to 18% of TFR. Other senior managers may achieve up to 10% of their TFR if all key performance measures are achieved.

Details of the STIP payments to the Patties Leadership Team are provided on pages 15 to 20.

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

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

The Board made the initial grant to Senior Executives under the LTIP on 2 December 2009. The grant of options to the Managing Director was subject to approval by shareholders which was granted at the Annual General Meeting held on 25 November 2010. Subsequent grants have been made to two senior executives who commenced as key management personnel in 2010 (the grants in 2009 and 2011 are referred to as the "Initial Grants").

Remuneration report (continued)
Senior executive remuneration (continued)
Long-term incentive plan (LTIP) - Initial Grants (continued)
The following provides a summary of key aspects of the Initial Grants:

Date of Grant	2 December 2009(1)(2)
Strike Price	The strike price is determined by calculating the volume weighted average price (VWAP) for the Group for the periods below. • For options granted on 2 December 2009 it was calculated from 1 July 2009 to 2 December 2009 with a value of $0.90; • For options granted on 28 January 2010 it was calculated from 18 January 2010 to 27 January 2010 with a value of $1.33. • For options granted on 22 October 2010 it was calculated from 1 October 2010 to 22 October 2010 with a value of $1.36.
Performance Hurdle	Achievement of specified compound annual earnings per share growth (EPS Growth). EPS is the base earnings per share on a normalised basis. The base year for determining the EPS Growth calculations is FY 2009 (8.5 cents).
Performance Periods	Options may vest over two performance periods: • Tranche 1: 50% based on EPS Growth over three consecutive years ending FY2012 (For options granted on 22 October 2010 performance period ends FY2013); • Tranche 2: 50% based on EPS Growth over four consecutive years ending FY2013.
Vesting Acceleration Events	Subject to any necessary shareholder approval that may be required, there are certain vesting acceleration events on certain types of termination of employment (including retirement from office but excluding resignation or dismissal for cause, in which event options lapse) as well as on a Change of Control of the Group. In determining any accelerated vesting, the Board will take into consideration the achievement of the Performance Hurdles (on a pro-rata basis).

(1) The grant date for T Peters, Head of Sales, was 28 January 2010.
(2) The grant date for M Kluver, General Manager Logistics & Customer Services, was 22 October 2010.
(3) Each option granted is for one ordinary share.

Remuneration report (continued)
Senior executive remuneration (continued)
Long-term incentive plan (LTIP) - Initial Grants (continued)
The following table provides details of the vesting schedule for options granted:

Granted in: FY2010	
First Tranche - Period ending FY2012	
EPS Growth over 3 years period	**Proportion of options vesting**
Less than 23% per annum	0%
Equal to 23% per annum	50%
Greater than 23% per annum but less than 26% per annum	Proportionate vesting in a straight line between 50% and 100%
26% per annum or greater	100%
Second Tranche Period ending FY2013	
EPS Growth over 4 years period	**Proportion of options vesting**
Less than 19.5% per annum	0%
Equal to 19.5% per annum	50%
Greater than 19.5% per annum but less than 23.5% per annum	Proportionate vesting in a straight line between 50% and 100%
23.5% per annum or greater	100%

Granted in: FY2011	
First Tranche - Period ending FY2013	
EPS Growth over 3 years period	**Proportion of options vesting**
Less than 12.7% per annum	0%
Equal to 12.7% per annum	50%
Greater than 12.7% per annum but less than 17.8% per annum	Proportionate vesting in a straight line between 50% and 100%
17.8% per annum or greater	100%

Remuneration report (continued)
Senior executive remuneration (continued)
Long-term incentive plan (LTIP) - Initial Grants (continued)

Review of senior executive remuneration structure
The Board has focused on providing a strong alignment between the performance of the Company and the potential rewards received by senior executives. To ensure this continued alignment, the Committee has undertaken a review of both the STIP and LTIP and has recommended to the Board amendments to both these plans, which the Board has approved. These amendments do not change the remuneration policy of the Board, but strengthen this alignment for FY2013 and beyond.

Short-term incentive plan (STIP)
The Board believes that the current key performance measures, being Financial, Business Process Improvement, Customer and People measures, are the key drivers of trading performance and are directly linked to the potential STIP reward for the senior executives. To further align the STIP structure with the creation of shareholder value and the annual performance of the Company, the Board has decided that for FY2013, the total STIP will be based on the Company's performance for the full financial year. A threshold level of Company EBIT financial performance for the full year must be achieved before any payment is made under the STIP. The opportunity to earn part of the STIP based on the first half-year performance to 31 December has therefore been removed.

LTIP - FY13 Grant
No grant has been made to senior executives under the LTIP since the Initial Grants. The final performance period for the Initial Grants ends on 30 June 2013. The EPS hurdles for Tranche 1 were not achieved at the end of FY2012, therefore, these options have now lapsed and Tranche 2 will be tested at the end of FY2013 with no vesting expected to occur.

The Board considers that the LTIP is an important component of the remuneration structure for the senior executives, which aligns them with the strategy and long-term performance of the Company. The Board has reviewed the operation of the LTIP, including receiving information and advice from E&Y for consideration on the design of the LTIP for future grants. In undertaking this review the Board has considered:

- the future strategy for the Company
- the key measures to align achievement of long term performance, creation of value and the reward to executives
- changes in market practice and legislation that have impacted on the design of equity plans
- establishment of a strong market peer group against which performance may be assessed,

and formulated a grant of Performance Rights in FY13 (FY13 Grant).

Remuneration report (continued)
Review of senior executive remuneration structure (continued)
LTIP - FY13 Grant (continued)

No LTIP grant was made to senior executives in FY12 and the quantum and structure of the FY13 Grant will reflect this. Taking into account the current position of the company, the Board concluded that the use of Performance Rights is the most effective on-going long term incentive for key executives. Further, the introduction of a relative TSR Performance Hurdle alongside the continuing use of the EPS Performance Hurdle provides the appropriate balance between relative and absolute company performance.

The Board has adopted a transitional vesting approach for the initial grant under the FY13 Grant. For the grant to be made during FY2013, a small proportion of the Rights (Tranche 1 - 20%) will vest two years following the grant date (based on performance from 1 July 2011 to 30 June 2014) and the remainder (Tranche 2 - 80%) will vest three years following the grant date (based on performance from 1 July 2012 to 30 June 2015).

For any future grants under the LTIP, it is expected that the vesting period will be no less than 3 years.

The key features of the FY13 Grant are:

1 Consideration for the Rights

The Performance Rights will be granted for nil consideration.

2 Tranches

The relevant number of Performance Rights will be divided into 2 tranches as follows:

• First Tranche: 20% of the total grant will vest on the second anniversary of the grant date based on the performance period 1 July 2011 to 30 June 2014; and
• Second Tranche: 80% of the total grant will vest on the third anniversary of the grant date based on the performance period 1 July 2012 to 30 June 2015.

3 Performance Hurdles

Vesting of the Performance Rights is dependent on two discrete performance measures:

• Earnings per Share (EPS) representing 50% of the total grant; and
• Relative Total Shareholder Return (TSR) representing 50% of the total grant.

4 Vesting Schedule

4.1 EPS Vesting Schedule

EPS (basic earnings per share on a normalised basis) performance of the Group will be measured on a compound annual growth in EPS of the Group over the relevant 3 year Performance Period stated as a percentage (EPS Growth Percentage). If the EPS Growth Percentage over the relevant Performance Period is:

(a) less than 8% per annum, no Performance Rights subject to the EPS performance measure (EPS Rights) will vest;

(b) 8% per annum, 50% of the EPS Rights will vest;

(c) 12% per annum or more, 100% of the EPS Rights will vest; or

(d) greater than 8% per annum but less than 12% per annum, the number of EPS Rights that vest will be determined proportionately on a straight line basis from 50% to 100%.

The Board may in its discretion adjust the required EPS Growth Percentage to take into account events including without limitation, acquisitions or disposals of businesses or capital assets by the Group during the performance period.

Remuneration report (continued)
Review of senior executive remuneration structure (continued)
LTIP - FY13 Grant (continued)

4.2 TSR Vesting Schedule

TSR of the Group will be measured against selected companies within the Consumer Staples GICS Sector - food Products sub-Industry Sector with a market capitalisation of 10% to 800% of the Group's market capitalisation at the grant date. The Board may in its discretion adjust the comparator group to take into account events including without limitation takeovers, mergers, delistings or demergers that occur during the performance period if relative TSR performance of the Group against the comparator group is:

(a) below median performance, no Performance Rights subject to the TSR performance measure (TSR Rights) will vest;

(b) at median performance, 50% of the TSR Rights subject to TSR will vest;

(c) above median performance but below the 75th percentile, an additional 2% (or part thereof) of the TSR Rights will vest for each 1 percentile increase (or part thereof) above the 50th percentile; or

(d) at or above the 75th percentile, 100% of the TSR Rights will vest.

5 Vesting Acceleration Events

Under the terms of the Plan, there will be, subject to any necessary shareholder approval, certain vesting acceleration events on certain types of termination of employment (excluding resignation or dismissal for cause, in which event Performance Rights lapse) as well as on a Change of Control of the Group. In determining the extent of any accelerated vesting, the Board will take into consideration the achievement of the performance hurdles (on a pro-rata basis).

The terms and grant of Performance Rights for the Managing Director will be presented to the Annual General Meeting in November 2012 for approval by shareholders.

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

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

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

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

The Chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The Chairman's remuneration is inclusive of additional yearly fees for chairing Board committees. The fees for the non-executive directors, including the chairman were increased from 1 April 2011. There has been no increase in the fees, or the aggregate fee pool during FY2012.

Remuneration report (continued)
Non-executive director remuneration (continued)
The following provides a summary of the non-executive director annual fees (including superannuation contributions):

Board Fees	**Chairman**	**Directors**
Board	$154,500	$70,000
Committee fees	**Committee Chair**	**Committee Member**
Audit and Risk	$10,500	n/a
Remuneration and Nomination	Covered by Chairman's fee (1)	nil

(1) If a non-executive director, other than the Chairman, is appointed to the role of chairman of the Remuneration and Nomination Committee he/she will receive an additional fee of $5,500.

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.

Linking group performance to executive remuneration
The following tables provide a summary of Group performance and executive reward earned over the past five years.

Group financial performance

	FY2008	**FY2009**	**FY2010**	**FY2011**	**FY2012**
Revenue	$164.0m	$179.2m	$196.9m	$216.8m	$235.8m
EBIT (underlying)	$23.9m	$21.0m	$26.8m	$29.9m	$30.8m
NPAT (underlying)	$15.0m	$11.8m	$16.8m	$18.4m	$19.5m
Dividends Per Share	7.3 cents	4.5 cents	6.5 cents	7.7 cents	8.2 cents
EPS	10.8 cents	8.1 cents	11.3 cents	13.2 cents	14.0 cents
Share price at 30 June	$1.04	$0.68	$1.08	$1.71	$1.605

- underlying results used in FY2008 - FY2010, no adjustments made to FY2011 and FY2012.

STIP payment
The STIP is designed to align the reward for executives with the performance of the Group. Each year the Board establishes challenging performance targets as the basis for the STIP . The STIP for FY2012 enabled up to 40% of target STIP to be earned based on performance to 31 December 2011, with the balance subject to the achievement of the full year results to 30 June 2012. The pre-requisite EBIT financial result was achieved for the half-year, with 25.5% of the target STIP being paid. As the pre-requisite EBIT financial performance was not achieved for the full FY2012, no further payments have been made to senior executives under the STIP for FY2012.

The following table provides the average percentage of maximum STIP payments made to the key management personnel for each of the past five years.

	FY2008	**FY2009**	**FY2010**	**FY2011**	**FY2012**
STI % of Maximum	0%	0%	87%	0%	25.5%

Remuneration report (continued)
STIP payment (continued)

Long-term incentive performance
The Initial Grants provides for up to 50% of the options which have been granted, to vest subject to the pre-determined EPS hurdle being achieved at the end of FY2012 (Tranche 1). The remaining 50% of the options are measured against the pre-determined EPS hurdle for the fours years ending in FY2013 (Tranche 2).

The EPS hurdles for Tranche 1 were not achieved at the end of FY2012. Therefore, these options have now lapsed and an adjustment has been made to the accounts in accordance with the Accounting Standards. In addition, the Board has determined that the remaining options (Tranche 2) are unlikely to achieve the required EPS hurdle in FY2013, and therefore no expense will be booked for Tranche 2 for FY2012 and an adjustment has been made to expenses booked for Tranche 2 in previous years.

Senior management remuneration mix
The following table shows the proportional weighting of each element of remuneration for each of the senior executives based on target performance:

Name	Fixed remuneration (%)		Short Term Incentive (%)		Long term Incentive (%)(1)	
	2012	2011	**2012**	2011	**2012**	2011
G Bourke	**72.6%**	68.5%	**18.2%**	12.3%	**9.2%**	19.1%
M Knaap	**76.4%**	68.8%	**13.7%**	11.0%	**9.9%**	20.2%
G Leyden	**75.1%**	66.5%	**13.5%**	10.6%	**11.4%**	22.8%
T Peters	**78.9%**	72.8%	**14.2%**	11.6%	**6.9%**	15.5%
M Connolly	**79.0%**	73.0%	**14.2%**	11.7%	**6.8%**	15.3%
J Pentney	**79.2%**	74.2%	**14.3%**	11.9%	**6.5%**	13.9%
M Kluver	**80.0%**	82.8%	**14.4%**	13.2%	**5.6%**	3.9%

(1) The LTIP value is based on the accounting value of Tranche 2 equity pro-rata for FY2012. Tranche 1 options have lapsed and an adjustment has been made to the accounts in accordance with the Accounting Standards.

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

2012	**Short-term employee benefits**			**Post-employment benefits**	**Long-term benefits**	**Share-based payments**	
Name	**Cash salary and fees** $	**Short term incentive** $	**Non-monetary benefits (1)** $	**Super-annuation** $	**Long service leave** $	**Options** $	**Total** $
Non-executive directors							
Chris J Riordan - Chairman	154,500	-	-	-	-	-	154,500
John P Schmoll	73,853	-	-	6,647	-	-	80,500
Gregory J Dhnaram	53,517	-	-	16,483	-	-	70,000
Richard C Rijs	18,073	-	-	51,927	-	-	70,000
J Curt Leonard	34,102	-	-	35,898	-	-	70,000
Henricus J Rijs(2)	65,003	-	-	5,850	-	-	70,853
Sub-total non-executive directors	**399,048**	**-**	**-**	**116,805**	**-**	**-**	**515,853**
Executive directors							
Gregory J Bourke	438,663	27,690	-	48,837	2,603	(129,742)	388,051
Senior Executives							
Tim Peters	259,200	-	-	46,800	-	(57,673)	248,327
Michael Knaap	274,992	17,485	-	15,775	1,304	(77,900)	231,656
Grant Leyden	233,105	13,485	32,821	15,775	2,935	(77,900)	220,221
Jeff Pentney	222,846	14,860	-	21,476	-	(38,950)	220,232
Mark Connolly	201,260	13,868	-	15,775	4,624	(38,950)	196,577
Mark Kluver	154,087	12,176	23,576	17,647	4,487	(6,130)	205,843
Sub-total senior executives	**1,784,153**	**99,564**	**56,397**	**182,085**	**15,953**	**(427,245)**	**1,710,907**
Total key management personnel compensation (Group)	**2,183,201**	**99,564**	**56,397**	**298,890**	**15,953**	**(427,245)**	**2,226,760**

(1) Includes fringe benefits tax, the value of shares purchased under the Employee share scheme and other non-cash benefits (excluding superannuation).
(2) H Rijs received $853 as salary and superannuation and $11,910 being accrued annual leave when he ceased employment as a senior executive on 1 July 2011.

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

Remuneration report (continued)
Remuneration tables (continued)

2011	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	**Cash salary and fees**	**Short term incentive**	**Non-monetary benefits (1)**	**Super-annuation**	**Long service leave**	**Options**	**Total**
	$	$	$	$	$	$	$
Non-executive directors							
Chris J Riordan - Chairman	151,125	-	-	-	-	-	151,125
John P Schmoll	66,628	-	-	5,997	-	-	72,625
Gregory J Dhnaram	57,305	-	-	5,157	-	-	62,462
Richard C Rijs	29,805	-	-	32,657	-	-	62,462
J Curt Leonard	-	-	-	62,462	-	-	62,462
Ernest W Barr(2)	30,000	-	-	-	-	-	30,000
Sub-total non-executive directors	**334,863**	**-**	**-**	**106,273**	**-**	**-**	**441,136**
Executive directors							
Gregory J Bourke	410,855	-	-	54,167	-	35,867	500,889
Henricus J Rijs	73,301	-	-	15,978	3,391	-	92,670
Senior Executives							
Tim Peters	278,124	-	-	26,876	-	30,608	335,608
Michael Knaap	252,899	-	-	31,268	-	28,900	313,067
Grant Leyden	211,254	-	17,978	14,768	-	28,900	272,900
Jeff Pentney	203,183	-	9,713	19,484	-	14,450	246,830
Mark Connolly	181,951	-	23,001	15,246	8,797	14,450	243,445
Mark Kluver(3)	142,908	-	27,350	14,470	922	6,130	191,780
Sub-total senior executives	**1,754,475**	**-**	**78,042**	**192,257**	**13,110**	**159,305**	**2,197,189**
Total key management personnel compensation (group)	**2,089,338**	**-**	**78,042**	**298,530**	**13,110**	**159,305**	**2,638,325**

(1) Includes fringe benefits tax, the value of shares purchased under the Employee share scheme and other non-cash benefits (excluding superannuation).
(2) E Barr retired on 17 December 2010.
(3) M Kluver commenced in his role as a senior executive on 1 October 2010.

STIP payments to key management personnel for FY2012
Details are set out in the table below. Payments to Senior Executives vary based on individual performance and results achieved.

Name	**Maximum Potential STI**	**Achieved FY2012**	**% of the Maximum Potential**	**% forfeited**
	($)	**($)**		
G Bourke	122,850	27,690	22.5%	77.5%
M Knaap	52,510	17,485	33.3%	66.7%
G Leyden	44,945	13,485	30.0%	70.0%
T Peters	55,080	-	0%	100.0%
M Connolly	39,667	13,868	35.0%	65.0%
J Pentney	41,273	14,860	36.0%	64.0%
M Kluver	33,988	12,176	35.8%	64.2%

As the pre-requisite financial performance was not achieved for the full FY2012, STIP payments made to senior executives reflect payments made for the first half year only. For FY2013 all STIP payments will be based on the Company’s performance for the full financial year.

Managing director and senior executives' long-term incentives
The following tables provide the details of options allocated to the key management personnel pursuant to the LTIP. The grant of options to the Managing Director was approved by shareholders at the annual general meeting on 25 November 2010 in accordance with Listing Rule 10.14.

Remuneration report (continued)
Managing director and senior executives' long-term incentives (continued)
Accounting value of all LTI equity instruments

Name	Date of Grant	No. of options	Total Accounting Value FY2012	Accounting value as % of Total Remuneration (1)
			($)	(%)
G Bourke	25 Nov 2010	1,200,000	(129,742)	(33.7)
M Knaap	3 Dec 2009	600,000	(77,900)	(33.8)
G Leyden	3 Dec 2009	600,000	(77,900)	(42.2)
T Peters	28 Jan 2010	600,000	(57,673)	(23.2)
M Connolly	3 Dec 2009	300,000	(38,950)	(19.7)
J Pentney	3 Dec 2009	300,000	(38,950)	(17.7)
M Kluver	1 Oct 2010	150,000	(6,130)	(3.1)

(1) The EPS hurdles for Tranche 1 were not achieved at the end of FY2012, therefore, these options have now lapsed and an adjustment has been made to the accounts in accordance with the Accounting Standards. In addition, the Board has determined that the remaining options (Tranche 2) are unlikely to achieve the required EPS hurdle in FY2013 and therefore no expense will be booked for Tranche 2 for FY2012 and an adjustment has been made to expenses booked for Tranche 2 in previous years . This has resulted in a negative accounting value for FY2012. The percentage of Total Remuneration represents the negative value of the LTI as a proportion of the Total Remuneration for FY2012.

Number of equity instruments granted and vested in FY 2012

Name	Options	Options Granted	Options Vested	Options Lapsed	Balance
	30 June 2011				30 June 2012
G Bourke	1,200,000	-	-	600,000	600,000
M Knaap	600,000	-	-	300,000	300,000
G Leyden	600,000	-	-	300,000	300,000
T Peters	600,000	-	-	300,000	300,000
M Connolly	300,000	-	-	150,000	150,000
J Pentney	300,000	-	-	150,000	150,000
M Kluver	150,000	-	-	-	150,000

(1) Tranche 1 of the 2010 grant had a performance period from 1 July 2009 to 30 June 2012 with a vesting date of 2 December 2012. As the performance hurdle for this tranche has not been met as at 30 June 2012, these options have now lapsed.

Remuneration report (continued)
Managing director and senior executives' long-term incentives (continued)
Value of options granted, exercised and expired/forfeited in FY 2012

Name	Financial Year	Fair value at grant date per share - Tranche 1	Fair value at grant date per share - Tranche 2	Exercised	Accounting Value Expired / forfeited (1)
		($) per share	($) per share	($)	($)
G Bourke	2012	-	-	-	-
	2011	-	-	-	-
	2010	0.41	0.42	-	246,000
M Knaap	2012	-	-	-	-
	2011	-	-	-	-
	2010	0.48	0.48	-	144,000
G Leyden	2012	-	-	-	-
	2011	-	-	-	-
	2010	0.48	0.48	-	144,000
T Peters	2012	-	-	-	-
	2011	-	-	-	-
	2010	0.34	0.37	-	102,000
M Connolly	2012	-	-	-	-
	2011	-	-	-	-
	2010	0.48	0.48	-	72,000
J Pentney	2012	-	-	-	-
	2011	-	-	-	-
	2010	0.48	0.48	-	72,000
M Kluver	2012	-	-	-	-
	2011	-	0.27	-	-
	2010	-	-	-	-

(1) As Tranche 1 options have lapsed, the accounting expense previously attributed to these options has been adjusted in FY2012 with the full fair value forfeited.

Remuneration report (continued)

Details of remuneration: Share-based compensation benefits

The options vest after three years, provided the vesting conditions are met. No options will vest if the conditions are not satisfied. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Share-based compensation benefits (options)

Name	Year granted	Vested %	Forfeited (1) %	Financial years in which options may vest	Maximum total value of grant yet to vest (2) $
G Bourke	2010		50	30/6/2014	252,000
M Knaap	2010		50	30/6/2014	144,000
G Leyden	2010		50	30/6/2014	144,000
J Pentney	2010		50	30/6/2014	72,000
M Connolly	2010		50	30/6/2014	72,000
T Peters	2010		50	30/6/2014	111,000
M Kluver	2011		-	30/6/2014	40,500

(1) Tranche 1 of the LTIP reached the end of the performance period at 30 June 2012. The hurdle was not achieved and these options were forfeited.

(2) While the senior executives continue to hold Tranche 2 options under the LTIP, the Board has determined that it is unlikely that the performance hurdle will be achieved by 30 June 2013. The table above shows the full value of these options, none of which have been expensed as they remain live for FY2013.

Shares under option
Unissued ordinary shares of Patties Foods Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
2 December 2009	2 December 2016	$0.90	1,500,000
27 January 2010	2 December 2016	$1.33	300,000
22 October 2010	2 December 2016	$1.36	150,000
			1,950,000

Loans to directors and executives
There are no loans to directors or executives at 30 June 2012 other than loans to executives of up to $1,000 under standard terms of the Group's exempt employee share plan, see note 27 .

Prohibition on hedging by key management personnel
The Group has adopted a policy which prohibits key management personnel and their closely related parties from entering into an arrangement that has the effect of limiting the exposure of a member of the key management personnel to risk relating to an element of that member's remuneration. The policy complies with the requirements of s.206J of the Corporations Act 2001.

Insurance of officers
During the financial year, Patties Foods Limited paid a premium of $31,003 (2011: $41,271) to insure the directors and secretary of the Group 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 willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

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

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

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

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

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23 .

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

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

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

Chris J Riordan
Chairman

Melbourne
27 August 2012

Auditor’s Independence Declaration

As lead auditor for the audit of Patties Foods Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

John O'Donoghue
Partner
PricewaterhouseCoopers

Melbourne
27 August 2012

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Corporate governance statement

The Patties Foods Limited board of directors (Board) is committed to achieving best practice in the area of corporate governance and business conduct. This statement outlines the main corporate governance principles and practices followed by Patties Foods Limited.

The Group's corporate governance practices were in place throughout the year ended 30 June 2012. The Board is comfortable that the practices are appropriate for a company of Patties Foods' size. Below are the main corporate governance practices in place (unless otherwise stated) throughout the reporting period in relation to the corporate governance principles and recommendations published by the ASX Corporate Governance Council.

Principle 1- Lay solid foundations for management and oversight

The Group has adopted a Board Charter which is available on the Group's website.

The Board Charter divides functions and responsibilities between the Board and senior executives, including the Managing Director. While the Board is responsible for the overall direction of the Group, day-to-day management and administration is delegated to the Managing Director and the senior executive team. The Board will regularly review the allocation of particular functions to ensure that it remains appropriate for the needs of the Group.

The Board is responsible for monitoring the performance of the Managing Director and other senior management. In addition, the Group has put processes in place for reviewing the performance of senior management against the Group's performance objectives and business plans.

Performance evaluation of senior executives takes place regularly and is in accordance with the processes referred to above.

In relation to newly appointed executives, an induction program is made available by the Group to enable them to gain an understanding of:

• the Group's financial position, strategies, operations and risk management policies; and;

• the respective rights, duties and responsibilities of the Board and senior executives.

Principle 2- Structure the board to add value

The structure of the board of directors
The constitution and the Board charter govern the Board's composition. The Board Charter details the functions and responsibilities of the Board.

Board composition
The Board Charter states that the Board should comprise a majority of independent directors.

The Board seeks to ensure that the composition of the Board reflects the appropriate range of independence, skills, experience, expertise and diversity for the Group. The Remuneration and Nomination Committee is responsible for recommending candidates for appointment to the Board and the re-appointment of existing directors after reviewing the relevant person's skills, experience, expertise and background within the context of an appropriate matrix.

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

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

The Directors' Report, on pages 3 to 6, outlines the period of office, relevant skills, experience, expertise and background of each director in office at the date of this report.

Principle 2- Structure the board to add value (continued)

Directors' independence

Every member of the Board is required to apply independent judgment to decision making in their capacity as a director.

An independent non executive director is one who:

• is independent of management;

• is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment;

• meets the criteria for independence set out in Box 2.1 of the Principles of Good Corporate Governance and Best Practice Recommendations published by the ASX Corporate Governance Council (Best Practice Recommendations);

• has not served on the Board for a period which could materially interfere with the director’s ability to act in the best interests of the Group; and

• does not have any interest or business relationship which could, or could reasonably be perceived to, materially interfere with the directors' ability to act in the best interests of the Group.

'Materiality' for these purposes is assessed on a case by case basis having regard to the Group's and the relevant director's circumstances, including the significance of the relationship to the director in the context of the director’s activities as a whole.

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.

The other directors, namely Mr. C.J. Riordan, Mr. J.C. Leonard, Mr. G. Dhnaram and Mr. J.P.Schmoll are considered by the Board to be independent directors.

Independent professional advice

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

Chairman and managing director (MD)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board’s relationship with the Group’s senior executives. The Chairman is an independent director.
The Managing Director is responsible for implementing Group strategies and policies.
It is the practice of the Board that, prior to commencement of each Board meeting, non-executive Board members meet without management being present.

Commitment

The Board held twelve meetings and an additional strategic planning session during the year. Two meetings of the Group’s Board of Directors were held at the Group’s operational site in Bairnsdale.

The number of meetings of the Group’s Board of Directors and of each Board committee held during the year ended 30 June 2012, and the number of meetings attended by each director is disclosed on page 6.

The commitments of non executive directors are considered prior to the director's appointment to the Board and are reviewed regularly as part of performance assessments.

Principle 2- Structure the board to add value (continued)

Performance evaluation

The Board undertakes regular assessments of its collective performance as well as, the performance of its Chair and each director and of its committees.
The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss their assessment.

Board committees

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

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

Other committees may be established by the Board as and when required. Membership of the Board committees will be based on the needs of the Group, relevant legislative and other requirements and the skills and experience of individual directors.

Remuneration and Nomination committee

The Remuneration and Nomination Committee consists of the following non-executive directors with the majority being independent:
Chris J Riordan (Chairman);
J Curt Leonard; and
Richard C Rijs

Details of these directors' attendance at Remuneration and Nomination Committee meetings are set out in the Directors' Report on page 6.

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

• Review the process for the nomination and selection of non-executive directors to the Board;

• Review succession plans and induction programs for the Group's non-executive directors and senior management;

Principle 2- Structure the board to add value (continued)
Remuneration and Nomination committee (continued)

• Review the induction programs for the Group's non-executive directors.

The Committee adopts the following process for the nomination and selection of non-executive directors to the PFL Board:

• ensuring regular review of the performance and effectiveness of the Board and considering any gaps in the skills, experience and diversity on the Board;

• before recommending the re appointment of an existing director or the appointment of a new director, reviewing that director's skill, experience and background within the context of the matrix of desired skills, experience and diversity;

• assisting in identifying, interviewing and recruiting candidates for the Board and utilising professional assistance where required.

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

All new directors participate in a comprehensive induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

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

John P Schmoll (Chairman);
Henricus J Rijs; and
Gregory J Dhnaram

Details of these directors' attendance at Audit and Risk Committee meetings are set out in the Directors' Report on page 6. All directors are invited to attend the Audit and Risk Committee meetings as guests.

The main responsibilities of the Committee are outlined in Principle 4 - Safeguard integrity in financial reporting.

Principle 3- Promote ethical and responsible decision making

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

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

The Group has a strict approach to business courtesies and does not support facilitation payments and commissions. Bribes are absolutely prohibited.

Principle 3- Promote ethical and responsible decision making (continued)

Code of conduct (continued)

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

The Group has a securities trading policy which outlines the restrictions, closed periods and processes required when directors, CEO and key management personnel trade PFL securities. Broadly, it states that the purchase and sale of Group securities by directors and employees is only permitted during the thirty day period following:

- the release of the half-yearly results to the market;
- the release of the full year results to the market; and
- the release of the Chairman's address for the Group's AGM.

Any trading undertaken by directors must be notified to the company secretary.

The Code and the Group's securities trading policy are provided to each new employee as part of their induction training.

A copy of the Code and the securities trading policy are available on the Group's website.

Diversity

The Group is an equal opportunity employer and welcomes people from a diverse range of backgrounds. Workplace diversity refers to the variety of differences between people in an organisation. It recognises that diversity encompasses gender, race, ethnicity, age, disability and cultural background among other matters.

Patties Foods believes that embracing diversity in its workforce contributes to the achievement of its corporate objectives and enhances its reputation.

The Group is committed to achieving the goals of providing access to equal opportunities at work based on merit and fostering a corporate culture that embraces and values diversity.

The Group adopted a Group Diversity Policy in 2011 that sets out the diversity initiatives for Patties Foods Ltd. The objectives of the policy are to ensure that Patties Foods;

- provides access to equal opportunities at work based on merit,
- fosters a corporate culture that embraces and values diversity,
- establishes measurable objectives for achieving gender diversity, and
- reviews and assesses, at least annually, both the measurable objectives and Patties Foods' progress in achieving them.

The measurable objectives established by the Board in 2011 include;

- increasing the representation of women on the Board as vacancies and circumstances allow from 0% in 2012 to 14% by June 2015,
- increasing the representation of women on the senior executive team as vacancies and circumstances allow from 0% to 14% by June 2015,
- increasing the representation of women on the senior leaders group from 26% in 2012 to 37% by June 2015,
- strengthen the talent pipeline to ensure the representation of women in the high potential talent matrix increases from 18% to 30% by December 2015.

The proportion of women employed by the Group as at June 2012 was 47%.

A number of initiatives have been introduced during 2012 to assist achieve the measurable objectives including;

- Implementing a talent review process with a particular focus on the development programs required to increase the representation on women considered as high potential under the Patties Foods Talent Management System,
- Assessing gender pay equity on an annual basis starting from May 2012,

Principle 3- Promote ethical and responsible decision making (continued)
Diversity (continued)

- Implementing flexible work arrangements to achieve successful maternity leave return to work outcomes and to support employees with family responsibilities.

To assist the Board in fulfilling its responsibilities in relation to Diversity the implementation of these objectives is overseen by the Remuneration and Nomination Committee chaired by the Chairman of the Board.

The policy is subject to periodic review by, and may be changed by resolution of, the Board. The policy has no contractual effect.

The Remuneration and Nomination Committee is responsible for assisting the Board to effectively implement its Diversity Policy.

To assist the Board to fulfill its responsibilities, the Remuneration & Nomination Committee shall:

- regularly oversee a review of the relative proportion of men and women across the whole of Patties Foods' organisation, in senior management positions and the Board, respectively;
- report to the Board on the findings of such reviews and its recommendations for the objectives to be set by the Board for achieving gender diversity, having regard to any gaps identified by such reviews; and
- report to the Board, at least annually, on Patties Foods' progress in achieving the objectives set by the Board for achieving gender diversity;
- consider other initiatives to promote diversity in the workplace.

Principle 4- Safeguard integrity in financial reporting

It is the Board's responsibility to ensure that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficacy of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and reliability of financial information. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Group to the Audit and Risk Committee.

The Audit and Risk Committee has a formal charter approved by the Board. It consists of 3 non-executive directors with the most applicable expertise and skills for this Committee and shall comprise a majority of independent directors. The chairman of the Committee is not the chairman of the Board. All directors including the Managing Director and the Chief Financial Officer are invited to meetings of the Committee at the discretion of the Committee.

The main responsibilities of the Committee are to:

• review and report to the Board on the annual report, the annual and half year financial reports and all other financial information published by the Group or released to ASX;

• assist the Board in reviewing the effectiveness of the Group's internal control environment covering effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations;

• oversee the effective operation of the risk management framework - see Principle 7 below;

• recommend to the Board the appointment, removal and remuneration of the external auditors and review the terms of their engagement, and the scope and quality of the audit; and

• review and assess the key operational and financial risks that can impact on the Group's business - see Principle 7 below.

The Managing Director and the Chief Financial Officer have declared in writing to the Board that the financial records, risk management systems and internal compliance and controls of the Group have been properly maintained, the Group's financial reports for the financial period ended 30 June 2012 comply with the accounting standards and present a true and fair view of the Group's financial position and performance. This statement is required twice a year in respect of each reporting period.

The external auditor is invited to meetings of the Committee at the discretion of the Committee. The external auditor met with the Committee 4 times during the period.

The Committee's charter may be found on the Group's website.

Principles 5 & 6- Make timely and balanced disclosures and respect the rights of shareholders

Continuous disclosure and shareholder communication
The Group, its directors and staff are very much aware of continuous disclosure requirements and operate in an environment where strong emphasis is placed on full and appropriate disclosure.

The Group provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price or value of the Group's securities, notifying them to ASX, posting them on the Group's website and issuing media releases.

The Group has a communications strategy to promote effective communication with shareholders. Subject to the ASX listing rules on disclosure, the Group communicates regularly with shareholders, brokers and analysts and maintains a review of information provided on its website.

Shareholders are encouraged to attend the Group's AGM and use this opportunity to ask questions. The external auditor attends the AGM and is available to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

Principle 7- Recognise and manage risk

Risk management and assessment
The Group believes that there is a need for formal policies on risk oversight and management and accordingly risk matters are regularly addressed at Board meetings.

The risk management framework, assessments thereof and responses thereto are reviewed both individually and collectively by the Board and senior management with periodic review by the Audit and Risk Committee.

The Board has required senior management to design and implement a risk management and internal control system to manage the Group's material business and financial risks.

The Board has required management to report to it on the manner in which those risks are being managed effectively. Management has provided its report on the manner in which those risks are being managed effectively to the Board.

Senior management reported to the Audit and Risk Committee as to the effectiveness of the Group's management of material business and financial risks.

The Managing Director and the Chief Financial Officer have declared in writing to the Board that the section 295A declaration is founded 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 risks and policies adopted by the Board of Directors.

The Group's policies on risk oversight and management of material business risks may be found in the Audit and Risk Committee Charter. This document may be found on the Group's website.

Principle 8- Remunerate fairly and responsibly

Remuneration and Nomination Committee
The Group has a Remuneration and Nomination Committee.

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

Chris J Riordan (Chairman);
J Curt Leonard; and
Richard C Rijs

Details of these directors' attendance at Remuneration and Nomination Committee meetings are set out in the Directors' Report on page 6.

The Remuneration and Nomination Committee operates in accordance with a charter. This document may be found on the Group's website. The main responsibilities of the Committee in relation to remuneration issues are to:

• Provide advice in relation to remuneration packages of key management, non-executive directors and executive directors, equity-based incentive plans and other employee benefit programs;

• Review the Group's recruitment, retention and termination policies as well as succession plans of key management and executives;

• Review remuneration by gender at all levels of the Group;

• Review the Group's superannuation arrangements;

• Consider those aspects of the Group remuneration policies and packages, including equity-based incentives, which should be subject to shareholder approval;

• Review staff resourcing trends and metrics; and

• Review other relevant matters identified from time to time, or requested by the Board.

The Committee has a minimum of three directors, all of whom are non-executive directors, and is chaired by an independent chair.

At the discretion of the Committee, internal specialists or external advisors may be invited to Remuneration and Nomination Committee meetings, subject to the requirements of s206K, 206L and 206M in relation to the engagement of a remuneration consultant. The Committee meets at least two times a year, and additionally as required for it to undertake its role effectively.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading 'Remuneration Report'.

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

Patties Foods Limited ABN 62 007 157 182
Annual report - 30 June 2012

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	Notes	Consolidated 2012 $'000	Consolidated 2011 $'000
Revenue from continuing operations			
Sale of goods	5	235,040	216,095
Other revenue from ordinary activities	5	803	722
		235,843	**216,817**
Other income	6	48	286
Cost of sales of goods		(146,100)	(131,522)
Distribution		(26,852)	(23,905)
Sales and marketing		(21,255)	(21,621)
Administration		(11,128)	(10,756)
Finance costs	7	(4,889)	(4,859)
Share of net profit of associates accounted for using the equity method		1,128	706
Profit before income tax		26,795	25,146
Income tax expense	8	(7,313)	(6,765)
Profit from continuing operations		**19,482**	**18,381**
Other comprehensive income			
Cash flow hedges	25(a)	(560)	(311)
Income tax relating to components of other comprehensive income		169	93
Other comprehensive income for the year, net of tax		**(391)**	**(218)**
Total comprehensive income for the year		**19,091**	**18,163**
Profit is attributable to:			
Owners of Patties Foods Limited		19,482	18,381
		19,482	**18,381**
Total comprehensive income for the year is attributable to:			
Owners of Patties Foods Limited		19,091	18,163
		19,091	**18,163**
		Cents	**Cents**
Earnings per share for profit attributable to the ordinary equity holders of the parent entity :			
Basic earnings per share	34	**14.0**	13.2
Diluted earnings per share	34	**13.8**	13.1

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

	Notes	Consolidated 2012 $'000	Consolidated 2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	151	1,251
Receivables	11	51,410	40,783
Inventories	12	37,980	30,948
Derivative financial instruments		-	95
Assets classified as held for sale	9	1,650	-
Total current assets		**91,191**	**73,077**
Non-current assets			
Investments accounted for using the equity method	13	9,072	8,844
Property, plant and equipment	14	69,329	67,707
Intangible assets	16	78,723	78,943
Total non-current assets		**157,124**	**155,494**
Total assets		**248,315**	**228,571**
LIABILITIES			
Current liabilities			
Payables	17	26,899	25,755
Borrowings	18	2,124	2,153
Derivative financial instruments		105	290
Current tax liabilities		3,193	2,894
Provisions	20	3,400	3,202
Total current liabilities		**35,721**	**34,294**
Non-current liabilities			
Borrowings	21	68,542	58,766
Deferred tax liabilities	22	5,995	6,043
Provisions	23	1,083	690
Derivative financial instruments		917	266
Total non-current liabilities		**76,537**	**65,765**
Total liabilities		**112,258**	**100,059**
Net assets		**136,057**	**128,512**
EQUITY			
Contributed equity	24	68,443	68,443
Reserves	25(a)	(714)	104
Retained earnings	25(b)	68,328	59,965
Total equity		**136,057**	**128,512**

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

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2010		68,329	70	51,308	119,707
Profit for the year		-	-	18,381	18,381
Changes in the fair value of cash flow hedges, net of tax		-	(218)	-	(218)
Total comprehensive income for the year		-	(218)	18,381	18,163
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	26	-	-	(9,724)	(9,724)
Employee Share Options	25	-	252	-	252
Employee share scheme issue	24	114	-	-	114
		114	252	(9,724)	(9,358)
Balance at 30 June 2011		**68,443**	**104**	**59,965**	**128,512**
Balance at 1 July 2011		68,443	104	59,965	128,512
Profit for the year		-	-	19,482	19,482
Changes in the fair value of cash flow hedges, net of tax		-	(391)	-	(391)
Total comprehensive income for the year		-	(391)	19,482	19,091
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	26	-	-	(11,119)	(11,119)
Employee Share Options	25	-	(427)	-	(427)
		-	(427)	(11,119)	(11,546)
Balance at 30 June 2012		**68,443**	**(714)**	**68,328**	**136,057**

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

	Notes	Consolidated 2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		252,515	234,369
Payments to suppliers and employees (inclusive of goods and services tax)		(231,057)	(202,633)
		21,458	31,736
Income taxes paid		(7,086)	(4,073)
Borrowing costs paid		(4,966)	(4,936)
Net cash inflow from operating activities	**33**	**9,406**	**22,727**
Cash flows from investing activities			
Payments for property, plant and equipment	14	(9,728)	(9,687)
Payments for intangibles		(350)	(625)
Dividends received	32(a)	900	250
Interest received		44	77
Net cash (outflow) from investing activities		**(9,134)**	**(9,985)**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		-	114
Proceeds from borrowings	21	44,200	21,750
Repayment of borrowings		(34,453)	(23,988)
Dividends paid to group's shareholders	26	(11,119)	(9,724)
Net cash (outflow) from financing activities		**(1,372)**	**(11,848)**
Net (decrease)/ increase in cash and cash equivalents		(1,100)	894
Cash and cash equivalents at the beginning of the financial year		1,251	357
Cash and cash equivalents at end of year	**10**	**151**	**1,251**

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

Contents of the notes to the consolidated financial statements

1 Summary of significant accounting policies

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

(a) Basis of preparation

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

(i) 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).

(ii) 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.

(iii) Critical accounting estimates

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

(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 2012 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

The acquisition method of accounting is used to account for business combinations by the Group.

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

(ii) Associates

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

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

(ii) Associates (continued)

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(e) Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(iii) Dividends

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

(iv) Caravan park income

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

(f) Government grants

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

1 Summary of significant accounting policies (continued)

(g) Income tax

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

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

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

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

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

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

(i) Tax consolidation legislation

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

(h) Leases

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

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

1 Summary of significant accounting policies (continued)

(i) 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.

(j) Cash and cash equivalents

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

(k) Trade and other receivables

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

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

(l) Inventories

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

(m) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal Group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

(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:

1 Summary of significant accounting policies (continued)

(n) Investments and other financial assets (continued)

(i) Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor or other party with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in receivables in the balance sheet (note 11) .

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

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

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

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

Impairment
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss -measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from equity and recognised in the profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.
If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

(o) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Currently the Group only has derivatives designated as cash flow hedges which are hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions.
The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

1 Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities (continued)

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

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

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

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(ii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(p) Property, plant and equipment

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

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

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

- Buildings	2.5%
- Plant and equipment	10% - 37.50%
- 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(i)).

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

1 Summary of significant accounting policies (continued)

(q) Intangible assets

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

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

(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) Supply and distribution rights
Supply and distribution rights have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of distribution rights over their estimated useful lives, which is 3-5 years.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30-60 days of recognition.

(s) Borrowings

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

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

(t) Borrowing costs

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

1 Summary of significant accounting policies (continued)

(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 end of each reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(v) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

(iii) Share-based payments

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

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

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

(w) Contributed equity

Ordinary shares are classified as equity (note 24).

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

1 Summary of significant accounting policies (continued)

(w) Contributed equity (continued)

If the entity reacquires its own equity instruments, for example as the result of a share buy back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including and 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 2012 were nil (2011: nil).

(y) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

(ii) Diluted earnings per share

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

(z) Goods and Services Tax (GST)

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

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

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

(aa) Rounding of amounts

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

(ab) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the applicable new standard and it's impact is set out below.

1 Summary of significant accounting policies (continued)

(ab) New accounting standards and interpretations (continued)

(i) AASB 10 Consolidated Financial Statements
AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

(ac) Parent entity financial information

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

2 Financial risk management

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

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

(a) Market risk

(i) Foreign exchange risk
The Group is exposed to foreign exchange risk arising from various currency exposures, including US dollar, Euro and NZ dollar.
Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. These commercial transactions relate to the procurement of raw materials, finished goods and items of plant and equipment. Export sales represent less than 1% of the Group's sales revenue and therefore are not recognised as a source of foreign exchange risk. Management determined that some specific hedges were required for FY2012 and FY2011 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 70%-80% of the identifiable foreign exchange requirements for a 6 to 9 month period to provide some certainty in its cost of raw materials and 100% of the purchase cost of plant and equipment when the commitment is approved. No other hedging activities took place as the exposure was immaterial to the Group's overall result. Management will continue to review this exposure and take actions to hedge exposure if deemed appropriate.

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

2 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

	30 June 2012			30 June 2011		
	USD $'000	**NZD $'000**	**EUR $'000**	**USD $'000**	**NZD $'000**	**EUR $'000**
Trade payables	(1,730)	(73)	(109)	(1,506)	(71)	(17)
Forward exchange contracts - buy foreign currency (cash flow hedges)	3,714	86	617	5,264	-	1,625
Net exposure	**1,984**	**13**	**508**	**3,758**	**(71)**	**1,608**

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

(ii) Cash flow and fair value interest rate risk

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

Group policy is to maintain approximately 50% of its borrowings at fixed rates using interest rate swaps to achieve this when necessary. During 2012 and 2011, the Group's borrowings were at both fixed (through interest rate swaps) and variable rates and were denominated in Australian Dollars. During 2012, the Group's variable interest rate was based on BBSY and a margin.

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

	Consolidated	
	2012 $'000	**2011 $'000**
Bank overdrafts and bank bills	70,666	60,890
Interest rate swaps (notional principal amount)	(26,250)	(35,000)
Net exposure to cash flow interest rate risk	**44,416**	**25,890**

At 30 June 2012, 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 $256,000 lower/higher (2011 - $231,000 lower/higher), mainly as a result of higher/lower interest expense from variable rate borrowings.

(b) Credit risk

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

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

(c) Liquidity risk

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

2 Financial risk management (continued)

(c) Liquidity risk (continued)

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

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Expiring beyond one year	13,059	24,958

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

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

Contractual maturities of financial liabilities	**Less than 12 months**	**Between 1 and 5 years**	**Total contrac-tual cash flows**	**Carrying amount (assets)/ liabilities**
At 30 June 2012				
	$'000	**$'000**	**$'000**	**$'000**
Non-derivatives				
Non-interest bearing	28,074	-	28,074	28,074
Variable rate*	2,277	76,450	78,727	70,666
Total non-derivatives	**30,351**	**76,450**	**106,801**	**98,740**
Derivatives				
Interest rate swaps				
- net settled	-	-	-	(917)
Forward foreign exchange contracts				
- (inflow)	(4,727)	-	(4,727)	-
- outflow	4,622	-	4,622	-
- total	-	-	-	(105)
Total derivatives	**(105)**	**-**	**(105)**	**(1,022)**
At 30 June 2011				
Non-derivatives				
Non-interest bearing	25,754	-	25,754	25,754
Variable rate*	2,300	71,598	73,898	60,890
Fixed rate	36	-	36	29
Total non-derivatives	**28,090**	**71,598**	**99,688**	**86,673**
Derivatives				
Interest rate swaps				
- net settled	-	-	-	(266)
Forward foreign exchange contracts				
- (inflow)	(8,674)	-	(8,674)	-
- outflow	8,479	-	8,479	-
- total	-	-	-	(195)
Total derivatives	**(195)**	**-**	**(195)**	**(461)**

2 Financial risk management (continued)

(c) Liquidity risk (continued)

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

(d) Fair value measurements

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

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011:

At 30 June 2012	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Derivatives used for hedging	**-**	**(1,020)**	**-**	**(1,020)**

At 30 June 2011	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Derivatives used for hedging	-	(461)	-	(461)

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

3 Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

(i) Estimated impairment of goodwill and indefinite lived intangibles

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

3 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(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 outcomes (on the judgement areas) to differ by 20% from management's estimates, the Group would need to:
- increase the income tax liability by $100,000 and the income tax expense by $100,000 if unfavourable, or
- decrease the income tax liability by $100,000 and the income tax expense by $100,000 if favourable.

(iii) Indefinite lived intangibles
Management has 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 amortised and therefore the carrying amount of the asset reflects the value recoverable from the sale of the asset.
Should this assumption change and management determine that the carrying value is greater than the value recoverable from sale, and record an impairment charge, there will be an associated change in the value of the deferred tax assets and tax liabilities which would be taken through that year's earnings.

4 Segment information

The economic entity operated predominantly in one operating segment during the year, being the manufacture and marketing of frozen food products throughout Australia.
Management has determined the operating segments based on the reports reviewed by the Patties Leadership Team that are used to make strategic decisions. Results are reviewed on a whole-of-business basis.

(i) Segment revenue

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Total segment revenue	235,040	216,095
Interest revenue	44	77
Other revenue	759	645
Total revenue from continuing operations (note 5)	**235,843**	**216,817**

The entity is domiciled in Australia. Over 99% of its revenue is derived from external customers in Australia, with the remainder being exports.
Of the total revenue, $134,121,000, or 57.3%, is derived from three significant external customers (2011: $137,804,000, or 63.6%).

(ii) Segment assets
The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Australia is $157,124,000 (2011 - $155,494,000). There are no non-current assets located in other countries (2011 - $nil).

5 Revenue

	Consolidated	
	2012	**2011**
	$'000	**$'000**
From continuing operations		
Sales revenue		
Sale of goods	235,040	216,095
Other revenue		
Rent	120	-
Interest	44	77
Caravan Park receipts	639	645
	803	722
	235,843	**216,817**

6 Other income

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Government grants (a)	9	69
Sundry income	4	175
Royalties	35	42
	48	**286**

(a) Government grants

Regional development and environmental grants of $9,200 (2011: $68,500) were recognised as other income by the Group during the financial year. There are no unfulfilled conditions or contingencies attached to these grants. The Group did not benefit from any other forms of government assistance.

7 Expenses

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	994	932
Property, plant and equipment	5,488	5,437
Total depreciation	**6,482**	**6,369**
Amortisation		
Intangible assets	570	357
Employee benefits expenses		
Employee benefits expense	42,577	39,827

7 Expenses (continued)

Finance expenses		
Interest and finance charges paid/payable	4,889	4,859
Amount capitalised (a)	(410)	(53)
Finance costs expensed	**4,479**	**4,806**
Net (gain) / loss on disposal of property, plant and equipment	-	(17)
Rental expense relating to operating leases		
Minimum lease payments	2,068	2,381
Research and development	628	587
Impairment losses - financial assets		
Trade receivables	46	3

(a) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year, in this case 7.00% (2011: 7.00%).

8 Income tax expense

(a) Income tax expense

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Current tax	7,374	6,170
Deferred tax	(292)	587
(Under)/over provision of current tax in prior periods	231	8
	7,313	**6,765**
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Increase) decrease in deferred tax assets (note 15)	(139)	602
(Decrease) increase in deferred tax liabilities (note 22)	(153)	(15)
	(292)	**587**

8 Income tax expense (continued)

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

Profit from continuing operations before income tax expense	**26,795**	**25,146**
Tax at the Australian tax rate of 30% (2011 - 30%)	8,038	7,544
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	22	8
Share of net profit of associates	(357)	(212)
Legal fees	3	3
Research and development	(500)	(358)
Capital allowances	-	(50)
Share option expenses	(128)	43
Other non deductible expenses	-	22
Sundry items	4	(47)
	7,082	**6,953**
Adjustments for current tax of prior periods	47	8
Adjustments for deferred tax of prior periods	184	(196)
	231	(188)
Total income tax expense	**7,313**	**6,765**

(c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Net deferred tax - debited (credited) directly to equity	168	93

(d) ATO Comprehensive Risk Review

The Group was subject to an ATO Comprehensive Risk Review for the years 2007- 2010. The review has been finalised. No tax risks requiring further action were identified by the ATO.

9 Assets held for sale

Assets classified as held for sale

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Disposal group held for sale		
Property, plant and equipment	1,650	-

In August 2011, the directors of Patties Foods Limited reached an agreement with Davies Bakery Pty Limited to sell a parcel of undeveloped land located next door to the production facility of Davies Bakery Pty Limited. The sale is contracted to complete on 21 January 2013.

10 Current assets - Cash and cash equivalents

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Cash in hand	1	1
Cash at bank	150	1,250
	151	**1,251**

10 Current assets - Cash and cash equivalents (continued)

(a) Cash in hand

This is non interest bearing.

(b) Cash at bank

The average effective interest rate on short-term bank deposits was 3.42% (2011 - 3.80%).

11 Current assets - Receivables

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Trade receivables	52,807	41,965
Provision for claims, discounts, rebates and allowances	(5,680)	(5,047)
Provision for impairment of receivables	(46)	-
	47,081	**36,918**
Other receivables		
Other receivables (b)	1,515	1,672
Employee share purchase loans	3	116
	1,518	**1,788**
Prepayments	2,811	2,077
	51,410	**40,783**

(a) Credit risk

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

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Not past due	48,927	38,625
Past due 1-30 days	2,991	2,061
Past due 31-60 days	(184)	190
Past due 60+ days	1,073	1,089
	52,807	**41,965**

As of 30 June 2012, there were $46,310 in trade receivables (2011 - $nil) 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 impairment of receivables are as follows:

	Consolidated	
	2012	**2011**
	$'000	**$'000**
At 1 July	-	12
Provision for impaired receivables recognised during the year	46	3
Receivables written off during the year as uncollectible	-	(15)
	46	**-**

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.

11 Current assets - Receivables (continued)

(b) Other receivables

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

(c) Fair value

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

12 Current assets - Inventories

	Consolidated	
	2012 $'000	**2011 $'000**
Raw materials and stores		
- at cost	12,486	11,270
Finished goods		
- at cost	23,541	18,047
Other inventories		
- at cost	89	39
Spare parts		
- at cost	1,864	1,592
	37,980	**30,948**

(a) Inventory expense

Inventories expensed during the year ended 30 June 2012 amounted to $112,078,408 (2011: $95,899,847). Inventories written down to net realisable value during the year ended 30 June 2012 amounted to $381,322 (2011: $469,751).

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

	Consolidated	
	2012 $'000	**2011 $'000**
Interest in associates	9,072	8,844

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting (refer note1(b)(ii)).

14 Non-current assets - Property, plant and equipment

	Construction in progress $'000	**Land and buildings $'000**	**Plant and equipment $'000**	**Leased plant and equipment $'000**	**Equipment held at 3rd parties $'000**	**Total $'000**
At 1 July 2010						
Cost or fair value	1,706	26,717	63,448	1,520	5,908	99,299
Accumulated depreciation	-	(3,380)	(27,642)	(714)	(3,189)	(34,925)
Net book amount	**1,706**	**23,337**	**35,806**	**806**	**2,719**	**64,374**

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

	Construction in progress $'000	Land and buildings $'000	Plant and equipment $'000	Leased plant and equipment $'000	Equipment held at 3rd parties $'000	Total $'000
Year ended 30 June 2011						
Opening net book amount	1,706	23,337	35,806	806	2,719	64,374
Additions	7,714	64	1,388	-	553	9,719
Disposals	-	-	(17)	-	-	(17)
Transfers	(3,196)	245	3,563	(612)	-	-
Depreciation charge	-	(932)	(4,556)	(133)	(748)	(6,369)
Closing net book amount	**6,224**	**22,714**	**36,184**	**61**	**2,524**	**67,707**
At 30 June 2011						
Cost or fair value	6,224	27,026	69,151	119	6,461	108,981
Accumulated depreciation	-	(4,312)	(32,967)	(58)	(3,937)	(41,274)
Net book amount	**6,224**	**22,714**	**36,184**	**61**	**2,524**	**67,707**
Year ended 30 June 2012						
Opening net book amount	6,224	22,714	36,184	61	2,524	67,707
Additions	6,499	437	2,316	-	502	9,754
Assets classified as held for sale	-	(1,651)	-	-	-	(1,651)
Transfers	(5,705)	2,731	3,023	(49)	-	-
Depreciation charge	-	(993)	(4,829)	(12)	(647)	(6,481)
Closing net book amount	**7,018**	**23,238**	**36,694**	**-**	**2,379**	**69,329**
At 30 June 2012						
Cost	7,018	28,543	74,463	97	6,963	117,084
Accumulated depreciation	-	(5,305)	(37,769)	(97)	(4,584)	(47,755)
Net book amount	**7,018**	**23,238**	**36,694**	**-**	**2,379**	**69,329**

15 Non-current assets - Deferred tax assets

	Notes	Consolidated 2012 $'000	Consolidated 2011 $'000
The balance comprises temporary differences attributable to:			
Employee benefits		1,345	1,168
Capitalised transaction costs		238	193
Fixed assets		98	-
Cash flow hedges		307	93
		1,988	**1,454**
Other			
Doubtful debts		14	-
Accruals		133	245
Sub-total other		**147**	**245**
Total deferred tax assets		**2,135**	**1,699**
Set-off of deferred tax liabilities pursuant to set-off provisions	22	(2,135)	(1,699)
Net deferred tax assets		**-**	**-**
Deferred tax assets expected to be recovered after more than 12 months		2,135	1,699

Movements - Consolidated	**Employee Benefits $'000**	**Fixed assets $'000**	**Capitalised transaction costs $'000**	**Cash flow hedges $'000**	**Impaired receivables $'000**	**Other $'000**	**Total $'000**
At 1 July 2010	1,121	-	790	45	4	248	2,208
- to profit or loss	46	-	(596)	(45)	(4)	(3)	(602)
- directly to equity	-	-	-	93	-	-	93
At 30 June 2011	**1,167**	**-**	**194**	**93**	**-**	**245**	**1,699**
(Charged)/credited							
- to profit or loss	**177**	**98**	**44**	**47**	**14**	**(112)**	**268**
- directly to equity	**-**	**-**	**-**	**168**	**-**	**-**	**168**
At 30 June 2012	**1,344**	**98**	**238**	**308**	**14**	**133**	**2,135**

16 Non-current assets - Intangible assets

	Goodwill $'000	Brands $'000	Supply & distribution rights $'000	Other $'000	Non-compete covenant $'000	Total $'000
At 1 July 2010						
Cost	12,021	65,486	794	943	178	79,422
Accumulation amortisation	-	-	(476)	(393)	-	(869)
Net book amount	**12,021**	**65,486**	**318**	**550**	**178**	**78,553**
Year ended 30 June 2011						
Opening net book amount	12,021	65,486	318	549	178	78,552
Acquisition	-	-	750	-	-	750
Amortisation charge*	-	-	(159)	(107)	(93)	(359)
Closing net book amount	**12,021**	**65,486**	**909**	**442**	**85**	**78,943**
Cost	12,021	65,486	1,544	943	85	80,079
Accumulation amortisation	-	-	(635)	(501)	-	(1,136)
Net book amount	**12,021**	**65,486**	**909**	**442**	**85**	**78,943**
At 30 June 2011						
Cost	12,021	65,486	1,544	943	85	80,079
Accumulation amortisation	-	-	(635)	(501)	-	(1,136)
Net book amount	**12,021**	**65,486**	**909**	**442**	**85**	**78,943**
Year ended 30 June 2012						
Opening net book amount	12,021	65,486	909	442	85	78,943
Acquisition	-	-	-	350	-	350
Amortisation charge*	-	-	(326)	(159)	(85)	(570)
Closing net book amount	**12,021**	**65,486**	**583**	**633**	**-**	**78,723**
At 30 June 2012						
Cost	12,021	65,486	1,544	1,292	-	80,343
Accumulated amortisation	-	-	(961)	(659)	-	(1,620)
Net book amount	**12,021**	**65,486**	**583**	**633**	**-**	**78,723**

* Amortisation of $570,000 (2011 - $357,000) is included in depreciation and amortisation expense in profit or loss.

(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).

16 Non-current assets - Intangible assets (continued)

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

The recoverable amount of a CGU is determined based on value-in-use calculations. The calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period have a residual value calculated using the estimated long term growth rates.
The growth rate is the mid-range of consensus of the long term growth rates.

2012	**Goodwill $'000**	**Brands $'000**
Sweet and savoury frozen bakery product business	-	54,565
Caravan park	825	-
Frozen fruit product business	11,194	10,921
	12,019	**65,486**

2011	**Goodwill $'000**	**Brands $'000**
Sweet and savoury frozen bakery product business	-	54,565
Caravan park	825	-
Frozen fruit product business	11,194	10,921
	12,019	**65,486**

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

CGU	**Growth rate ****		**Discount rate *****	
	2012 %	**2011 %**	**2012 %**	**2011 %**
Sweet and savoury frozen bakery product business	6.2	6.2	14.3	14.6
Caravan park	1.5	1.5	14.3	14.6
Frozen fruit product business	7.9	9.2	14.3	14.6

** Growth rate used to extrapolate cash flows beyond the one year budget period for the forecast period to 2016.
A 2.5% growth rate has been applied beyond 2016 (1% for the caravan park).
*** The discount rates used are pre-tax and are based on the company weighted average cost of capital.

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) Key assumptions used for fair value calculations

CGU	**Fair value**	
	2012 $'000	**2011 $'000**
Caravan park	3,162	2,943

Management has based its value of the caravan park on the fair value of the land less costs to sell. Management has arrived at the fair value using the reported price of land sales of similarly zoned land in the region.

(d) Impact of possible changes in key assumptions

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

17 Current liabilities - Payables

	Consolidated 2012 $'000	Consolidated 2011 $'000
Trade payables	22,980	19,471
Other payables	3,919	6,284
	26,899	**25,755**

(a) Risk exposure

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

18 Current liabilities - Borrowings

	Consolidated 2012 $'000	Consolidated 2011 $'000
Secured		
Lease liabilities (note 29)	-	29
Bank bills(a)	2,124	2,124
Total secured current borrowings	**2,124**	**2,153**

(a) Bank bills

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

(b) Interest rate risk exposures

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

(c) Fair value disclosures

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

(d) Security

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

19 Derivative financial instruments

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current assets		
Forward foreign exchange contracts - cash flow hedges((a)(i))	-	95
Total current derivative financial instrument assets	**-**	**95**
Current liabilities		
Forward foreign exchange contracts - cash flow hedges	105	290
Total current derivative financial instrument liabilities	**105**	**290**
Non-current liabilities		
Interest rate swaps - cash flow hedges	917	266
Total non current derivative financial instrument liabilities	**917**	**266**
Total derivative financial instrument liabilities	**1,022**	**556**

19 Derivative financial instruments (continued)

(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, Europe, China and South America. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US dollars and Euros.

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

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) 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 39% (2011 - 57%) 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 2012 a loss of $265,580 was reclassified into profit and loss (2011 - loss of $161,502) and included in finance cost. There was no hedge ineffectiveness in the current year.

(b) Risk exposures and fair value measurements

Information about the group's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining fair values is provided in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets mentioned above.

20 Current liabilities - Provisions

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Employee benefits (a)	3,400	3,202

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

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

20 Current liabilities - Provisions (continued)

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

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Leave obligations expected to be settled after 12 months	1,083	522

21 Non-current liabilities - Borrowings

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Bank bills	68,542	58,766
Total secured non-current borrowings	**68,542**	**58,766**

(a) Secured liabilities and assets pledged as security

The total secured liabilities (current (note18) and non-current) are as follows:

Lease liabilities	-	29
Bank bills	70,666	60,890
Total secured liabilities	**70,666**	**60,919**

The bank bills are secured by first ranking fixed and floating charges over all the assets and undertakings of the Group and first ranking registered mortgages over the Group's freehold land and buildings.
Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.
The Group is subject to certain covenants within the bank facility.

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

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Current		
Floating charge		
Cash and cash equivalents	151	1,251
Receivables	51,410	40,783
Inventories	37,980	30,948
Derivative financial instruments	-	95
Total current assets pledged as security	**89,541**	**73,077**
Non-current		
First mortgage		
Freehold land and buildings	23,238	22,714
Finance lease		
Plant and equipment	-	61
Floating charge		
Other financial assets	9,072	8,844
Plant and equipment	36,694	35,572
Total non-current assets pledged as security	**69,004**	**67,191**
Total assets pledged as security	**158,545**	**140,268**

(b) Fair value

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

21 Non-current liabilities - Borrowings (continued)

(b) Fair value (continued)

	At 30 June 2012		At 30 June 2011	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
On-balance sheet				
Non-traded financial liabilities				
Bank bills	70,666	70,666	60,890	60,890
Lease liabilities	-	-	29	29
	70,666	**70,666**	**60,919**	**60,919**

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

(c) Risk exposures

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

22 Non-current liabilities - Deferred tax liabilities

	Consolidated	
	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Brand names	6,500	6,500
Intangible assets	307	188
Unrealised foreign exchange gains	16	44
Depreciation	1,307	998
Other	-	12
Total deferred tax liabilities	8,130	7,742
Set-off of deferred tax assets pursuant to set-off provisions (note 15)	(2,135)	(1,699)
Net deferred tax liabilities	**5,995**	**6,043**
Movements:		
Opening balance 1 July	7,742	7,757
Charged/(Credited) to the income statement	388	(15)
Closing balance at 30 June	**8,130**	**7,742**
Deferred tax liabilities expected to be settled after more than 12 months	8,130	7,742
	8,130	**7,742**

23 Non-current liabilities - Provisions

	Consolidated	
	2012 $'000	2011 $'000
Employee benefits	1,083	690

24 Contributed equity

(a) Share capital

	2012 Shares	2011 Shares	2012 $'000	2011 $'000
Ordinary shares - fully paid	138,989,223	138,989,223	68,443	68,443

(b) Movements in ordinary share capital

24 Contributed equity (continued)

(b) Movements in ordinary share capital (continued)

Date	Details	Number of shares	$'000
1 July 2010	Opening balance	138,908,853	68,329
	Employee share scheme issues	80,370	114
30 June 2011	**Balance**	**138,989,223**	**68,443**
30 June 2012	**Balance**	**138,989,223**	**68,443**

(c) Ordinary shares

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

(d) Employee share scheme

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

(e) Options

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

(f) Capital risk management

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

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

Consistently with others in the industry, the Group monitors capital on the basis of maintaining its capital adequacy ratio above 45%. This ratio is calculated as total net worth divided by total assets. Total net worth is defined as net assets. This capital requirement is imposed on the Group by its banking covenants.
The capital adequacy ratio for 2012 was 54% (2011: 56%).

25 Reserves and retained earnings

(a) Reserves

	Consolidated 2012 $'000	Consolidated 2011 $'000
Hedging reserve - cash flow hedges	(714)	(323)
Share-based payments reserve	-	427
	(714)	104

25 Reserves and retained earnings (continued)

(a) Reserves (continued)

Movements:			
Hedging reserve - cash flow hedges			
Opening balance 1 July		(323)	(105)
Revaluation		(560)	(311)
Deferred tax (notes 8, 15 and 22)		169	93
Balance 30 June		**(714)**	**(323)**
Movements:			
Share-based payments reserve			
Balance 1 July		427	175
Option expense / (gain)		(427)	159
Transfer		-	93
Balance 30 June		**-**	**427**

(b) Retained earnings

Movements in retained earnings were as follows:

Balance 1 July		59,965	51,308
Net profit for the year		19,482	18,381
Dividends	26	(11,119)	(9,724)
Balance 30 June		**68,328**	**59,965**

(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 transferred to the income statement when the associated hedged transaction affects profit and loss.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- accrued expense for shares issued but not granted in the prior year

26 Dividends

(a) Ordinary shares

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Final ordinary dividend for the year ended 30 June 2011 of 4.2 cents (2010-3.5 cents) per fully paid share paid on 7 October 2011.		
Fully franked based on tax paid @ 30% - 4.2 cents (2010 - 3.5 cents) per share	5,838	4,862
Interim ordinary dividend for the year ended 30 June 2012 of 3.8 cents (2011-3.5 cents) per fully paid share paid on 13 April 2012		
Fully franked based on tax paid @ 30% - 3.8 cents (2011 - 3.5 cents) per share	5,281	4,862
Total dividends provided for or paid	**11,119**	**9,724**
Dividends paid in cash during the years ended 30 June 2012 and 2011 were as follows:		
Paid in cash	11,119	9,724

26 Dividends (continued)

(b) Dividends not recognised at the end of the reporting period

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 4.4 cents per fully paid ordinary share (2011 - 4.2 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 8 October 2012 out of retained earnings at 30 June 2012, but not recognised as a liability at year end, is	6,116	5,838

(c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2012 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2012.

	Consolidated	
	2012 **$'000**	**2011** **$'000**
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2011 - 30%)	18,124	15,608

The above amounts represent the balance of the franking account as at the end of the reporting period, 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 end of each reporting period.

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

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $2,620,940 (2011: $2,501,806).

27 Key management personnel disclosures

(a) Directors

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

(i) Chairman - non-executive
Chris J Riordan

(ii) Executive directors
Gregory J Bourke, Managing Director

(iii) Non-executive directors
Gregory J Dhnaram;
J Curt Leonard, (Deputy Chairman);
Henricus J Rijs;
Richard C Rijs; and
John P Schmoll

(b) Other key management personnel

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

Michael Knaap	Chief Financial Officer
Grant Leyden	General Manager, Manufacturing
Mark Connolly	General Manager, Marketing
Jeff Pentney	General Manager, People & Organisation
Tim Peters	Head of Sales
Mark Kluver	General Manager, Customer Service & Logistics

(c) Key management personnel compensation

	Consolidated	
	2012	**2011**
	$	**$**
Short-term employee benefits	2,339,162	2,167,380
Post-employment benefits	298,890	298,530
Long-term benefits	15,953	13,110
Share-based payments	(427,245)	159,305
	2,226,760	**2,638,325**

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options
Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on pages 7 - 20.

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

27 Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(ii) Option holdings (continued)

2012 Name	Balance at start of the year	Granted as compen-sation	Exercised	Options lapsed	Balance at end of the year	Vested and exercisable	Unvested
Directors of Patties Foods Limited							
Gregory J Bourke	1,200,000	-	-	(600,000)	600,000	-	600,000
Other key management personnel of the Group							
Michael Knaap	600,000	-	-	(300,000)	300,000	-	300,000
Grant Leyden	600,000	-	-	(300,000)	300,000	-	300,000
Mark Connolly	300,000	-	-	(150,000)	150,000	-	150,000
Jeff Pentney	300,000	-	-	(150,000)	150,000	-	150,000
Tim Peters	600,000	-	-	(300,000)	300,000	-	300,000
Mark Kluver	150,000	-	-	-	150,000	-	150,000

2011 Name	Balance at start of the year	Granted as compen-sation	Exercised	Options lapsed	Balance at end of the year	Vested and exercisable	Unvested
Directors of Patties Foods Limited							
Gregory J Bourke	1,200,000	-	-	-	1,200,000	-	1,200,000
Other key management personnel of the Group							
Michael Knaap	600,000	-	-	-	600,000	-	600,000
Grant Leyden	600,000	-	-	-	600,000	-	600,000
Mark Connolly	300,000	-	-	-	300,000	-	300,000
Jeff Pentney	300,000	-	-	-	300,000	-	300,000
Tim Peters	600,000	-	-	-	600,000	-	600,000
Mark Kluver	-	-	-	-	150,000	-	150,000

(iii) Share holdings

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

27 Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(iii) Share holdings (continued)

2012 **Name**	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes during the year**	**Balance at end of the year**
Directors of Patties Foods Limited				
Ordinary shares				
Chris J Riordan	130,372	-	-	130,372
Gregory J Bourke	307,000	-	60,500	367,500
Richard C Rijs	14,504,950	-	-	14,504,950
Henricus J Rijs	8,177,277	-	-	8,177,277
Gregory J Dhnaram	20,000	-	180,000	200,000
J Curt Leonard	2,163,547	-	-	2,163,547
John Schmoll	90,000	-	-	90,000
Other key management personnel of the Group				
Ordinary shares				
M Knaap	114,839	-	4,186	119,025
G Leyden	826	-	-	826
M Connolly	19,076	-	-	19,076
J Pentney	2,074	-	(1,234)	840
T Peters	8,000	-	-	8,000
M Kluver	11,901	-	-	11,901

2011 **Name**	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes during the year**	**Balance at end of the year**
Directors of Patties Foods Limited				
Ordinary shares				
Chris J Riordan	100,372	-	30,000	130,372
Gregory J Bourke	291,296	-	15,704	307,000
Richard C Rijs	15,253,007	-	(748,057)	14,504,950
Henricus J Rijs	8,395,901	-	(218,624)	8,177,277
Gregory J Dhnaram	20,000	-	-	20,000
J Curt Leonard	2,163,547	-	-	2,163,547
John Schmoll	75,000	-	15,000	90,000
Other key management personnel of the Group				
Ordinary shares				
M Knaap	114,839	-	-	114,839
G Leyden	20,000	-	(19,174)	826
M Connolly	18,371	-	705	19,076
J Pentney	2,074	-	-	2,074
T Peters	-	-	8,000	8,000
M Kluver	11,901	-	-	11,901

28 Remuneration of auditor

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

(a) Audit services

(i) PricewaterhouseCoopers Australian firm

	Consolidated	
	2012	**2011**
	$	**$**
Audit and review of financial reports and other audit work under the Corporations Act 2001	217,500	206,215
Other audit related services	7,500	-
Non-audit services		
Other consulting services	-	56,602
Total remuneration for audit and other services	**225,000**	**262,817**

29 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of each reporting period but not recognised as liabilities is as follows:

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Property, plant and equipment		
Payable:		
Within one year	1,945	5,258
	1,945	**5,258**

(b) Lease commitments: Group as lessee

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	671	1,044
Later than one year but not later than five years	369	496
	1,040	**1,540**
Representing:		
Non-cancellable operating leases	1,040	1,531
Future finance charges on finance leases	-	9
	1,040	**1,540**

(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.

29 Commitments (continued)

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

(i) Non-cancellable operating leases (continued)

	Consolidated	
	2012 $'000	**2011 $'000**
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	671	1,035
Later than one year but not later than five years	369	496
	1,040	**1,531**

(ii) Finance leases

Lease ended on 30 June 2012 therefore no leased assets at year end (2011 - $60,830).

	Consolidated	
	2012 $'000	**2011 $'000**
Commitments in relation to finance leases are payable as follows:		
Within one year	-	36
Later than one year but not later than five years	-	2
Minimum lease payments	**-**	**38**
Future finance charges	-	(9)
Recognised as a liability	**-**	**29**
Total lease liabilities	**-**	**29**
Representing lease liabilities:		
Current (note 18)	-	29

The weighted average interest rate implicit in the leases is nil (2011 - 7.14%).

30 Related party transactions

(a) Parent entities

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

(b) Associates

Details of associates are set out in note 32.

(c) Subsidiaries

Interests in subsidiaries are set out in note 31.

(d) Transactions with other related parties

The following transactions occurred with related parties:

30 Related party transactions (continued)

(d) Transactions with other related parties (continued)

	Consolidated 2012 $	Consolidated 2011 $
Sales of goods and services		
Sale of raw materials to Davies Bakery Pty Ltd	918,702	616,811
Royalties from Davies Bakery Pty Ltd	35,000	38,582
Rent from Davies Bakery Pty Ltd	120,326	-
	1,074,028	**655,393**
Purchases of goods and services with associates		
Finished goods from Davies Bakery Pty Ltd (associated company).	16,237,650	14,012,110
Air flight services from Piper Partners Pty Ltd (associated company)	134,902	174,277
	16,372,552	**14,186,387**
Sponsorship		
Regional Business and Tourism Associations	63,235	-
Membership Fees		
Australian Food and Grocery Council	27,332	27,332
Superannuation contributions		
Contributions to superannuation funds on behalf of employees	2,920,350	2,761,389

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

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

	Consolidated 2012 $	Consolidated 2011 $
Current receivables (sales of goods and services)		
Davies Bakery Pty Ltd	54,262	103,812
Current payables (purchases of goods)		
Davies Bakery Pty Ltd	4,585,355	1,739,066

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

(f) Loans to/from related parties

There are no loans to directors or executives at 30 June 2012 other than loans to executives of up to $1,000 under standard terms of the Group's exempt employee share plan.

31 Subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2012 %	Equity holding 2011 %
Chef's Pride Pty Ltd	Australia	Ordinary	100	100
Creative Gourmet Pty Ltd	Australia	Ordinary	100	100

32 Investments in associates

(a) Movements in carrying amounts

	Consolidated 2012 $'000	Consolidated 2011 $'000
Carrying amount at the beginning of the financial year	8,844	8,388
Share of profits after income tax	1,128	706
Dividends received/receivable	(900)	(250)
Carrying amount at the end of the financial year	9,072	8,844

(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:

		Group's share of:			
	Ownership Interest %	Assets $'000	Liabilities $'000	Revenues $'000	Profit/(loss) $'000
2012					
Piper Partners Pty Ltd	50	192	226	68	(12)
Davies Bakery Pty Ltd	50	14,125	5,502	19,652	1,140
		14,317	5,728	19,720	1,128
2011					
Piper Partners Pty Ltd	50	214	232	83	(7)
Davies Bakery Pty Ltd	50	13,571	5,023	15,634	713
		13,785	5,255	15,717	706

All of the above associates are incorporated in Australia.

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

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

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

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

	Consolidated 2012 $'000	Consolidated 2011 $'000
Cash and cash equivalents	151	1,251
Balances per statement of cash flows	151	1,251

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

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

	Consolidated	
	2012 **$'000**	**2011** **$'000**
Profit for the year	19,482	18,381
Depreciation and amortisation	7,051	6,726
Net (profit) / loss on sale of property, plant and equipment	-	(18)
Transfer of interest income to Investing cash flows	(44)	(77)
Fair value adjustment to derivatives	(387)	(218)
Share of (profits)/losses of associates and joint venture partnership	(1,128)	(706)
Change in operating assets and liabilities:		
(Increase) decrease in trade debtors	(10,572)	(6,731)
(Increase) in inventories	(7,032)	(1,345)
(Increase) decrease in other operating assets	(79)	(394)
(Decrease) increase in trade creditors	1,144	3,698
(Decrease) increase in provision for income taxes payable	299	2,105
(Decrease) increase in deferred tax liabilities	(48)	494
Increase (decrease) in derivative financial instruments	561	406
(Decrease) increase in other provisions	159	406
Net cash inflow (outflow) from operating activities	**9,406**	**22,727**

34 Earnings per share

(a) Basic earnings per share

	Consolidated	
	2012 **Cents**	**2011** **Cents**
Profit from continuing operations attributable to the ordinary equity holders of the Group	14.0	13.2

(b) Diluted earnings per share

Profit from continuing operations attributable to the ordinary equity holders of the Group	13.8	13.1

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

	Consolidated	
	2012 **$'000**	**2011** **$'000**
Basic earnings per share		
Profit from continuing operations	19,482	18,381

34 Earnings per share (continued)

(d) Weighted average number of shares used as denominator

	Consolidated 2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	138,989,223	138,989,223
Options	2,208,036	1,047,471
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	141,197,259	140,036,694

(e) Information on the classification of securities

(i) Options

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

35 Share-based payments

(a) Long-Term Incentive Plan

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

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

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

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

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

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

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number
Consolidated - 2012							
2 December 2009	2 December 2016	$0.90	3,000,000	-	-	(1,500,000)	1,500,000
27 January 2010	2 December 2016	$1.33	600,000	-	-	(300,000)	300,000
22 October 2010	2 December 2016	$1.36	150,000	-	-	-	150,000
Total			**3,750,000**	**-**	**-**	**(1,800,000)**	**1,950,000**
Weighted average exercise price			$0.99	-	-	$0.97	$1.00

35 Share-based payments (continued)

(a) Long-Term Incentive Plan (continued)

Consolidated - 2011							
2 December 2009	2 December 2016	$0.90	3,000,000	-	-	-	3,000,000
27 January 2010	2 December 2016	$1.33	600,000	-	-	-	600,000
22 October 2010	2 December 2016	$1.36	-	150,000	-	-	150,000
Total			**3,600,000**	**150,000**	**-**	**-**	**3,750,000**
Weighted average exercise price			$0.97	$1.36	-	-	$0.99

The weighted average remaining contractual life of share options outstanding at the end of the period was 4.43 years (2011 - 5.43 years).

Fair value of options granted
No options were granted during the year ended 30 June 2012 (2011 - 27 cents). The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2012 included:

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

(b) exercise price: N/A (2011 - $1.36)

(c) vesting date: N/A (2011 - 2 December 2013)

(d) grant date: N/A (2011 - 22 October 2010)

(e) expiry date: N/A (2011 - 2 December 2016)

(f) share price at grant date: N/A (2011 - $1.31 - 22 October 2010)

(g) expected price volatility of the Group's shares: N/A (2011 - 35%)

(h) expected dividend yield: 5.5% (2011 - 5.5%)

(i) risk free interest rate: N/A (2011 - 4.92%)

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

35 Share-based payments (continued)

(b) Employee share scheme

An Exempt Employee Plan Offer under which shares may be issued by the Group to employees for no up front cash consideration was established as part of the Initial Public Offer. The first round of the Exempt Employee Plan Offer was conducted in November 2006, the second in March 2008, the third in March 2009, the fourth in March 2010 and the fifth in April 2011.

A sixth round of the Exempt Employee Plan Offer is likely to be conducted in September 2012. Eligible employees will be granted Offer Shares (being approximately $1,000 worth of fully paid Offer Shares at the market weighted offer price) in Patties Foods Limited. Successful Plan applicants would have their pre tax salary or wages reduced by approximately $1,000 in equal installments, over a 12 month period.

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

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

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

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

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were a write-back of -$427,000 in 2012 (2011: $159,000) for the consolidated entity.

All other terms and conditions are consistent with the original announcement of the grant made on 2 December 2009.

36 Parent entity financial information

(a) Summary financial information

	Parent Entity	
	2012 $'000	**2011 $'000**
Balance sheet		
Current assets	105,939	82,142
Non-current assets	163,590	161,739
Total assets	269,529	243,881
Current liabilities	62,040	54,928
Non-current liabilities	78,366	67,181
Total liabilities	140,406	122,109
Net assets	**129,123**	**121,772**
Shareholders' equity		
Contributed equity	68,443	68,443
Reserves	(714)	104
Retained earnings	61,394	53,225
	129,123	121,772
Profit or loss for the year	**19,288**	**17,962**
Cash flow hedges	(560)	(311)
Income tax relating to components of other comprehensive income	169	93
Other comprehensive income for the year, net of tax	**(391)**	**(218)**
Total comprehensive income	**18,897**	**17,744**

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011.

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

As at 30 June 2012, the parent entity had contractual commitments for the acquisition of property, plant or equipment totaling $1,945,000 (30 June 2011 $5,258,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

In the directors' opinion:

(a) the financial statements and notes set out on pages 34 to 80 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the 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.

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 directors.

Chris Riordan
Chairman

Melbourne
27 August 2012

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

Report on the financial report

We have audited the accompanying financial report of Patties Foods Limited (the company), which comprises the balance sheet as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Patties Foods Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year ended 30 June 2012.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

Independence

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

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Auditor's opinion
In our opinion:

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

    (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report
We have audited the remuneration report included in pages 7 to 21 of the directors' report for the year ended 30 June 2012. 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 2012 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John O'Donoghue
Partner

Melbourne
27 August 2012

The shareholder information set out below was applicable as at 31 July 2012.

A. Distribution of equity securities

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

Range	Total Holders	Units	% of Issued Capital
1 - 1000	649	434,613	.31%
1,001 - 5,000	1,445	3,835,632	2.76%
5,001 - 10,000	547	4,319,397	3.11%
10,001 - 100,000	577	15,073,926	10.85%
100,001 - 9,999,999	71	115,325,655	82.97%
	3,289	**138,989,223**	**100.00%**

B. Equity security holders

Twenty largest quoted equity security holders

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

	Units	% of Units
M F Custodians Ltd	23,030,299	16.57
Mr. Adrian Rijs & Mrs. Louise Rijs (A & L Rijs Fam Trust no. 2 A/C)	10,744,503	7.73
N&F Rijs Pty Ltd (N & F Rijs Family A/C)	9,345,348	6.72
JP Morgan Nominees Australia Ltd	8,382,918	6.03
Hank Pty Ltd (Ankh Family A/C)	7,777,277	5.60
Ludamon Pty Ltd (Marich Family A/C)	7,300,000	5.25
National Nominees Limited	6,665,915	4.80
The Estate of Peter Anthony Rijs	6,411,656	4.61
The Myer Family Investments Pty Ltd	5,000,000	3.60
JP Morgan Nominees Australia Ltd (Cash Income A/C)	4,474,540	3.22
Barr Family Pty Ltd <Barr Family Foundation A/C>	3,822,982	2.75
HSBC Custody Nominees (Australia) Limited	2,969,485	2.14
Mrs. Julie Ann Dennison	1,682,163	1.21
N & F Rijs Pty Ltd (the N&F Rijs Family A/C)	1,280,000	0.92
Mr. Michael Thomas Bartholomew	1,182,323	0.85
Citicorp Nominees Pty Limited	1,099,779	0.79
EMK Investments Pty Ltd	1,164,955	0.84
John Ernest Gleave	841,081	0.61
Mondalu Pty Ltd (RC & MW Rijs Super fund A/C)	793,294	0.57
Bairnsdale Custodians Pty Ltd	600,773	0.43
Totals: top 20 holders of issued capital	**104,569,291**	**75.24**
Total remaining holders balance	**34,419,932**	**24.76**

C. Substantial holders

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

	Number held	Percentage
Ordinary shares		
Richard C Rijs	14,504,950	10.44%
The Myer Family Company Pty Ltd	13,907,957	10.01%
Adrian & Louise Rijs	11,311,503	8.14%
N & F Rijs	9,345,348	6.72%
Aviva Investors Australia Limited	8,518,885	6.13%
Harry Rijs	8,177,277	5.88%

C. Substantial holders (continued)

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.