Patties Foods Ltd
ABN 62 007 157 182

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19 August 2016

Announcements Officer
ASX Limited
South Rialto Tower
525 Collins Street
MELBOURNE VIC 3000

Patties Foods Limited (PFL) - Results for announcement to the market - Year ended 30 June 2016

The following information in respect of the year ended 30 June 2016 is transmitted for lodgement:

1. Year end report announcement
2. Appendix 4E - Preliminary Final Report and Dividend Announcement for the year ended 30 June 2016
3. Appendix 4G - Key to Disclosures - Corporate Governance Council Principles and Recommendations; and
4. Directors' Report and Financial Report for the year ended 30 June 2016.

Yours faithfully

CLINTON ORR
Company Secretary

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

Steven Chaur
Managing Director and Chief Executive Officer
03 8540 9100

Robin Donohue
Chief Financial Officer
03 8540 9100

FULL YEAR RESULTS ANNOUNCEMENT

Core Bakery business EBIT grows +15.1% as Patties Foods Innovates and exits Frozen Fruit

The Board of Patties Foods Limited (PFL or Company) today announced the Company's financial result for the year ended 30 June 2016 (FY16).

Group Summary Result

$m	FY16	FY15	% Change
Sales Revenue	$245.1	$256.9	-4.6%
- Core Bakery (1), excluding Frozen Fruit	$233.5	$223.4	+4.6%
EBIT – Reported	$21.1	$9.1	130.8%
- Underlying (2)(3)	$22.4	$23.8	-6.0%
- Underlying Core Bakery, excl Frozen Fruit(1)(2)(3)	$25.4	$22.1	+15.1%
NPAT – Reported	$13.0	$2.1	533.2%
- Underlying (2)(3)	$14.1	$15.4	-8.7%
- Underlying Core Bakery, excl Frozen Fruit(1)(2)(3)	$16.5	$14.5	+13.6%
EPS (cents)	9.3	1.5	522.7%
DPS (cents)	2.7	5.0	N/A
Cash Inflow from Operations	$27.2	$5.3	416.5%
	FY16	FY15	
Net Debt	$60.3	$74.2	
Net Debt to Equity ratio (4)	44.5%	54.7%	

Isolating the now exited Frozen Fruit business, core Bakery sales revenues performed solidly growing at 4.6% (+$10.1m) (1). This growth was fundamentally due to stronger sales in our iconic savoury brands in a competitive market. In December 2015, the Company announced its exit of Frozen Fruit and the sale of the Creative Gourmet brand.

Allowing for a significant item of -$1.3m pre-tax (-$1.1m post-tax) relating to costs incurred from the Scheme of Arrangement, the underlying core Bakery EBIT (excluding Frozen Fruit) was $25.4m and a +15.1% on FY15. Significant items in FY15 were -$14.7m pre-tax and -$13.4m post-tax.(2) Particularly encouraging was the increase in underlying bakery EBIT in the second half of financial year of +25.0%, compared to +7.2% in 1H16.

Reported Net Profit After Tax (NPAT) was $13.0m vs $2.1m in FY15 and on an underlying basis (excluding Frozen Fruit), NPAT was $16.5m(2).

Following execution of the Scheme Implementation Deed announced in June 2016, the Board does not propose to consider declaring a final dividend. If the Scheme is approved by the Patties Shareholders and by the Court, the Board may consider the declaration and payment of a special dividend of up to and including $0.25 per share which is expected to be fully franked. (7)

Commenting on the results, Chairman, Mr Mark Smith said:

"The solid and increasing underlying 15.1% EBIT growth of our core Bakery business is very pleasing given our increased investment in brand marketing and product innovation. The decision to comprehensively re-structure the business 12 months ago continues to deliver effective cost control and operational efficiency improvements.

The strategic decision to exit the Frozen Fruit category is now complete and accordingly the business continues to concentrate on driving its profitable core Bakery business and importantly iconic food brands such as FOUR'N TWENTY, Patties, Herbert Adams, Nanna's and Chefs Pride".

Managing Director and CEO, Mr Steven Chaur said:

"Our core bakery business continues to perform solidly over the past 12 months through our focussed strategy in delivering premium savoury innovation, creating customer differentiation, operating a leaner organisation and achieving Continuous Improvement programs in the Bakery.

Our brands continued to exceed the market growth in all sales channels, with Patties growing revenue +6.2%, FOUR'N TWENTY +13.2%, Herbert Adams +11.6% and Nanna's +12.2%.

Overall our bakery business grew at +4.6%, offsetting a revenue decline of -19.4% in our contract manufacturing business against the prior year as the Company chose to exit two unprofitable Private Label contracts. Positively, these contract exits were offset with improved operational performance and branded sales of higher margin new products.

Over the financial year, management worked diligently to mitigate the residual effects of the February 2015 Frozen Berries recall. As at the end of June 2016, Patties Foods had practically exited all its remaining frozen berries stocks and successfully transitioned Creative Gourmet.

Patties Foods continues to grow its share of the competitive savoury pastry market in all sales channels. In the In-Home grocery channel, branded business has grown to over 52% market share of the $295M Total Frozen Savoury category[(6)], with all our brands growing their respective segment share. In the Out of Home channel, Patties Foods has now grown to 64% share of the important Petrol and Convenience (P&C) channel, which grew at +10.1% to $125M[(6)] in FY16.

During FY16, the Company launched a range of exciting new products and campaigns, in particular driving our branded first to market innovation advantage with leading sous vide technology.

- *The Patties brand, which is celebrating its 50 year birthday in 2016, grew revenue +6.2% overall driven by a strong +11.4% growth in In-Home sales through unique new products such as mini pizzas, a Cheeseburger party pie and a vibrant new packaging makeover. Foodservice launches included two new sous vide slow cooked party pies and new savoury finger foods.*
- *Our premium Herbert Adams brand continues to be an industry success, with the launch of a first to market range of sous vide slow cooked meat pies. Range extensions include new premium flavours such as Smoky Pulled Pork, Lamb and Rosemary, RSPCA Chicken & Chorizo and two party pie offers. In In-Home, the brand has extended into the chilled foods segment with a range of premium single box slow cooked pies. The brand now commands 15% value share of total supermarket frozen savoury sales and continues to grow strongly at +21.6%.*
- *FOUR'N TWENTY: the launch of the new sous vide slow cooked "Real Chunky" pie range in the P&C channel accelerated brand growth to become market leader and grew the brand's Out of Home revenues by an impressive +20.3%. Grocery launches included a new sous vide 'Super Chunky' pie range, a limited time Cheeseburger pie offer and an Australia shaped party pie for Australia Day helping to grow brand revenue +7.1% in the sales channel.*
- *Chefs Pride in 4Q16 has launched a new range of 9 premium sous vide slow cooked protein based meal solutions targeted at the catering sales channel. The new range also includes an innovative 'snip and serve' range of 7 premium ready to serve meat pie fillings targeted at the high street 'scratch' bakery market. Early sales to foodservice distributors have been very positive.*

Over the past 12 months the Bairnsdale bakery continued to make key capital investments and deliver solid performance improvements. Key highlights include a significant reduction in inventory, improved production reliability, increased consumer satisfaction and safety LTIFR reduced by -50%.

Further Highlights for FY16 were:

- Year end total debt position of $60M is the lowest level since 2011
- Cash Flow from Operations improved to $27.2M, a net improvement of $21.9M vs FY15
- Total Inventory reduced to $35.5M compared to $49.9M in F15, a reduction of -$14.4M driven by the exit of Frozen Fruit, improvements in core Bakery performance and lower meat inventory
- The Company successfully launched 46 new savoury products over the past 12 months
- The strategically important Out of Home market channel has now grown to 38% share of total Company revenues compared to 34% last year

Capital Management

The Company improved its balance sheet profile with a net debt to equity ratio (4) of 44.5% at 30 June 2016 (54.7% at 30 June 2015).

Total cash flow generated from operations in FY16 improved to $27.2m compared to $5.3m in FY15. Net Debt of $60.3m also improved against $74.2m as at 30 June 2015.

Underlying Return of Equity(5) was 10.6% (FY15: 11.4%) which we anticipate will improve following the exit of Frozen Fruit and the more streamlined focus on our core Bakery business.

Dividend(7)

Following an interim dividend of 2.7cps, the Board does not propose to consider declaring a final dividend as it has entered into the Scheme Implementation Deed. If the Scheme is approved by the Patties Shareholders and by the Court, the Board may consider the declaration and payment of a special dividend of up to and including $0.25 per share which is expected to be fully franked. (7)

Scheme of Implementation Deed

Patties Foods Limited has previously announced and sent to its shareholders an Explanatory Booklet in relation to the previously announced Scheme of Arrangement with ASIC for the proposed acquisition of Patties by Australasian Foods Bidco Pty Ltd (Scheme) and convening of the Scheme Meeting of Shareholders. The terms of the proposed Scheme are as announced to ASX on 2 June 2016.

An Independent Expert's report, prepared by Deloitte Corporate Finance Pty Limited (Deloitte) has concluded that, in the absence of a superior proposal, the proposed Scheme is fair and reasonable and therefore is in the best interests of Patties shareholders.

Your Directors continue to unanimously recommend that Patties shareholders vote in favour of the Scheme at the upcoming Scheme Meeting, in the absence of a superior proposal. Subject to that same qualification, each Patties Director intends to vote all Patties shares held or controlled by him in favour of the Scheme.

The Scheme meeting is to be **held at 10:00am on Friday, 26 August 2016** at Minter Ellison, Level 23, Rialto Towers, 525 Collins Street, Melbourne, Victoria. All shareholders are encouraged to vote either by attending the Scheme Meeting in person, or by lodging a proxy vote by 10.00am on Wednesday, 24 August 2016.

Outlook

The Company is performing well against its 3 stage Growth Roadmap, having completed the first stage of 'Restore Basic Operating Conditions' in F15 and now firmly into the second phase of 'Driving for Growth' through innovation, market penetration, organisation skill base and operational productivity improvement, with all key metrics being achieved in the core on-going savoury business.

The Company enjoys solid customer relationships, has growing iconic brands and our employees remain highly engaged. As we proudly celebrate our 50th year of operations during 2016, the Company's future remains energised and vibrant.

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

Steven Chaur
Managing Director and Chief Executive Officer
03 8540 9100

Robin Donohue
Chief Financial Officer
03 8540 9100

About Patties Foods Ltd ABN 62 007 157 182

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 and frozen dessert segments.

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

FOUR'N TWENTY is Australia's favourite meat pie. It is the number 1 branded range of meat pies in Australia across all retail markets including supermarkets, route trade and convenience stores. It is the number 1 selling pie at the footy being available at most major sporting venues in Australia.

Patties is Australia's number 1 branded range of party savoury pastry products and is sold in Australia across all markets including supermarkets, general foodservice, venues and catering. Patties famous Party Pies and Party Sausage Rolls are enjoyed by people of all ages and are a fun, staple snack at any entertaining occasion.

Notes to the Financial table

(1) Frozen Fruit sales revenue reduced by -$21.9m (-65.4%) to $11.9m in FY16 vs. $33.5m in FY15. Underlying Frozen Fruit EBIT was: FY16 -$3.0m (FY15: $1.8m) and NPAT -$2.4m (FY15: $0.9m)

(2) FY16 reported profit was adjusted for a significant item relating to costs incurred from the Scheme of Arrangement ($1.3m pre-tax and $1.1m post-tax)

(3) FY15 reported profit adjusted for significant items of $14.7m pre-tax and $13.4m post-tax. This relates to an organisational restructure ($1.1m pre-tax and $0.8m post-tax), the direct costs of the frozen berries recall and; a non-cash impairment of the Frozen Fruit Business ($13.6m pre and $12.6m post-tax)

(4) Debt to Equity ratio is calculated as Net Debt divided by Total Equity.

(5) Return on Equity is calculated using the average Equity over the previous 12 months.

(6) Source: Aztec Grocery scan data, Retail Sales Value $, 12 months MAT to June 2016

(7) By entering into the Scheme Implementation Deed with Australasian Foods Bidco Pty Ltd (BidCo), the Board is unable to consider declaring, distributing or incurring a liability to make or pay a dividend, bonus or other share of its profits, income, capital or assets by way of dividend or other form of distribution other than in respect of any Special Dividend.

Listing Rule 4.3A

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 2016
Previous corresponding period is the financial year ended	30 June 2015

2. Results for announcement to the market

				A$'000
Revenue from ordinary activities *(item 2.1)*	Down	4.6%	to	245,072
Earnings before interest, tax, depreciation & amortisation (EBITDA)	Up	5.1%	to	29,267
Underlying Earnings before interest, tax, depreciation & amortisation (Underlying EBITDA)	*Down*	*5.2%*	*to*	*30,594*
Earnings before interest and tax (EBIT)	Up	130.8%	to	21,086
Underlying earnings before interest and tax (Underlying EBIT)	*Down*	*6.0%*	*to*	*22,413*
Net profit (loss) from ordinary activities after tax attributable to members (Item 2.2 & 2.3)	Up	533.2%	to	13,013
Underlying net profit (loss) from ordinary activities after tax attributable to members	*Down*	*8.7%*	*to*	*14,095*

Dividends *(item 2.4)*	Date paid / payable	Amount per security	Franked amount per security
Interim dividend			
Current reporting period	15 APR 2015	2.7¢	2.7¢
Previous corresponding period	-	0.0¢	0.0¢
Final dividend			
Current reporting period	-	0.0¢	0.0¢
Previous corresponding period	8 OCT 2015	5.0¢	5.0¢
Record date for determining entitlements to the final dividend (*item 2.5*):		N/A	

Brief explanation (item 2.6):
Following execution of the Scheme Implementation Deed announced in June 2016, the Board does not propose to consider declaring a final dividend. If the Scheme is approved by the Patties Shareholders and by the Court, the Board may consider the declaration and payment of a special dividend of up to and including $0.25 per share which is expected to be fully franked.

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	$3,761	$0
Final Dividend Payable	$0	$6,962

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)	$0.58	$0.56
Net asset backing (per share)	$0.98	$0.96

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	**2016 A$'000**	**2015 A$'000**
Davies Bakery Pty Ltd	50%	$2,527	$1,904

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 operating and financial review section of the director's report and the 2016 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.

Rules 4.7.3 and 4.10.3[1]

Appendix 4G

Key to Disclosures
Corporate Governance Council Principles and Recommendations

Name of entity:

PATTIES FOODS LTD

ABN / ARBN:	Financial year ended:
62 007 157 182	30 June 2016

Our corporate governance statement[2] for the above period above can be found at:[3]

☒ These pages of our annual report: 30 - 39

☐ This URL on our website:

The Corporate Governance Statement is accurate and up to date as at 30 June 2016 and has been approved by the board.

The annexure includes a key to where our corporate governance disclosures can be located.

Date: 19 August 2016

Name of Director or Secretary authorising
lodgement: Mark Smith

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[1] Under Listing Rule 4.7.3, an entity must lodge with ASX a completed Appendix 4G at the same time as it lodges its annual report with ASX.

Listing Rule 4.10.3 requires an entity that is included in the official list as an ASX Listing to include in its annual report either a corporate governance statement that meets the requirements of that rule or the URL of the page on its website where such a statement is located. The corporate governance statement must disclose the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed a recommendation for any part of the reporting period, its corporate governance statement must separately identify that recommendation and the period during which it was not followed and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

Under Listing Rule 4.7.4, if an entity chooses to include its corporate governance statement on its website rather than in its annual report, it must lodge a copy of the corporate governance statement with ASX at the same time as it lodges its annual report with ASX. The corporate governance statement must be current as at the effective date specified in that statement for the purposes of rule 4.10.3.

[2] "Corporate governance statement" is defined in Listing Rule 19.12 to mean the statement referred to in Listing Rule 4.10.3 which discloses the extent to which an entity has followed the recommendations set by the ASX Corporate Governance Council during a particular reporting period.

[3] Mark whichever option is correct and then complete the page number(s) of the annual report, or the URL of the web page, where the entity's corporate governance statement can be found. You can, if you wish, delete the option which is not applicable.

Throughout this form, where you are given two or more options to select, you can, if you wish, delete any option which is not applicable and just retain the option that is applicable. If you select an option that includes "OR" at the end of the selection and you delete the other options, you can also, if you wish, delete the "OR" at the end of the selection.

ANNEXURE – KEY TO CORPORATE GOVERNANCE DISCLOSURES

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT		
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*] … and information about the respective roles and responsibilities of our board and management (including those matters expressly reserved to the board and those delegated to management): ☒ at http://pattiesfoods.com.au/investors/documents/corporate-governance
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	See footnote[4]
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]

[4] We have not followed Recommendation 1.3 in full for the whole of the period above. We have disclosed an explanation why that is so in our Corporate Governance Statement.

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
1.5	A listed entity should: (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either: (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	… the fact that we have a diversity policy that complies with paragraph (a): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*] … and a copy of our diversity policy or a summary of it: ☒ at http://pattiesfoods.com.au/investors/documents/corporate-governance … and the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with our diversity policy and our progress towards achieving them: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*] … and the information referred to in paragraphs (c)(1) or (2): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	… the evaluation process referred to in paragraph (a): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*] … and the information referred to in paragraph (b): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	… the evaluation process referred to in paragraph (a): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*] … and the information referred to in paragraph (b): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE		
2.1	The board of a listed entity should: (a) have a nomination committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	[If the entity complies with paragraph (a):] … the fact that we have a nomination committee that complies with paragraphs (1) and (2): ☒ in our Corporate Governance Statement OR ☐ at [*insert location*] … and a copy of the charter of the committee: ☒ at http://pattiesfoods.com.au/investors/documents/corporate-governance … and the information referred to in paragraphs (4) and (5): ☒ in our Corporate Governance Statement OR ☐ at [*insert location*] [If the entity complies with paragraph (b):] … the fact that we do not have a nomination committee and the processes we employ to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively: ☐ in our Corporate Governance Statement OR ☐ at [*insert location*]
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	… our board skills matrix: ☒ in our Corporate Governance Statement OR ☐ at [*insert location*]
2.3	A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director.	… the names of the directors considered by the board to be independent directors: ☒ in our Corporate Governance Statement OR ☐ at [*insert location*] … and, where applicable, the information referred to in paragraph (b): ☐ in our Corporate Governance Statement OR ☐ at [*insert location*] … and the length of service of each director: ☒ in our Corporate Governance Statement OR ☐ at [*insert location*]

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
2.4	A majority of the board of a listed entity should be independent directors.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY		
3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	… our code of conduct or a summary of it: ☐ in our Corporate Governance Statement <u>OR</u> ☒ at http://pattiesfoods.com.au/investors/documents/corporate-governance

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING		
4.1	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	[If the entity complies with paragraph (a):] … the fact that we have an audit committee that complies with paragraphs (1) and (2): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*] … and a copy of the charter of the committee: ☒ at http://pattiesfoods.com.au/investors/documents/corporate-governance … and the information referred to in paragraphs (4) and (5): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*] [If the entity complies with paragraph (b):] … the fact that we do not have an audit committee and the processes we employ that independently verify and safeguard the integrity of our corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner: ☐ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE		
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	… our continuous disclosure compliance policy or a summary of it: ☐ in our Corporate Governance Statement <u>OR</u> ☒ at http://pattiesfoods.com.au/investors/documents/corporate-governance
PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS		
6.1	A listed entity should provide information about itself and its governance to investors via its website.	… information about us and our governance on our website: ☒ at http://pattiesfoods.com.au/investors
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	… our policies and processes for facilitating and encouraging participation at meetings of security holders: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]

<table>
<tr><td colspan="2">Corporate Governance Council recommendation</td><td>We have followed the recommendation in full for the whole of the period above. We have disclosed …</td></tr>
<tr><td colspan="3">PRINCIPLE 7 – RECOGNISE AND MANAGE RISK</td></tr>
<tr><td>7.1</td><td>The board of a listed entity should:
(a) have a committee or committees to oversee risk, each of which:
(1) has at least three members, a majority of whom are independent directors; and
(2) is chaired by an independent director,
and disclose:
(3) the charter of the committee;
(4) the members of the committee; and
(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity’s risk management framework.</td><td>[If the entity complies with paragraph (a):]
… the fact that we have a committee or committees to oversee risk that comply with paragraphs (1) and (2):
☒ in our Corporate Governance Statement <u>OR</u>
☐ at [insert location]
… and a copy of the charter of the committee:
☒ at http://pattiesfoods.com.au/investors/documents/corporate-governance
… and the information referred to in paragraphs (4) and (5):
☒ in our Corporate Governance Statement <u>OR</u>
☐ at [insert location]
[If the entity complies with paragraph (b):]
… the fact that we do not have a risk committee or committees that satisfy (a) and the processes we employ for overseeing our risk management framework:
☐ in our Corporate Governance Statement <u>OR</u>
☐ at [insert location]</td></tr>
<tr><td>7.2</td><td>The board or a committee of the board should:
(a) review the entity’s risk management framework at least annually to satisfy itself that it continues to be sound; and
(b) disclose, in relation to each reporting period, whether such a review has taken place.</td><td>… the fact that board or a committee of the board reviews the entity’s risk management framework at least annually to satisfy itself that it continues to be sound:
☒ in our Corporate Governance Statement <u>OR</u>
☐ at [insert location]
… and that such a review has taken place in the reporting period covered by this Appendix 4G:
☒ in our Corporate Governance Statement <u>OR</u>
☐ at [insert location]</td></tr>
</table>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	[If the entity complies with paragraph (a):] … how our internal audit function is structured and what role it performs: ☒ in our Corporate Governance Statement OR ☐ at [*insert location*] [If the entity complies with paragraph (b):] … the fact that we do not have an internal audit function and the processes we employ for evaluating and continually improving the effectiveness of our risk management and internal control processes: ☐ in our Corporate Governance Statement OR ☐ at [*insert location*]
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	… whether we have any material exposure to economic, environmental and social sustainability risks and, if we do, how we manage or intend to manage those risks: ☒ in our Corporate Governance Statement OR ☐ at [*insert location*]

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY		
8.1	The board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	[If the entity complies with paragraph (a):] … the fact that we have a remuneration committee that complies with paragraphs (1) and (2): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*] … and a copy of the charter of the committee: ☐ at http://pattiesfoods.com.au/investors/documents/corporate-governance … and the information referred to in paragraphs (4) and (5): ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*] [If the entity complies with paragraph (b):] … the fact that we do not have a remuneration committee and the processes we employ for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive: ☐ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	… separately our remuneration policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives: ☐ in our Corporate Governance Statement <u>OR</u> ☒ at http://pattiesfoods.com.au/investors
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	… our policy on this issue or a summary of it: ☒ in our Corporate Governance Statement <u>OR</u> ☐ at [*insert location*]

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …
ADDITIONAL DISCLOSURES APPLICABLE TO EXTERNALLY MANAGED LISTED ENTITIES		
-	*Alternative to Recommendation 1.1 for externally managed listed entities:* The responsible entity of an externally managed listed entity should disclose: (a) the arrangements between the responsible entity and the listed entity for managing the affairs of the listed entity; (b) the role and responsibility of the board of the responsible entity for overseeing those arrangements.	… the information referred to in paragraphs (a) and (b): ☐ in our Corporate Governance Statement OR ☐ at [*insert location*]
-	*Alternative to Recommendations 8.1, 8.2 and 8.3 for externally managed listed entities:* An externally managed listed entity should clearly disclose the terms governing the remuneration of the manager.	… the terms governing our remuneration as manager of the entity: ☐ in our Corporate Governance Statement OR ☐ at [*insert location*]

Patties Foods Limited

ABN 62 007 157 182

Annual report
for the year ended 30 June 2016

Patties Foods Limited ABN 62 007 157 182
Annual report - 30 June 2016

Contents

Directors	Steven C Chaur Gregory J Dhnaram J Curt Leonard Harry (Henricus) J Rijs Richard C Rijs John P Schmoll Mark G Smith
Secretary	Clinton M Orr
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 7, 150 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 2016.

Directors

Steven C Chaur
Gregory J Dhnaram
J Curt Leonard
Harry J Rijs
Richard C Rijs
John P Schmoll
Mark G Smith

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:

	2016 $'000	2015 $'000
Final ordinary dividend for the year ended 30 June 2015 of 5.0 cents (2014-3.9 cents) per fully paid share paid on 8 October 2015	6,962	5,427
Interim ordinary dividend for the year ended 30 June 2016 of 2.7 cents (2015-nil cents) per fully paid share	3,760	-
	10,722	5,427

In addition to the above dividends, the Board does not propose to consider declaring a final dividend. If the Scheme is approved by the Patties Shareholders and by the Court, the Board may consider the declaration and payment of a special dividend of up to and including $0.25 per share which is expected to be fully franked. (FY2015: 5.0 cents per share).

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

Patties Foods Limited has announced that it has registered an Explanatory Booklet in relation to the previously announced Scheme of Arrangement with ASIC for the proposed acquisition of Patties by Australasian Foods Bidco Pty Ltd. The terms of the proposed Scheme are as announced to ASX on 2 June 2016.

An Independent Expert's report, prepared by Deloitte Corporate Finance Pty Limited (Deloitte) has concluded that, in the absence of a superior proposal, the proposed Scheme is fair and reasonable and therefore is in the best interests of Patties shareholders.

Your Directors continue to unanimously recommend that Patties shareholders vote in favour of the Scheme at the upcoming Scheme Meeting, in the absence of a superior proposal.

The Scheme meeting will be held at 10:00am on Friday, 26 August 2016 at Minter Ellison, Level 23, 525 Collins Street, Melbourne, Victoria.

Apart from the above, there are no other matters or circumstances have arisen since 30 June 2016 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.

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 2014/15 report to the Greenhouse and Energy Data Officer on 30 October 2015.

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.

Operating and financial review (OFR)

The Board presents the 2016 OFR with the objective of providing shareholders with an overview of the Group's operating performance, financial position, business strategies and prospects for future financial years. This review also sets out the material operational risks.

The 2016 OFR has been prepared in accordance with section 299A of the Corporations Act 2001 and the Australian Securities and Investments Commission Regulatory Guide 247 "Effective Disclosures in an Operating and Financial Review".

Operating Information and Underlying Drivers of Performance

$m	**FY2016**	**FY2015**	**% Change**
Revenue	$245.10	$256.90	-4.6%
Revenue - core bakery	$233.48	$223.32	4.6%
EBITDA	$29.30	$27.90	5.0%
EBIT	$21.10	$9.10	131.9%
NPAT	$13.0	$2.10	519.1%
EPS (cents)	9.30c	1.50c	522.7%
DPS (cents)	2.7c	5.0c	-46.0%
EBITDA – Underlying (1)	$30.60	$32.30	-5.3%
EBIT – Underlying (1)	$22.40	$23.80	-5.9%
EBIT – Core Bakery Underlying (1)	$25.39	$22.05	15.1%
NPAT- Underlying (1)	$14.10	$15.40	-8.4%
NPAT – Core Bakery Underlying (1)	$16.52	$14.54	13.6%
EPS (cents) – Underlying (1)	10.1c	11.1c	-9.0%
Net Debt (2)	$60.26	$74.19	-18.8%
Cash Inflow from Operations	$27.17	$5.30	416.5%
Debt to Equity ratio (3)	44.5%	54.7%	

(1) FY16 reported profit was adjusted for a significant item being costs incurred from the Scheme of Arrangement ($1.3m pre-tax and $1.1m post-tax). FY15 reported profit adjusted for significant items of $14.704m pre-tax and $13.383m post-tax. This relates to an organizational restructure ($1,131k pre-tax and $792k post-tax) and frozen fruit recall and impairment of Frozen Fruit Business ($13.573m pre and $12.591m post-tax)
(2) Net debt is calculated as debt less cash on hand.
(3) Debt to equity ratio is calculated as net debt vs. total equity.

Revenue
The Group sales decreased by 4.6% or $11.8 million from the previous corresponding year, to $245.1m. However when sales of frozen fruit are excluded, core bakery sales increased by 4.6% or $10.3m to $233.0.The principal sales' trends evident in the current year were:

- The In Home and Out of Home savoury categories all maintained market leading positions.
- Our core brands positively grew in sales revenue versus the year prior with FOUR'N TWENTY (+13.5%), Patties (+6.2%), Herbert Adam's (+11.5%) and Nanna's sweet pastry products (+10.7%).
- FOUR'N TWENTY remained the market leading brand.
- Successful launches of innovative new products with range extensions in Herbert Adam's Slow Cooked pies; FOUR'N TWENTY Real Chunky extensions for Out of Home, FOUR'N TWENTY Cheese burger pie, the Herbert Adam's Chilled pie range in Grocery; Nanna's Crumble Cakes and Churros; Patties Pie Bites and Mini Party Pizzas.

Operating and financial review (OFR) (continued)

Profit

Net Profit After Tax (NPAT) for the year ending 30 June 2016 was $13.0m vs $2.1m after accounting for the significant effect of the costs incurred from the Scheme of Arrangement . The underlying NPAT of $14.1m consists of a contribution of $16.5m from the core bakery.

Profit before income tax expense and finance costs is referred to as earnings before interest and tax or EBIT. EBIT was $21.1m, an increase of $11.9m or 131.9% on last year's reported result.

The primary influences on the profit result are outlined below:

- The Company was able to mitigate substantial market increases in beef prices through stronger procurement, and forward purchasing against the favourable market prices. This however resulted in higher levels of inventory and debt during 1H16.
- Total operating expenses decreased by 5.0% to $49.9 million demonstrating effective cost control, notwithstanding an increase in marketing spend to support revenue growth and investment to develop various branded innovation initiatives.
- Finance costs increased by $0.5m in FY2016 reflecting the higher debt profile for 1H16 with debt reduction only occurring late in F16.

Financial Position

Dividends

The total dividends to shareholders for the year is 2.7c consisting of only an interim dividend of 2.7c. A term of the Scheme Implementation Deed with Australasian Foods Bidco Pty Ltd (BidCo) is that the Board is unable to consider declaring, distributing or incurring a liability to make or pay a dividend, bonus or other share of its profits, income, capital or assets by way of dividend or other form of distribution other than in respect of any Special Dividend.

Cash Generation and Capital Management

Free from the constraints of the effect of the frozen berries recall and reducing the substantial holding of beef in inventory resulted in the net debt to equity ratio decreasing to 44.5% at 30 June 2015 (55.3% at 30 June 2015). Total cash flow generated from operations in FY16 was $27.2m. Accordingly, Net Debt decreased by $13.9m to $60.3m (30 June 2014 $74.2m).

External Financing Facilities

The Group retains external bank financing capacity totaling $88.4 million through a facility with Westpac Bank. These facilities mature in January 2018 and are sufficient to meet the current planned organic operational and investment needs of the Group.

The banking covenants are comfortable and there are strong internal controls to ensure compliance with covenants and internal financial ratio policy thresholds.

Operating and financial review (OFR) (continued)
Business Strategies and Prospects for Future Financial Years

During the year, the Company continued to pursue its 3-Stage rebuilding program. The company has made strong progress in 1H16 against its “Drive for Growth” phase of the Plan, having reset the business over the last 24 months. Frozen Fruit business was exited in 2H16, allowing the business to focus on driving its core Bakery business and improve operating leverage. A strong innovation program is now being delivered in all sales channels, underpinned by a single minded savoury business model, a more efficient Bakery operation, aligned customer & channel strategies and higher investment in core brand marketing. A clear Plan is in place to deliver future direct and indirect cost savings in our business through manufacturing, supply chain, materials and labour costs. The focus on In-Home and Out of Home as separated sales & marketing channels is delivering the right focus on margin growth, innovation and further market penetration of our range of savoury products.

Net Income Growth

Profitable growth opportunities continue to be present through aggressively driving our distribution points with our existing product range. In the In Home channel the net income growth will come through continued brand innovation, effective promotional ROI and growing beyond the Freezer. With its higher gross profit margin, Out of Home growth is imperative with a focus on end Users in Foodservice/Aged Care as well as participation in new markets to PFL. Organic export growth opportunities with existing products continue to be present.

Profit Drivers

Profit improvement is an underlying platform to continue the Group’s earnings growth. We strive to achieve results through optimizing product mix, managing our sales channel business mix; raw material cost improvement from standardizing specifications and improved procurement integration; further supply chain improvements, optimizing production time; and; efficiently monitoring the costs of doing business with our major customers.

Increase product range

Innovation through new products in our core savory brands is a focus with a fewer, bigger, better approach. With further investment in sous vide capability, we aspire to lead in premium range development through ‘better quality to eat’ against current market offerings and the use of premium meat cuts. We will also look at development in alternate proteins like chicken, pork and lamb to broaden the appeal of our products.

Brands support

The Group remains focused on investing heavily in our brands in the face of price driven commoditisation. All new innovation will be supported with media, strong in field support and product trial initiatives. We will continue to support core brands with above the line media support to drive category growth and consumer participation. A major strategy to de-seasonalise our sales continues through national, state and community sporting associations and product sales through major events and entertainment venues.

The Group believes that there is a need for formal policies on risk management and accordingly, the Group has systematic processes in place to identify, assess, manage, monitor and report the material business and financial risks of the Group.

The risk management framework together with the risk assessments and mitigation strategies are regularly reviewed both individually and collectively by senior management, the Audit and Risk Committee and the Board.

A simple prioritization system has been adopted to scale the relative importance of all the identified risks. All risks are prioritized for mitigation actions and those considered "very high" are the material business risks faced by the company that are likely to have an effect on the financial prospects and regulatory compliance of the Group. The risk identified as very high is detailed below, including how the company manages this risk. There is no change to this risk from FY15.

Operating and financial review (OFR) (continued)

- A change in the competitive environment impacting profitability: The competitive landscape is increasing, and having the lowest cost of doing business is a key source of maintaining a competitive advantage, together with quality of brands. Accordingly we continue to focus on:
  - maintaining a cost efficiency advantage over our competitors; and
  - branded innovation and customer needs through market research, advertising campaigns, product development and packaging innovation.

Scheme of Arrangement

The Group announced that it has registered an Explanatory Booklet with ASIC in relation to the previously announced Scheme of Arrangement for the proposed acquisition of Patties by Australasian Foods Bidco Pty Ltd (Scheme). The terms of the proposed Scheme were as announced to ASX on 2 June 2016.

The Explanatory Booklet includes a notice of Scheme meeting and an independent expert's report, prepared by Deloitte Corporate Finance Pty Limited (Deloitte). Deloitte has concluded that, in the absence of a superior proposal, the proposed Scheme is fair and reasonable and therefore is in the best interests of Patties shareholders. The Directors continue to unanimously recommend that Patties shareholders vote in favour of the Scheme at the upcoming Scheme Meeting, in the absence of a superior proposal. Subject to that same qualification, each Patties Director intends to vote all Patties shares held or controlled by him in favour of the Scheme.

The Scheme meeting will be held at 10:00am on Friday, 26 August 2016 at Minter Ellison, Level 23, 525 Collins Street, Melbourne, Victoria. All shareholders are encouraged to vote either by attending the Scheme Meeting in person, or by lodging a proxy vote by 10.00am on Wednesday, 24 August 2016.

Outlook

The Company is performing well against its 3 stage Growth Roadmap, having completed the first stage of 'Restore Basic Operating Conditions' in F15 and now firmly into the second phase of 'Driving for Growth' through innovation, market penetration, organisation skill base and operational productivity improvement, with all key metrics being achieved in the core on-going savoury business.

The Company enjoys solid customer relationships, has growing iconic brands and our employees remain highly engaged. As we proudly celebrate our 50th year of operations during 2016, the Company's future remains energised and vibrant.

Information on directors
Mark G Smith FAMI CPM FAIM FAICD *Non-Executive Chairman*

Experience and expertise
Extensive global experience in the Manufacturing and FMCG sectors across Australasia, USA, UK and Asia Pacific.
Managing Director of Cadbury Schweppes Australia and New Zealand from 2003-2007, and a member of the Asia Pacific Regional Board. Over a 16 year career with the Cadbury Schweppes group, held senior management positions in Australia, the UK and North America.
Past Chairman of Manassen Foods Group.
Senior marketing management positions with Unilever and Uncle Toby's.

Other current directorships
Non-Executive Director of GUD Holdings since 2009
Various Private entities

Former directorships in last 3 years
Non-Executive Director of Toll Holdings Limited, Australia (October 2007 - May 2015)

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

Interests in shares
296,000 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
Various Private entities.

Former directorships in last 3 years
None.

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

Interests in shares
2,306,135 ordinary shares in Patties Foods Limited

Information on directors (continued)
Steven C Chaur MBA, Graduate Diploma in Marketing, AFAIM, MAICD, *Managing Director & Chief Executive Officer*.

Experience and expertise
A 25 year career in FMCG food industry leadership roles including Executive General Management roles in companies such as Tip Top Bakeries (Southern region), Findus Australia and National Foods (Tasmania). Steven also spent 9 years in marketing directorship roles with Pacific Brands Food Group, Simplot Australia and National Foods Limited. Prior to joining Patties Foods, Steven held the role of Managing Director (Pacific) for Companies de Saint-Gobain, a $40Bn euro revenue French publicly listed and global top 100 industrial company where he managed multiple countries, industry sectors and manufacturing sites.

Other current directorships
Davies Bakery Pty Ltd
Meat & Livestock Australia Ltd
Various Private entities

Former directorships in last 3 years
Managing Director - Pacific of Saint-Gobain (April 2010 - March 2014)

Special responsibilities
Managing Director & Chief Executive Officer.

Interests in shares
52,988 ordinary shares in Patties Foods Limited.

Gregory J Dhnaram *Non-Executive Director*

Experience and expertise
Former Chief Executive Officer of Carter & Spencer Group (June 2015 - June 2016)
Former Chief Executive Officer of Favco Group (2007 - November 2014)
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, retail and strategic planning.

Other current directorships
Non executive Director (since November 2008) and currently Deputy Chair of Citrus Australia Limited.
Various Private entities

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)
Harry (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 Director Sales and Marketing and Deputy Managing Director.

Resigned as Executive Director and appointed Non-Executive Director on 1 July 2011.

Other current directorships
Davies Bakery Pty Ltd
Chairman of the Committee for Gippsland
Various Private entities

Former directorships in last 3 years
None

Special responsibilities
Member of Audit and Risk Committee.

Interests in shares
9,500,000 ordinary shares in Patties Foods Limited.

Richard C Rijs *Non-Executive Director*

Experience and expertise
Managing Director from 1989 to 2007. Led the company through several successful acquisitions, culminating in the purchase and integration of the Four 'N Twenty Pastry business. Was responsible for development of the state of the art plant which saw Patties becoming the largest savoury pastry manufacturer in Australia.
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
Chair of East Gippsland Marketing Board
Various Private entities

Former directorships in last 3 years
Chair of Lindenow Valley Water Security Committee

Special responsibilities
Member of Remuneration and Nomination Committee.

Interests in shares
9,000,002 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 undertaken some executive coaching roles and held 7 public company non-executive director positions (primarily as either Chairman or Chairman of the Audit Committee). 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 Chairman of Oroton Group Limited since 2006.
Various Private entities

Former directorships in last 3 years
Non-Executive Director and Chairman of Breville Group Limited (2004-2013).

Special responsibilities
Chairman of Audit and Risk Committee.

Interests in shares
100,000 ordinary shares in Patties Foods Limited.

Company secretary

Clinton Orr was appointed as company secretary of Patties Foods Ltd (PFL) with effect from 18 September 2014. Clinton has held the position of Legal Counsel at PFL since 30 January 2012.

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 2016, 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
Mark G Smith	18	18	*	*	2	2
J Curt Leonard	18	18	*	*	2	2
Steven C Chaur	18	18	*	*	*	*
Gregory J Dhnaram	18	18	4	4	*	*
Harry J Rijs	16	18	4	4	*	*
Richard C Rijs	18	18	*	*	2	2
John P Schmoll	17	18	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 member of the relevant committee

Remuneration report

The directors present the remuneration report for the year ended 30 June 2016.
The information provided in this remuneration report has been audited as required by section 300A of the Corporations Act 2001. This report outlines how Patties Foods performance for the 2015 financial year has driven the remuneration outcomes for senior executives.

Voting and comments made at the Group's 2014 Annual General Meeting

The Annual General Meeting was held on 19 November 2015 and for the purposes of section 250R(2) of the Act, the Group's Remuneration Report for the financial year ended 30 June 2015 was adopted without question or comment.

Summary of highlights for Financial Year 2015

The Board continues to review remuneration arrangements, policy and practice to ensure alignment with the strategy of the Group and with external practice. The following are key events for Financial Year 2016 (‘FY2016’):

- Part of FY2015 Short Term Incentive Plan (STIP) awarded to senior executives in FY2016
- Grants of Performance Rights under the Long Term Incentive Plan (LTIP) for FY2016

Remuneration governance

The Board reviews its executive remuneration policy and practices on a regular basis. The objectives of the Board’s executive remuneration policy are to:

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

The Remuneration and Nomination Committee (Committee) assists 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 Committee’s Charter is available on the Group’s website at http://pattiesfoods.com.au/investors. The Committee receives both internal and external advice to assist it in the review and decisions relating to remuneration.

During FY2016 the Board or the Remuneration Committee did not receive any independent remuneration advice, however, the processes are in place to ensure such advice, when requested, is received free from undue influence.

The Corporate Governance Statement provides further information on the role of the Committee and the engagement of remuneration consultants.

Remuneration report (continued)
Non-executive director remuneration

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

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 (including the Chairman) may receive additional fees as chairperson for the Audit and Risk Committee and the Remuneration and Nomination Committee. Non executive directors’ fees and payments are reviewed annually by the Board.

Non executive directors’ fees are determined within an aggregate directors’ fee pool limit. The Chairman's fees are determined independently to the fees of other non executive directors based on comparative roles in the external market. Board fees and Committee fees for the Chairman and non executive directors were increased by 7% from 1 January 2016, which is the first increase since September 2012. This increase is within the existing aggregate fee pool approved by the shareholders at the AGM on 21 November 2007.

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	**To 31 December 2015**	**From 1 January 2016**
Chairman	$160,000	$171,590
Directors	$72,265	$77,323
Audit Committee Chair (1)	$10,840	$12,572
Remuneration and Nomination Committee Chair (2)	$10,840	$11,572
Audit Committee Member	nil	nil
Remuneration and Nomination Committee Member	nil	nil
Aggregate Fee Pool	$600,000	$600,000

(1) A fee paid to Mr John Schmoll as Chairman of the Audit Committee
(2) A fee paid to Mr Mark Smith as Chairman of the Remuneration and Nomination Committee

In addition to the above fees, the Board approved a special exertion fee pool of $200,000 to be allocated to members of the Board based on their additional time and responsibilities in considering and responding to the takeover proposal from Pacific Equity Partners announced to the ASX on 2 June 2016 and more fully described in the Explanatory Booklet to the proposal released to the ASX on 18 July 2018.

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.

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 (KMP) of the Group who have the authority and responsibility for planning, directing and controlling the activities of the Group.

Name	**Role**	**Date Commenced In Role**
Current Senior Executives		
S Chaur	Managing Director & Chief Executive Officer	15 April 2014
R Donohue (1)	Chief Financial Officer	23 December 2015
D Gerrard	General Manager Operations	11 August 2014
J Pentney	General Manager People & Organisation	4 February 2008
B George	General Manager In-Home	10 December 2014
G Wharton	General Manager Out of Home	17 November 2014
S Smyth	General Manager Innovation and Marketing	8 December 2014
S Beauchier	Group Manager Procurement	24 September 2014
C Orr (2)	Company Secretary & In House Legal Counsel	18 September 2014
Ceased Senior Executives		**Date Ceased**
M Knaap	Chief Financial Officer	31 July 2015

(1) Mr R Donohue was appointed CFO on 23 December 2015.
(2) Mr C Orr was appointed Company Secretary on 18 September 2014.

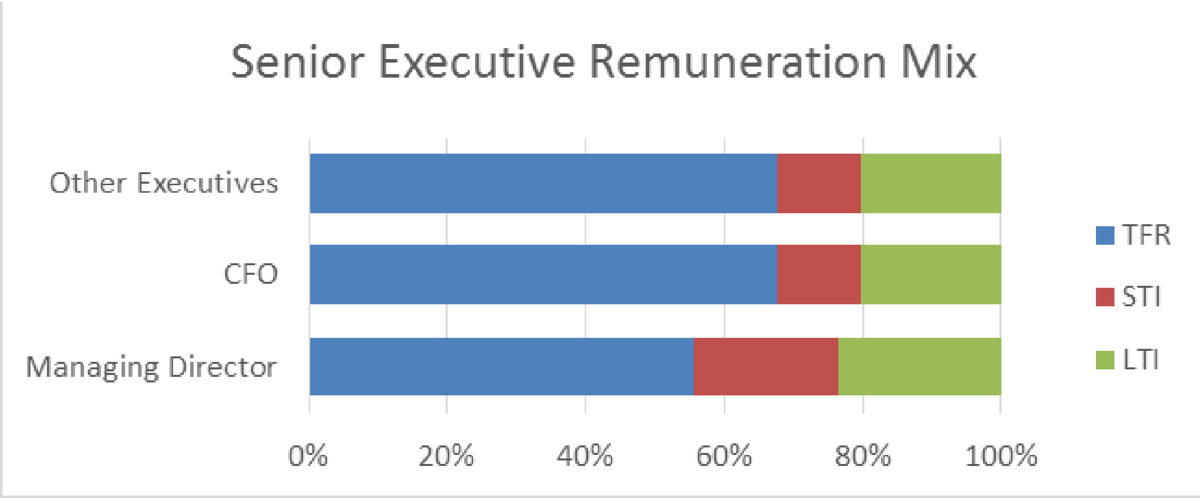
Remuneration report (continued)
Senior executive remuneration

The remuneration for senior executives who are key management personnel is structured with a combination of the following three components:

- total fixed remuneration (TFR);
- short-term incentive (STI); and
- long-term incentive (LTI).

The Committee reviews senior executive remuneration annually taking into account Group performance, senior executive performance and comparative information from other listed companies in similar industries and the broader market to achieve the objectives described on page 5 & 6.

The Committee monitors and reviews the remuneration structure for senior executives to ensure the continued alignment and balance between Group performance, potential reward and Group long term strategies.



The Committee and the Board believe that the Group remuneration policy continues to be appropriate to guide the remuneration arrangements for senior executives. The Board remains focused on providing a strong alignment between the performance of the Group and the potential rewards received by senior executives.

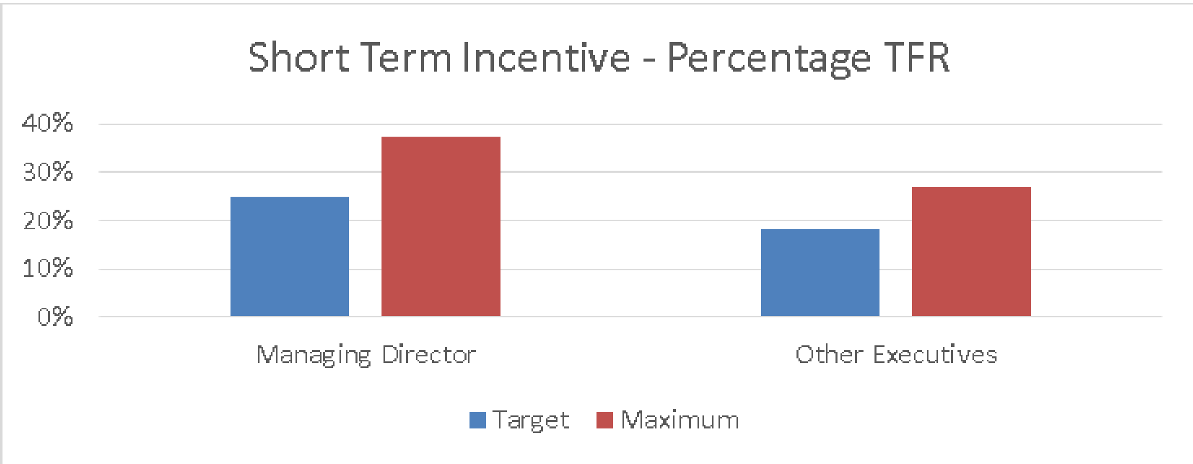
Remuneration report (continued)
Senior executive remuneration (continued)
Total fixed remuneration (TFR)

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. The Managing Director reviews the performance and TFR for other senior executives and provides the Committee with any recommendations for adjustments. 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 are eligible to receive a STI depending on the achievement of a threshold level of Group EBIT and individual key performance measures. A threshold level of Group EBIT financial performance must be achieved for the full year before any payment can be made under the STIP. Once this threshold is achieved, potential payments under the STIP are based on achievement of key performance measures, being Financial (EBIT and Return on Capital Employed), and individual KPIs.

The following details the STI opportunity for the Managing Director & Chief Executive Officer, and his direct reports:



Long-term incentive plan (LTIP)

The Board considers that a LTIP is an important component of the remuneration structure for senior executives, which aligns them with the strategy and long-term performance of the Group. Under the approved Long Term Incentive Plans, the Board:

- Has determined that the use of Performance Rights remains the most effective on-going long term incentive for senior executives; and
- Considers that the relative TSR Performance Hurdle and the EPS Performance Hurdle are appropriate and provide the right balance between relative and absolute company performance and alignment of senior executives' and shareholders' interests.

The key features of the 2014 LTIP, 2015 LTIP and 2016 LTIP plans are summarised in the following tables:

Plan Year	FY2014	FY2015	FY2016
Grant Date - (excluding CFO)	19 August 2013	30 September 2014	30 September 2015
Grant Date - CFO	-	-	4 February 2016
End of Performance Period	30 June 2016	30 June 2017	30 June 2018

Remuneration report (continued)
Senior executive remuneration (continued)
Long-term incentive plan (LTIP) (continued)
The following descriptions applies to these three plans:

Award Structure	Performance Rights
Consideration for the Performance Rights	The Performance Rights will be granted for nil consideration.
Vesting Period	Each tranche has a vesting period of 3 years.
Performance Period	Performance Rights may vest over a 3 year performance period
Performance Measure	Vesting of the Performance Rights is dependent on two discrete performance measures: 50% Earnings per Share (EPS); and 50% Relative Total Shareholder Return.
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 Group EPS over the relevant 3 year performance period stated as a percentage (EPS Growth Percentage).
EPS Vesting Hurdles(Tranche 1)	EPS Growth over 3 year performance period • Less than 8% CAGR • Equal to 8% CAGR • Greater than 8% CAGR but less than 12% CAGR • 12% CAGR or greater
	Proportion of total grant of Rights vesting • 0% • 25% • Proportionate vesting in a straight line between 25% and 50% • 50%
TSR Vesting Schedule	TSR performance of the Company will be measured over a 3 year performance period against selected companies within: • the "Consumer Staples" GICS Sector and "Food Products" GICS Sub-Industry Sector; • the "Hotels, Restaurants and leisure" GICS Sector; and • the "Personal Products" GICS Sector; with a market capitalisation on ASX relative to Patties Foods' market capitalisation at the Grant Date ("comparator group").
TSR Vesting Hurdles	Relative TSR against comparator group over 3 year period • Less than median • Equal to median

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

	• Greater than median but less than 75th percentile • 75th percentile or greater
	Proportion of total grant of Rights vesting • 0% • 25% • Proportionate vesting in a straight line between 25% and 50% • 50%

Note: CAGR - cumulative annual growth rate

Benefits in connection with Termination

On 22 November 2012, at the Annual General Meeting, shareholders approved the giving of Accelerated Benefits in connection with certain types of termination, excluding resignation or dismissal for cause, as well as on certain changes of control circumstance, from office or position of employment in the Group. This benefit may apply to the Managing Director and specified senior executives and provides the Board with the ability to accelerate the vesting of Rights. The number of Rights that may vest in these circumstance will be determined by the Board in its discretion taking into account:

(1) the elapsed relevant performance period as at the date of cessation of employment; and

(2) the extent to which the relevant performance hurdles have been satisfied as at the date of cessation.

The 2013 LTIP, to which this approval relates, has lapsed, and as a result the above benefits no longer apply.

STIP and LTIP for FY2017

Following a review by the Board in 2015, the STIP design for FY2016 has been amended. For FY2016 the structure of the plan has an 80% weighting on financial measures, EBIT and Return on Capital Employed (ROCE), and 20% weighting on individual performance objectives. This is an increased focus on financial performance from 70% to 80% of the short term incentive for senior executives. For any payment to be made in respect of the financial measures, a threshold level of Group EBIT financial performance must be achieved for the full year before any payment can be made. The Managing Director & Chief Executive Officer may recommend to the board a reward of up to 20% of the STIP based on the achievement of individual objectives.

The design of the FY2016 LTI will be consistent with the plan for FY2015.

Remuneration report (continued)
Linking group performance to executive remuneration

The following table provides a summary of underlying Group performance over the last five years. The underlying Group performance is used as the basis for executive reward. The reconciliation between reported profit and underlying profit is disclosed in the Operating and financial review on page 3.

Group financial performance

	FY2012	**FY2013**	**FY2014**	**FY2015**	**FY2016**
Revenue	$235.8m	$244.8m	$247.7m	$256.9m	$245.1m
EBIT (underlying)	$30.8m	$26.9m	$26.0m	$23.8m	$22.4m
NPAT (underlying)	$19.5m	$17.0m	$16.7m	$15.4m	$14.1m
Dividends Per Share	8.2 cents	7.1 cents	7.1 cents	5.0 cents	2.7 cents
EPS (underlying)	14.0 cents	12.2 cents	12.0 cents	11.1 cents	10.1 cents
Share price at 30 June	$1.605	$1.40	$1.12	$1.17	$1.68

- underlying results used in FY2012 - FY2016.

Incentive outcomes FY2016

The current STIP enables up to 100% of target STIP to be earned subject to the achievement of the full year results to 30 June 2016. While the threshold level of Group EBIT financial performance was not achieved for FY2016, small payments have been made to senior executives under the STIP for the significant effort demonstrated by the team in managing the berries recall in 2015. No other payment was received under the STIP for FY2016.

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

	FY2012	**FY2013**	**FY2014**	**FY2015**	**FY2016**
STI % of Maximum	25.5%	0%	0%	0%	7.7%

No performance rights vested for any of the current Long Term Incentive plans during FY2016 and the FY2014 LTIP has now lapsed as the performance hurdles were not achieved.

Service contracts

There are service contracts in place with Mark Smith, Steven Chaur and some of the remaining directors. Senior executives who are KMP are each employed under an individual employment contract which includes standard terms and conditions of employment for the Group. There is no term on these arrangements and standard notice periods of three months apply; (save for six months in the case of the Managing Director & Chief Executive Officer in the event of a Fundamental Change to the Group) and there are no termination entitlements other than statutory entitlements.

Remuneration report (continued)
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)	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
S Chaur	59.9%	59.9%	15.0%	15.0%	25.1%	25.1%
R Donohue (2)	75.2%	-%	20.3%	-%	11.3%	-%
D Gerrard	67.6%	65.3%	12.2%	11.8%	20.3%	22.9%
J Pentney	67.6%	66.9%	12.2%	12.0%	20.3%	21.1%
B George	67.7%	84.7%	12.2%	15.3%	20.3%	-%
G Wharton	67.7%	84.7%	12.2%	15.3%	20.3%	-%
S Smyth	67.7%	84.7%	12.2%	15.3%	20.3%	-%
S Beauchier	67.7%	84.7%	12.2%	15.3%	20.3%	-%
C Orr (3)	84.7%	-%	15.3%	-%	-%	-%
M Knaap (4)	100.0%	66.1%	-%	11.9%	-%	22.0%

(1) The LTIP value is based on the Total Accounting Value.
(2) R Donohue commenced was promoted to CFO on 23 December 2015.
(3) C Orr was appointed as a KMP during the year.
(4) M Knapp ceased on 31 July 2015.

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:

2016	**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**	**Termi-nation benefits**	**Options/Perf. Rights**	**Total (2)**
	$	$	$	$	$	$	$	$
Non-executive directors								
Mark Smith - Chairman	220,598	-	-	20,957	-	-	-	241,555
John P Schmoll	99,519	-	-	9,454	-	-	-	108,973
Gregory J Dhnaram	62,806	-	-	11,989	-	-	-	74,795
Richard C Rijs	40,779	-	-	34,016	-	-	-	74,795
J Curt Leonard	48,410	-	-	34,992	-	-	-	83,402
Harry J Rijs	40,136	-	-	34,659	-	-	-	74,795
Sub-total non-executive directors (6)	**512,248**	**-**	**-**	**146,067**	**-**	**-**	**-**	**658,315**
Executive directors								
Steven Chaur	543,555	10,000	-	26,533	-	-	99,248	679,336
Senior Executives								
Robin Donohue (3)	221,936	3,000	-	21,369	27,113	-	2,754	276,172
Denis Gerrard	259,014	4,500	32,499	25,536	-	-	51,361	372,910
Jeff Pentney	231,695	4,000	-	34,116	27,061	-	40,004	336,876
Steve Beauchier	194,860	3,000	-	18,751	10,954	-	12,088	239,653
Greg Wharton	190,639	3,000	15,126	18,958	11,023	-	12,932	251,678
Stuart Smyth	195,894	3,000	14,263	19,308	-	-	12,960	245,425
Bethany George	236,160	4,000	-	19,220	-	-	14,410	273,790
Clinton Orr (4)	143,659	-	7,627	13,648	-	-	-	164,934
Michael Knaap (5)	29,874	-	-	1,565	-	66,656	-	98,095
	1,703,731	24,500	69,515	172,471	76,151	66,656	146,509	2,259,533
Sub-total senior executives	**2,247,286**	**34,500**	**69,515**	**199,004**	**76,151**	**66,656**	**245,757**	**2,938,869**
Total key management personnel compensation (Group)	**2,759,534**	**34,500**	**69,515**	**345,071**	**76,151**	**66,656**	**245,757**	**3,597,184**

(1) Includes fringe benefits tax and other non-cash benefits (excluding superannuation)
(2) Remuneration shown for the key management personnel is for the full financial year
(3) Mr Donohue was promoted to CFO on 23 December 2015
(4) Mr Orr was appointed as a KMP in FY2016
(5) Mr Knaap ceased as CFO on 31 July 2015
(6) Total paid to non-executive directors includes special exertion fees.

Remuneration report (continued)
Remuneration tables (continued)

2015	**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** $	**Termi-nation benefits** $	**Options** $	**Total** $
Non-executive directors								
Mark Smith - Chairman	156,352	-	-	14,853	-	-	-	171,205
John P Schmoll	75,895	-	-	7,210	-	-	-	83,105
Gregory J Dhnaram	49,497	-	-	22,768	-	-	-	72,265
Richard C Rijs	39,305	-	-	32,960	-	-	-	72,265
J Curt Leonard	37,273	-	-	34,992	-	-	-	72,265
Harry J Rijs	37,819	-	-	34,446	-	-	-	72,265
Sub-total non-executive directors	**396,141**	**-**	**-**	**147,229**	**-**	**-**	**-**	**543,370**
Executive directors								
Steven Chaur	493,994	-	-	26,008	-	-	42,347	562,349
Senior Executives								
Michael Knaap (11)	317,401	-	-	18,783	-	-	(53,408)	282,776
Denis Gerrard (3)	215,854	-	30,096	22,332	-	-	22,445	290,727
Jeff Pentney	223,399	-	-	33,066	24,017	-	(9,871)	270,611
Bethany George (4)	129,449	-	-	10,957	-	-	-	140,406
Greg Wharton (5)	176,073	-	-	15,392	5,338	-	-	196,803
Stuart Smyth (6)	110,018	-	5,943	10,957	-	-	-	126,918
Steve Beauchier (7)	183,507	-	-	17,433	5,869	-	-	206,809
Tim Peters (8)	115,649	-	-	21,480	-	223,867	(53,408)	307,588
Brenda Mitchell (9)	47,301	-	3,684	7,826	-	132,193	-	191,004
Mark Kluver (10)	38,930	-	3,049	9,984	-	166,603	(21,948)	196,618
Sub-total senior executives	**2,051,575**	**-**	**42,772**	**194,218**	**35,224**	**522,663**	**(73,843)**	**2,772,609**
Total key management personnel compensation (group)	**2,447,716**	**-**	**42,772**	**341,447**	**35,224**	**522,663**	**(73,843)**	**3,315,979**

(1) Includes fringe benefits tax and other non-cash benefits (excluding superannuation)
(2) Remuneration shown for the key management personnel is for the full financial year
(3) Mr Gerrard commenced 11 August 2014
(4) Ms George commenced 10 December 2014
(5) Mr Wharton became a KMP and was promoted to the Role of General Manager Out of Home on 17 November 2014
(6) Mr Smyth commenced 8 December 2014
(7) Mr Beauchier became a KMP and was promoted to the role of Group Manager Procurement on 24 September 2014
(8) Mr Peters ceased on 14 November 2014
(9) Ms Mitchell ceased on 12 September 2014
(10) Mr Kluver ceased on 12 September 2014
(11) Mr Knaap ceased on 31 July 2015

Remuneration report (continued)
STIP payments to key management personnel for FY2016

Details of STIP payments to key management personnel for FY2016 are set out in the table below. Payments to senior executives may vary based on individual performance and results achieved. However, as the threshold level of Group EBIT financial performance was not achieved for the full FY2016, no payments were made to senior executives under the STIP:

Name	Maximum Potential STI	Achieved FY2016	% of the Maximum Potential	% forfeited
	($)	($)		
S Chaur	$145,000	$10,000	6.9%	93.1%
R Donohue	$48,475	$3,000	6.2%	93.8%
D Gerrard	$57,747	$4,500	7.8%	92.2%
J Pentney	$48,060	$4,000	8.3%	91.7%
B George	$46,134	$4,000	8.7%	91.3%
G Wharton	$41,400	$3,000	7.2%	92.8%
S Smyth	$41,489	$3,000	7.2%	92.8%
S Beauchier	38,700	$3,000	7.8%	92.2%
C Orr	28,806	$0	0%	100%

Managing Director and Senior Executives' Long Term Incentives
The following tables provide the details of performance rights allocated to the KMP pursuant to the LTIP. The grant of performance rights to the Managing Director was approved by shareholders at the Annual General Meeting on 21 November 2015, in accordance with Listing Rule 10.14. Details of grants made to the Managing Director and other senior executives are provided in the following tables.

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

Remuneration report (continued)
Managing Director and Senior Executives' Long Term Incentives (continued)
Accounting value of all LTI equity instruments - FY2016

Name	Date of Grant	No. of Performance Rights	Total Accounting Value FY2016	Accounting value as % of Total Remuneration
			($)	(%)
S Chaur	19 November 2015	248,571	$32,998	4.8%
R Donohue	4 February 2016	40,075	$2,754	1.0%
D Gerrard	30 September 2015	98,209	$18,038	4.8%
J Pentney	30 September 2015	81,734	$15,012	4.5%
B George	30 September 2015	78,459	$14,410	5.3%
G Wharton	30 September 2015	70,408	$12,932	5.1%
S Smyth	30 September 2015	70,560	$12,960	5.3%
S Beauchier	30 September 2015	65,816	$12,088	5.0%

Number of equity instruments granted and vested in FY2016 - Performance Rights

Name (1)	Performance Rights	Performance Rights Granted	Performance Rights Vested	Performance Rights Expired/ forfeited	Balance
	1 July 2015				**30 June 2016**
S Chaur	200,000	248,571	-	-	448,571
R Donohue		40,075	-	-	40,075
D Gerrard	100,000	98,209	-	-	198,209
J Pentney	120,000	81,734	-	45,000	156,734
B George	-	78,459	-	-	78,459
G Wharton	-	70,408	-	-	70,408
S Smyth		70,560			70,560
S Beauchier		65,816			65,816
T Peters (1)	41,224			41,224	-
M Kluver (2)	17,506			17,506	-
Total	**478,730**	**753,832**		**103,730**	**1,128,832**

(1) Mr Peters ceased effective 14 November 2014. In accordance with the plan terms and board approval, previous grants to Mr Peters were pro-rata based on the period of service during the performance period and have expired following performance testing in FY2016.
(2) Mr Kluver ceased effective 12 September 2014 and therefore no issue of Performance Rights were made in FY2015, In accordance with the plan terms and board approval, previous grants to Mr Kluver were pro-rata based on the period of service during the performance period and have expired following performance testing in FY2016.

Remuneration report (continued)
Managing Director and Senior Executives' Long Term Incentives (continued)
Shares in the company that were held during the financial year by key management personnel of the group

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.

2016 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				
Mark G Smith - Chairman	296,000	-	-	296,000
Steven Chaur	52,988	-	-	52,988
Richard C Rijs	9,000,002	-	-	9,000,002
Harry J Rijs	9,500,000	-	-	9,500,000
Gregory J Dhnaram	200,000	-	-	200,000
J Curt Leonard	2,306,135	-	-	2,306,135
John Schmoll	100,000	-	-	100,000
Other key management personnel of the Group				
Ordinary shares				
Robin Donohue	2,765	-	-	2,765
Denis Gerrard	-	-	-	-
Jeff Pentney	21,904	-	-	21,904
Bethaney George	-	-	-	-
Greg Wharton	1,302	-	-	1,302
Stuart Smyth	-	-	-	-
Steve Beauchier	1,531	-	-	1,531
Clinton Orr	1,306	-	852	2,158

Remuneration report (continued)
Managing Director and Senior Executives' Long Term Incentives (continued)
Value of performance rights granted, exercised and expired/forfeited in FY2016

Name	Financial Year		Fair value at grant date per share	Vested during FY2016		Forfeited FY2016	Accounting Value Expired/forfeited (1)	Maximum value yet to vest (4)
			($) per share	%	($)			($)
S Chaur	2015	TSR	1.06					106,000
		EPS	1.06					106,000
	2016	TSR	0.56					70,097
		EPS	1.00					123,788
R Donohue	2016	TSR	0.52					10,360
		EPS	0.96					19,215
D Gerrard	2015	TSR	1.03					51,500
		EPS	1.03					51,500
	2016	TSR	0.61					30,003
		EPS	0.98					48,220
J Pentney	2015	TSR	1.03					38,625
		EPS	1.03					38,625
	2016	TSR	0.61					24,970
		EPS	0.98					40,131
B George	2016	TSR	0.61					23,970
		EPS	0.98					38,523
G Wharton	2016	TSR	0.61					21,510
		EPS	0.98					34,570
S Smyth	2016	TSR	0.61					21,556
		EPS	0.98					34,645
S Beauchier	2016	TSR	0.61					20,107
		EPS	0.98					32,316
T Peters (2)	2014	TSR	0.49				10,100	
		EPS	1.16					-
M Kluver (3)	2014	TSR	0.49				4,416	
		EPS	1.16					-

Remuneration report (continued)
Managing Director and Senior Executives' Long Term Incentives (continued)

(1) The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the tables above. Fair values at grant date are independently determined using a Monte-Carlo simulation methodology for the Relative TSR Hurdle component and Binomial tree methodology for the EPS Hurdle component, that takes into account the term of the performance rights, 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 performance rights.
(2) Mr Peters ceased effective 14 November 2014. In accordance with the plan terms and board approval, previous grants to Mr Peters were pro-rata based on the period of service during the performance period and have expired following performance testing in FY2016.
(3) Mr Kluver ceased effective 12 September 2014 and therefore no issue of Performance Rights were made in FY2015, In accordance with the plan terms and board approval, previous grants to Mr Kluver were pro-rata based on the period of service during the performance period and have expired following performance testing in FY2016.
(4) Subject to the Patties Shareholders approving the Scheme at the Scheme meeting and subject to Court approval of the Scheme at the Second Court Hearing, Patties will issue to Performance Rights Holders such number of Patties Shares to which they are entitled under the terms of the Patties Long Term Incentive Plan. Details are set out on Page 23.

Shares under performance rights

Unissued ordinary shares of Patties Foods Limited under performance rights at the date of this report were granted during the year are as follows:

Date performance rights granted	Expiry date	Number under performance rights
30 September 2015	30/9/2018	465,186
19 November 2015	30/9/2018	248,571
4 February 2016	30/9/2018	40,075
Total		753,832

Loans to directors and executives

There are no loans to directors or executives at 30 June 2016 other than loans to executives of up to $1,000 under standard terms of the Group's exempt employee share plan, see note 24.

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 $39,113 (2015: $35,726) 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 25.

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 29.

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.

Mark G Smith

Mark G Smith
Chairman

Melbourne
19 August 2016

Auditor’s Independence Declaration

As lead auditor for the audit of Patties Foods Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Lisa Harker

Lisa Harker
Partner
PricewaterhouseCoopers

Melbourne
19 August 2016

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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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 2016. 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.

The Group has written agreements in place with the Chairman of the Board, the Managing Director, some Non-executive Directors and each senior manager of the Group setting out the terms of their appointment. Whilst all directors have a clear understanding of their respective roles and responsibilities this has not been reduced to writing at the time of the disclosure with respect to each other director as their appointments pre-date Recommendation 1.3. The Group intends to put in place written agreements with all directors in a timely manner and to require all new appointments to enter into a written agreement.

The Company Secretary is accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

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.

Principle 2- Structure the board to add value (continued)
Board composition (continued)
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 Group will provide shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

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.

Skills Matrix

The following matrix sets out the key skills and experience of the directors and whether such skills and experience are represented on the Board and its committees. The Directors' Report, on pages 7 to 10, also outlines the period of office, relevant skills, experience, expertise and background particular to each director in office at the date of this report.

Skills and Experience	**Board**	**Remuneration and Nomination Committee**	**Audit and Risk Committee**
Strategic Agility	Yes	Yes	Yes
Ability to think strategically and identify and critically asses strategic opportunities and threats and challenge the options in the context of the strategic objectives of Patties Foods.			
Financial Acumen	Yes	Yes	Yes
Senior experience in public company financial accounting, management and reporting			
Health and Safety	Yes	Yes	Yes
Experience in workplace health and safety			
Risk and Compliance Oversight	Yes	Yes	Yes
Ability to identify key risks to the company in a wide range of areas including legal and regulatory compliance and monitor risk and compliance management frameworks and systems.			
Corporate Governance	Yes	Yes	Yes
Knowledge & experience in best practice corporate governance structures, policies and processes.			
Executive Management	Yes	Yes	Yes
Experience at an executive level in a successful career.			
Marketing / Sales Experience	Yes	Yes	Yes
A broad range of commercial / business experience, in specific areas including marketing, sales, branding and business systems, export and innovation.			
Operational and Supply Chain Experience	Yes	Yes	Yes
Manufacturing, Operations and Supply Chain management experience across multiple operations nationally and/or internationally.			

The CEO and Managing Director brings a deep understanding of the Group’s business and operations.

In addition, the Board, with the assistance of the Remuneration and Nomination Committee:

- considers the skills, background, knowledge, experience and diversity necessary to allow it to meet the Group's purpose;

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

- assesses the skills, background, knowledge, experience and diversity currently represented on the Board; and
- identifies any inadequacies in Board representation in these areas and agrees the process necessary to ensure a candidate is selected who brings them to the Board.

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 S.C. Chaur, 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. M.G. Smith, Mr. J.C. Leonard, Mr. G.J. Dhnaram and Mr. J.P. Schmoll are considered by the Board to be independent directors.

The length of service for each director is set out in the following table:

Director	Length of Service
Mr Mark Smith	3 years and 2 months
Mr Steven Chaur	2 year and 2 months
Mr Curt Leonard	13 years
Mr Richard Rijs	31 years
Mr Harry Rijs	27 years
Mr John Schmoll	6 years and 8 months
Mr Greg Dhnaram	8 years and 9 months

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.

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

The Board Charter specifies that these are separate roles to be undertaken by separate people.

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 fourteen meetings and an additional strategic planning session during the year. Two meetings of the Group's Board of Directors was 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 2016, and the number of meetings attended by each director is disclosed on page 10.

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.

Performance evaluation

The Board, with the assistance of the Remuneration and Nomination Committee, 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 subsequent Board meetings.

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:

Mark G Smith (Chairman);
J Curt Leonard; and
Richard C Rijs

Principle 2- Structure the board to add value (continued)
Remuneration and Nomination committee (continued)
The Remuneration and Nomination Committee met twice during the year ended 30 June 2016. The number of Remuneration and Nomination Committee meetings attended by these Directors are set out in the following table:

	Number of meetings attended
Mark G Smith	2
J Curt Leonard	2
Richard C Rijs	2

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;
- 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 re-appointment 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);
Harry J Rijs; and
Gregory J Dhnaram

The Audit and Risk Committee met four times during the year ended 30 June 2016. at the number of Audit and Risk Committee meetings attended by these Directors are set out in the following table:

	Number of meetings attended
John Schmoll	4
Harry J Rijs	4
Gregory J Dhnaram	4

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

Principle 3- Act ethically and responsibly

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.

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 and Chairman.

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 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. A copy of the Diversity Policy is available on the Group's website. 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

Principle 3- Act ethically and responsibly (continued)
Diversity (continued)

- 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 remain unchanged and included;

- increasing the representation of women on the Board as vacancies and circumstances allow to 14%. As of 30 June 2016 there has been no change from 2015, however as vacancies arise the Board will seek to appoint a female director.
- increasing the representation of women on the senior executive team as vacancies and circumstances allow to 14%. As of 30 June 2016 the representation of women on the senior executive team is 11%.
- increasing the representation of women on the senior leaders group to 37%. As of 30 June 2016 the representation of women on the senior leaders group is 40%.
- strengthen the talent pipeline to ensure the representation of women in the high potential talent matrix increases to 30%. As of 30 June 2016 the representation of women in the high potential talent matrix is 40%.

The proportion of women employed by the Group as at 30 June 2016 was 48%.

A number of initiatives have been introduced 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;
- Ensuring that all applicants for positions which are internally and externally advertised are interviewed by a selection panel which includes at least one female interviewer;
- Assessing gender pay equity on an annual basis;
- Implementing flexible work arrangements to achieve successful maternity leave return to work outcomes and to support employees with family responsibilities; and
- Implementing a program to support employees in sourcing home help, such as child carers, cleaners and gardeners, providing them with greater flexibility over the non-work aspects of their lives.

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;

Principle 3- Act ethically and responsibly (continued)
Diversity (continued)

- 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. 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 2016 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 - Make timely and balanced disclosures

The Group has a written continuous disclosure policy. This document may be found on the Company's website. 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.

Principles 6 - Respect the rights of shareholders

The Group provides shareholders with information using a 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 about itself and its governance on its website. Shareholders have the option to receive communications from the Group and its security registry electronically.

Shareholders are encouraged to attend the Group's AGM and use this opportunity to ask questions. The directors are available at the AGM to answer questions from the shareholders. Shareholders are also provided the opportunity to submit comments and questions to the Group and the Group’s external auditor in advance of the AGM. 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

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 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 Group’s internal audit function comprises the Board and senior management, individually and collectively, reviewing the risk management framework and internal control system, assessments thereof and responses thereto regularly with periodic review by the Audit and Risk Committee.

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 Company's website.

The Group considers that it does not have any material exposure to economic, environmental and social sustainability risks.

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:

Mark G Smith (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 10.

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'.

The Group has an equity-based remuneration scheme whereby entering into an arrangement which limits the economic risk of participating in rights that have not vested or have vested but remain subject to a holding lock is expressly prohibited. Rights allocated to a participant are liable to forfeiture if the participant breaches this prohibition.

Retirement allowances for directors

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

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	Notes	Consolidated 2016 $'000	Consolidated 2015 $'000
Revenue from continuing operations			
Sale of goods	5	244,578	256,203
Other revenue from ordinary activities	5	494	649
		245,072	**256,852**
Other income		-	6
Cost of sales of goods		(164,435)	(172,080)
Distribution		(26,202)	(29,180)
Sales and marketing		(23,555)	(22,625)
Administration		(10,994)	(12,153)
Other	6	(1,327)	(3,273)
Impairment loss	6	-	(10,300)
Finance costs	6	(4,249)	(3,738)
Share of net profit of associates accounted for using the equity method	29(a)	2,527	1,904
Profit before income tax		16,837	5,413
Income tax expense	7	(3,824)	(3,358)
Profit from continuing operations		**13,013**	**2,055**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges	22(a)	(169)	519
Income tax relating to components of other comprehensive income		51	(155)
Other comprehensive income for the year, net of tax		**(118)**	**364**
Total comprehensive income for the year		**12,895**	**2,419**
Profit is attributable to:			
Owners of Patties Foods Limited		13,013	2,055
		13,013	**2,055**
Total comprehensive income for the year is attributable to:			
Owners of Patties Foods Limited		12,895	2,419
		12,895	**2,419**
		Cents	**Cents**
Earnings per share for profit attributable to the ordinary equity holders of the parent entity :			
Basic earnings per share	31	**9.3**	1.5
Diluted earnings per share	31	**9.3**	1.5

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

	Notes	Consolidated 2016 $'000	Consolidated 2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	74	664
Receivables	9	58,106	52,391
Inventories	10	35,238	49,910
Derivative financial instruments	17	-	67
Total current assets		**93,418**	**103,032**
Non-current assets			
Investments accounted for using the equity method	11, 29(a)	13,591	12,064
Property, plant and equipment	12	73,970	76,505
Intangible assets	14	56,165	56,590
Total non-current assets		**143,726**	**145,159**
Total assets		**237,144**	**248,191**
LIABILITIES			
Current liabilities			
Payables	15	25,882	26,778
Borrowings	16	3,183	2,500
Derivative financial instruments	17	105	69
Current tax liabilities		2,392	356
Provisions	18	5,212	4,872
Total current liabilities		**36,774**	**34,575**
Non-current liabilities			
Borrowings	19	57,150	72,350
Deferred tax liabilities	20	5,572	6,087
Provisions		233	233
Derivative financial instruments	17	1,050	984
Total non-current liabilities		**64,005**	**79,654**
Total liabilities		**100,779**	**114,229**
Net assets		**136,365**	**133,962**
EQUITY			
Contributed equity	21	68,889	68,797
Reserves	22(a)	(563)	(583)
Retained earnings	22(b)	68,039	65,748
Total equity		**136,365**	**133,962**

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 2014		68,682	(894)	69,356	137,144
Profit for the year		-	-	2,055	2,055
Changes in the fair value of cash flow hedges, net of tax		-	364	-	364
Total comprehensive income for the year		-	364	2,055	2,419
Transactions with owners in their capacity as owners:					
Value of performance rights	21	-	-	(236)	(236)
Dividends provided for or paid	23	-	-	(5,427)	(5,427)
Employee Share Options	22	-	(53)	-	(53)
Employee share scheme issue	21	115	-	-	115
		115	(53)	(5,663)	(5,601)
Balance at 30 June 2015		**68,797**	**(583)**	**65,748**	**133,962**
Balance at 1 July 2015		68,797	(583)	65,748	133,962
Profit for the year		-	-	13,013	13,013
Changes in the fair value of cash flow hedges, net of tax		-	(118)	-	(118)
Total comprehensive income for the year		-	(118)	13,013	12,895
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	23	-	-	(10,722)	(10,722)
Employee Share Options	22	-	138	-	138
Employee share scheme issue	21	92	-	-	92
		92	138	(10,722)	(10,492)
Balance at 30 June 2016		**68,889**	**(563)**	**68,039**	**136,365**

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

	Notes	Consolidated 2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		267,876	267,833
Payments to suppliers and employees (inclusive of goods and services tax)		(233,576)	(254,880)
		34,300	12,953
Income taxes paid		(2,873)	(3,933)
Borrowing costs paid		(4,257)	(3,753)
Net cash inflow from operating activities	**30**	**27,170**	**5,267**
Cash flows from investing activities			
Payments for property, plant and equipment	12	(6,429)	(10,726)
Payments for intangibles		-	(425)
Proceeds from sale of assets		2,816	400
Acquisition of controlled associate		-	(239)
Dividends received	29(a)	1,000	500
Interest received		-	15
Net cash (outflow) from investing activities		**(2,613)**	**(10,475)**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		92	115
Proceeds from borrowings		98,462	101,825
Repayment of borrowings		(113,662)	(90,725)
Dividends paid to group's shareholders	23	(10,722)	(5,427)
Net cash (outflow) inflow from financing activities		**(25,830)**	**5,788**
Net (decrease)/ increase in cash and cash equivalents		(1,273)	580
Cash and cash equivalents at the beginning of the financial year		664	84
Cash and cash equivalents at end of year	**8, 16**	**(609)**	**664**

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 2016 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 29).

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.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

(ii) *Associates (continued)*

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.

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 collectability 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.

1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(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.

(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.

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

(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 26). 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.

(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.

1 Summary of significant accounting policies (continued)

(k) Trade and other receivables (continued)

Collectability 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:

(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 9).

Subsequent measurement

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

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

1 Summary of significant accounting policies (continued)

(n) Investments and other financial assets (continued)

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.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 17. Movements in the hedging reserve in shareholder's equity are shown in note 22. 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.

1 Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities (continued)

(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% - 5.0%
- Plant and equipment	7.5% - 66.60%
- Leased plant	7.5% - 18.75%
- Equipment held at third parties	7.5% - 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.

(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 tested for impairment in accordance with note 1(i).

1 Summary of significant accounting policies (continued)

(q) Intangible assets (continued)

(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) *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.

(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.

1 Summary of significant accounting policies (continued)

(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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(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 32.

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 21).

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

If the entity reacquires its own equity instruments, for example as the result of a share buy back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including 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 2016 were nil (2015: nil).

1 Summary of significant accounting policies (continued)

(y) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the 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

The Group has applied the following standards and amendments for first time for their annual reporting period commencing 1 July 2015:

(i) AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle, and*
(ii) AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB101.*
(iii) AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealized Losses.

As these amendments merely clarify the existing requirements, they do not affect the group's accounting policies or any of the disclosures.

1 Summary of significant accounting policies (continued)

(ac) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not yet been applied in the financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments*

Nature of change

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

While the group has yet to undertake a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it would appear that they would satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

Accordingly, the group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

The new hedging accounting rules will align the accounting for hedging instruments more closely with the group’s risk management practices.

As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the group is yet to undertake a detailed assessment, it would appear that the group's current hedge relationships would qualify as continuing hedges upon the adoption of AASB 9. Accordingly, the group does not expect a significant impact on the accounting for its hedging relationship.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Mandatory application date/Date of adoption by group

Must be applied for financial years commencing on or after 1 January 2018.
Based on the transitional provisions in the completed AASB 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.
For leases - must be applied for financial years commencing on or after 1 January 2019.
The group is currently assessing whether it should adopt AASB 9 before its mandatory date.

(ii) *AASB 15 Revenue from Contracts with Customers*

Nature of change

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

1 Summary of significant accounting policies (continued)

(ac) New accounting standards and interpretations not yet adopted (continued)
(ii) *AASB 15 Revenue from Contracts with Customers (continued)*
Impact

While the group has yet to undertake a detailed assessment of the effects of applying the new standard on the group's financial statements, revenue from the sale of goods is only recognised when the goods have been delivered to the customer, the customer has accepted the goods and collectability of the related receivable is probably (Note 1(e)(i)).
Accordingly, the group does not expect the new guidance to have a significant impact on the group's financial statements.

Mandatory application date/Date of adoption by group

Mandatory for financial years commencing on or after 1 January 2018 but available for early adoption.
Expected date of adoption by the group: 1 January 2018.

(iii) *AASB 16 Leases*

Nature of change

The AASB16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financial leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay retails for almost all lease contracts.

Impact

While the group has yet to undertake a detailed assessment of the measurement of lease assets and liabilities, the group's operating leases covering primarily tool of trade vehicles, property rental, IT equipment and forklifts would satisfy the recognition criteria to be recorded on the balance sheet.
At this state, the group is not able to estimate the effect of the new rules on the group's financial statements. The group will make a more detailed assessment of the effect over the next twelve months

Mandatory application date/Date of adoption by group

Mandatory for financial years commencing on or after 1 January 2018 but available for early adoption.
Expected date of adoption by the group: 1 January 2018.

(ad) Parent entity financial information

The financial information for the parent entity, Patties Foods Limited, disclosed in note 34 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.

2 Financial risk management (continued)

(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 FY2016 and FY2015 for purchases of specific items of plant and equipment and commodity based raw material inputs. The Group's risk management policy, approved 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:

	30 June 2016			**30 June 2015**		
	USD$'000	**NZD$'000**	**EUR$'000**	**USD$'000**	**NZD$'000**	**EUR$'000**
Trade receivables	-	-	-	-	(36)	-
Trade payables	(213)	-	(17)	(1,158)	-	-
Forward exchange contracts						
- buy foreign currency (cash flow hedges)	158	69	-	5,020	-	52
Net exposure	**(55)**	**69**	**(17)**	**3,862**	**(36)**	**52**

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 2016 and 2015, the Group's borrowings were at both fixed (through interest rate swaps) and variable rates and were denominated in Australian Dollars. During 2016, 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	
	2016	**2015**
	$'000	**$'000**
Bank overdrafts and bank bills	60,333	74,850
Interest rate swaps (notional principal amount)	(35,000)	(35,000)
Net exposure to cash flow interest rate risk	**25,333**	**39,850**

2 Financial risk management (continued)

(a) Market risk (continued)

(ii) *Cash flow and fair value interest rate risk (continued)*

At 30 June 2016, 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 $296,000 lower/higher (2015 - $281,000 lower/higher), 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.
In addition, trade credit insurance is taken over the non-grocery customer base. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets less the proceeds from applicable insurance recoveries.

(c) Liquidity risk

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

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

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Expiring beyond one year	26,200	13,500

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.

2 Financial risk management (continued)

(c) Liquidity risk (continued)

Contractual maturities of financial liabilities	Less than 12 months	Between 1 and 5 years	Total contractual cash flows	Carrying amount (assets)/ liabilities
At 30 June 2016				
	$'000	**$'000**	**$'000**	**$'000**
Non-derivatives				
Non-interest bearing	26,588	-	26,588	26,588
Variable rate*	3,362	65,725	69,087	60,333
Total non-derivatives	**29,950**	**65,725**	**95,675**	**86,921**
Derivatives				
Interest rate swaps				
- net settled	-	-	-	(1,155)
Total derivatives	**-**	**-**	**-**	**(1,155)**

	Less than 12 months	Between 1 and 5 years	Total contractual cash flows	Carrying amount (assets)/ liabilities
At 30 June 2015				
	$'000	**$'000**	**$'000**	**$'000**
Non-derivatives				
Non-interest bearing	27,819	-	27,819	27,819
Variable rate*	2,623	85,493	88,116	63,750
Total non-derivatives	**30,442**	**85,493**	**115,935**	**91,569**
Derivatives				
Interest rate swaps				
- net settled	-	-	-	(1,053)
Forward foreign exchange contracts				
- (inflow)	(6,528)	-	(6,528)	-
- outflow	6,595	-	6,595	-
- total	-	-	-	67
Total derivatives	**67**	**-**	**67**	**(986)**

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

2 Financial risk management (continued)

(d) Fair value measurements

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

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 2016 and 30 June 2015:

At 30 June 2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Derivatives used for hedging	-	(1,155)	-	(1,155)

At 30 June 2015	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Derivatives used for hedging	-	(986)	-	(986)

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.

3 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)
(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.

Specifically, in 2015 the Frozen fruit product business brand names were fully impaired, by $10,300,000, following the recall in February 2015. There was judgement involved in determining whether the brand names were fully impaired, including determining expected future cash flows from the sale of frozen fruit products. For further information refer note14.

(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 $80,000 and the income tax expense by $80,000 if unfavourable, or
- decrease the income tax liability by $80,000 and the income tax expense by $80,000 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 will predominantly be recoverable from the sale of the asset.
Should this assumption change and management determine that the carrying value is greater than the value predominantly recoverable from sale, and record a significant 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	
	2016 **$'000**	**2015** **$'000**
Total segment revenue	244,578	256,203
Interest revenue	7	15
Other revenue	487	632
Total revenue from continuing operations (note 5)	**245,072**	**256,850**

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, $132,042,000, or 53.8%, is derived from three significant external customers (2015: $145,708,000, or 56.8%).
This is split $60,149,000 (2015: $65,818,000) from the first customer, $49,583,000 (2015: $56,612,000) from the second customer and $22,310,000 (2015: $23,278,000) from the third customer.

(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 $130,135,000 (2015 - $133,095,000). There are no non-current assets located in other countries (2015 - $nil).

5 Revenue

	Consolidated	
	2016 **$'000**	**2015** **$'000**
From continuing operations		
Sales revenue		
Sale of goods	244,578	256,203
Other revenue		
Rent	-	14
Interest	7	15
Sundry	487	620
	494	649
	245,072	**256,852**

6 Expenses

	Consolidated 2016 $'000	2015 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	971	872
Property, plant and equipment	6,786	7,109
Total depreciation	**7,757**	**7,981**
Amortisation		
Intangible assets	424	435
Employee benefits expenses		
Employee benefits expense	46,413	44,063
Finance expenses		
Interest and finance charges paid/payable	4,249	3,875
Amount capitalised (a)	-	(137)
Finance costs expensed	**4,249**	**3,738**
Rental expense relating to operating leases		
Minimum lease payments	2,201	2,263
Research and development	604	715
Significant items (b)		
Merger & Acquisition costs (i)	1,327	-
Organisational restructuring	-	1,131
Net (of recoveries) of recall costs	-	273
Inventory provision	-	3,000
Impairment loss of frozen fruit product business	-	10,300
Total Significant items	**1,327**	**14,704**

6 Expenses (continued)

(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 4.4% (2015: 4.6%).

(b) Significant Items

(i) Significant item related to costs from the Scheme of Arrangement (refer to note 35).

7 Income tax expense

(a) Income tax expense

	Consolidated 2016 $'000	Consolidated 2015 $'000
Current tax	5,511	3,671
Deferred tax	(1,774)	101
(Under)/over provision of current tax in prior periods	87	(414)
	3,824	**3,358**
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Increase) decrease in deferred tax assets (note 13)	(2,521)	(1,301)
(Decrease) increase in deferred tax liabilities (note 20)	747	1,402
	(1,774)	**101**

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

	2016 $'000	2015 $'000
Profit from continuing operations before income tax expense	**16,837**	**5,413**
Tax at the Australian tax rate of 30% (2015 - 30%)	5,051	1,624
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Frozen fruit brand impairment	-	3,090
Entertainment	34	31
Share of net profit of associates	(758)	(571)
Sundry items	(226)	1
Legal fees	18	13
Research and development	(400)	(400)
Share option expenses	42	(16)
Other non deductible expenses	(24)	-
	3,737	**3,772**
Adjustments for current tax of prior periods	87	(414)
Total income tax expense	**3,824**	**3,358**

(c) Amounts recognised directly in equity

	2016 $'000	2015 $'000
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	51	(156)

8 Current assets - Cash and cash equivalents

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Cash in hand	1	1
Cash at bank	73	663
	74	**664**

(a) Cash in hand

This is non interest bearing.

(b) Cash at bank

The average effective interest rate on short-term bank deposits was 0.99% (2015 - 1.40%).

9 Current assets - Receivables

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Trade receivables	59,727	58,146
Provision for claims, discounts, rebates and allowances	(7,483)	(9,822)
	52,244	**48,324**
Other receivables		
Other receivables (b)	2,450	2,207
Employee share purchase loans	57	64
	2,507	**2,271**
Prepayments	3,355	1,796
	58,106	**52,391**

(a) Credit risk

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

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Not past due	56,916	54,762
Past due 1-30 days	2,286	1,197
Past due 31-60 days	10	704
Past due 60+ days	515	1,483
	59,727	**58,146**

As of 30 June 2016, there was nil impairment in trade receivables (2015 - $nil).

The maximum exposure to credit risk for trade receivables at the reporting date is the carrying amount of the financial assets less the proceeds from applicable insurance recoveries.

9 Current assets - Receivables (continued)

(a) Credit risk (continued)

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2016 $'000	**2015 $'000**
At 1 July	-	2
Provision for impaired receivables recognised during the year	16	-
Receivables written off during the year as uncollectible	(16)	(2)
	-	**-**

The other classes within trade and other receivables do not contain impaired assets and are not past due (note 2(b)). Based on the credit history of other receivables, these amounts are expected to be received when due.

(b) Other receivables

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

(c) Fair value

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

10 Current assets - Inventories

	Consolidated	
	2016 $'000	**2015 $'000**
Raw materials and stores		
- at cost	10,466	17,366
Finished goods		
- at cost	21,616	29,456
Other inventories		
- at cost	11	85
Spare parts		
- at cost	3,145	3,003
	35,238	**49,910**

(a) Inventory expense

Inventories expensed during the year ended 30 June 2016 amounted to $110,683,135 (2015: $117,076,655). Inventories written down to net realisable value during the year ended 30 June 2016 amounted to $1,174,154 (2015: $3,355,814).

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

	Consolidated	
	2016 $'000	**2015 $'000**
Interest in associates	13,591	12,064

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting (refer note1(b)(ii)). Refer note 30 for reconciliation of investment.

12 Non-current assets - Property, plant and equipment

	Construction in progress $'000	Land and buildings $'000	Plant and equipment $'000	Equipment held at 3rd parties $'000	Total $'000
At 1 July 2014					
Cost or fair value	7,495	29,579	91,730	8,125	136,929
Accumulated depreciation	-	(7,301)	(49,083)	(6,130)	(62,514)
Net book amount	**7,495**	**22,278**	**42,647**	**1,995**	**74,415**
Year ended 30 June 2015					
Opening net book amount	7,495	22,278	42,647	1,995	74,415
Additions	6,754	2,213	1,142	616	10,725
Assets included in a disposal group classified as held for sale and other disposals	-	-	(654)	-	(654)
Depreciation charge	-	(872)	(6,288)	(821)	(7,981)
Transfers	(9,904)	1,320	8,584	-	-
Closing net book amount	**4,345**	**24,939**	**45,431**	**1,790**	**76,505**
At 30 June 2015					
Cost or fair value	4,345	33,112	100,802	8,741	147,000
Accumulated depreciation	-	(8,173)	(55,371)	(6,951)	(70,495)
Net book amount	**4,345**	**24,939**	**45,431**	**1,790**	**76,505**
Year ended 30 June 2016					
Opening net book amount	4,345	24,939	45,431	1,791	76,506
Additions	5,689	27	713	-	6,429
Assets included in a disposal group classified as held for sale and other disposals	-	(825)	(384)	-	(1,209)
Depreciation charge	-	(970)	(6,245)	(541)	(7,756)
Transfers	(2,590)	-	3,174	(584)	-
Closing net book amount	**7,444**	**23,171**	**42,689**	**666**	**73,970**
At 30 June 2016					
Cost	7,444	32,314	104,425	8,158	152,341
Accumulated depreciation	-	(9,143)	(61,736)	(7,492)	(78,371)
Net book amount	**7,444**	**23,171**	**42,689**	**666**	**73,970**

13 Non-current assets - Deferred tax assets

	Notes	Consolidated 2016 $'000	Consolidated 2015 $'000
The balance comprises temporary differences attributable to:			
Employee benefits		1,674	1,531
Capitalised transaction costs		286	254
Cash flow hedges		347	296
Fixed assets		-	8
		2,307	**2,089**
Other			
Accruals		380	1,394
Sub-total other		**380**	**1,394**
Total deferred tax assets		**2,687**	**3,483**
Set-off of deferred tax liabilities pursuant to set-off provisions	20	(2,687)	(3,483)
Net deferred tax assets		**-**	**-**
Deferred tax assets expected to be recovered within 12 months		2,106	1,232
Deferred tax assets expected to be recovered after more than 12 months		581	2,251
		2,687	3,483

Movements - Consolidated	**Employee Benefits $'000**	**Fixed assets $'000**	**Capitalised transaction costs $'000**	**Cash flow hedges $'000**	**Impaired receivables $'000**	**Accruals $'000**	**Total $'000**
At 1 July 2014	1,412	38	238	452	1	198	2,339
- to profit or loss	119	(30)	16	(452)	(1)	1,196	848
- directly to equity	-	-	-	296	-	-	296
At 30 June 2015	**1,531**	**8**	**254**	**296**	**-**	**1,394**	**3,483**
(Charged)/credited							
- to profit or loss	143	(8)	32	-	-	(1,014)	(847)
- directly to equity	-	-	-	51	-	-	51
At 30 June 2016	**1,674**	**-**	**286**	**347**	**-**	**380**	**2,687**

14 Non-current assets - Intangible assets

	Goodwill $'000	Brands $'000	Supply & distribution rights $'000	Other $'000	Total $'000
At 1 July 2014					
Cost	825	64,865	2,344	1,292	69,326
Accumulation amortisation and impairment	-	-	(1,461)	(965)	(2,426)
Net book amount	**825**	**64,865**	**883**	**327**	**66,900**
Year ended 30 June 2015					
Opening net book amount	825	64,865	883	327	66,900
Acquisition	-	-	425	-	425
Amortisation charge*	-	-	(320)	(115)	(435)
Impairment charge	-	(10,300)	-	-	(10,300)
Closing net book amount	**825**	**54,565**	**988**	**212**	**56,590**
Cost	825	54,565	2,769	327	58,486
Accumulation amortisation and impairment	-	-	(1,781)	(115)	(1,896)
Net book amount	**825**	**54,565**	**988**	**212**	**56,590**
At 30 June 2015					
Cost	825	54,565	2,769	327	58,486
Accumulation amortisation and impairment	-	-	(1,781)	(115)	(1,896)
Net book amount	**825**	**54,565**	**988**	**212**	**56,590**
Year ended 30 June 2016					
Opening net book amount	825	54,565	988	212	56,590
Amortisation charge*	-	-	(384)	(41)	(425)
Closing net book amount	**825**	**54,565**	**604**	**171**	**56,165**
At 30 June 2016					
Cost	825	54,565	2,769	1,292	59,451
Accumulated amortisation	-	-	(2,165)	(1,121)	(3,286)
Net book amount	**825**	**54,565**	**604**	**171**	**56,165**

* Amortisation of $425,000 (2015 - $435,000) is included in depreciation and amortisation expense in profit or loss.

14 Non-current assets - Intangible assets (continued)

(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).

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.

2016	**Goodwill $'000**	**Brands $'000**
Sweet and savoury frozen bakery product business*	825	54,565

2015	**Goodwill $'000**	**Brands $'000**
Sweet and savoury frozen bakery product business*	825	54,565

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

CGU	**Growth rate ****		**Discount rate *****	
	2016 %	**2015 %**	**2016 %**	**2015 %**
Sweet and savoury frozen bakery product business	7.1	7.8	12.6	12.6

* includes the caravan park business previously reported as a separate cash generating unit, as cash flows have been determined to be not largely independent.
** Growth rate used to extrapolate cash flows beyond the one year budget period for the forecast period to 2020.
A 1.3% growth rate has been applied beyond 2020 for Sweet and savoury frozen bakery product.
*** 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 the 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 CGU and the market in which it operate.

(c) Impact of possible changes in key assumptions

Sweet and savoury frozen bakery product business
A reasonably possible change in any of the key assumptions would not result in the CGU carrying amount exceeding the recoverable amount.

15 Current liabilities - Payables

	Consolidated	
	2016 $'000	**2015 $'000**
Trade payables	17,904	19,887
Other payables	7,978	6,891
	25,882	**26,778**

(a) Risk exposure

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

16 Current liabilities - Borrowings

	Consolidated	
	2016 **$'000**	**2015** **$'000**
Secured		
Bank bills(a)	2,500	2,500
Bank overdrafts	683	-
Total secured current borrowings	**3,183**	**2,500**

(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 19.

(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 19.

17 Derivative financial instruments

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Current assets		
Forward foreign exchange contracts - cash flow hedges((a)(i))	-	67
Total current derivative financial instrument assets	**-**	**67**
Current liabilities		
Forward foreign exchange contracts - cash flow hedges	105	69
Total current derivative financial instrument liabilities	**105**	**69**
Non-current liabilities		
Interest rate swaps - cash flow hedges	1,050	984
Total non current derivative financial instrument liabilities	**1,050**	**984**
Total derivative financial instrument liabilities	**1,155**	**1,053**

(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, NZ 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 59% (2015 - 47%) 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 2016 a loss of $506,931 was reclassified into profit and loss (2015 - loss of $450,306) and included in finance cost. There was no hedge ineffectiveness in the current year.

18 Current liabilities - Provisions

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Employee benefits (a)	5,212	4,872

(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.

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Leave obligations expected to be settled after 12 months	233	233

19 Non-current liabilities - Borrowings

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Bank bills	57,150	72,350
Total secured non-current borrowings	**57,150**	**72,350**

(a) Secured liabilities and assets pledged as security

The total secured liabilities (current (note 16) and non-current) are as follows:

Bank bills	59,650	74,850
Bank overdrafts	683	-
Total secured liabilities	**60,333**	**74,850**

The bank bills and overdraft 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. 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	
	2016	**2015**
	$'000	**$'000**
Current		
Floating charge		
Cash and cash equivalents	74	664
Receivables	58,106	52,391
Inventories	35,487	49,910
Total current assets pledged as security	**93,667**	**102,965**
Non-current		
First mortgage		
Freehold land and buildings	23,171	24,939
Floating charge		
Other financial assets	13,591	12,064
Plant and equipment	42,689	45,431
Total non-current assets pledged as security	**79,451**	**82,434**
Total assets pledged as security	**173,118**	**185,399**

19 Non-current liabilities - Borrowings (continued)

(b) Fair value

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

	At 30 June 2016		At 30 June 2015	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
On-balance sheet				
Non-traded financial liabilities				
Bank bills	60,333	60,333	74,850	74,850
	60,333	**60,333**	**74,850**	**74,850**

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.

20 Non-current liabilities - Deferred tax liabilities

	Consolidated	
	2016 $'000	2015 $'000
The balance comprises temporary differences attributable to:		
Brand names	6,500	6,500
Intangible assets	145	241
Depreciation	1,420	1,378
Other	194	27
Receivable	-	1,424
Total deferred tax liabilities	8,259	9,570
Set-off of deferred tax assets pursuant to set-off provisions (note 13)	(2,687)	(3,483)
Net deferred tax liabilities	**5,572**	**6,087**
Movements:		
Opening balance 1 July	9,570	7,961
Charged/(Credited) to the income statement	(1,310)	1,609
Closing balance at 30 June	**8,260**	**9,570**
Deferred tax liabilities expected to be settled within 12 months	-	1,424
Deferred tax liabilities expected to be settled after more than 12 months	8,259	8,146
	8,259	**9,570**

21 Contributed equity

(a) Share capital

	30 June 2016 Shares	30 June 2015 Shares	30 June 2016 $'000	30 June 2015 $'000
Ordinary shares - fully paid	139,312,537	139,234,153	68,889	68,797

21 Contributed equity (continued)

(b) Movements in ordinary share capital

Date	Details	Number of shares	$'000
1 July 2014	Opening balance	139,144,338	68,682
	Employee share scheme issues	89,815	115
30 June 2015	**Balance**	**139,234,153**	**68,797**
	Opening balance	139,234,153	68,797
	Employee share scheme issues	78,384	92
30 June 2016	**Balance**	**139,312,537**	**68,889**

(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 32.

(e) Options and performance rights

Information relating to the Long-Term Incentive Plan, including details of options & performance rights issued, exercised, lapsed and forfeited during the financial year and options & performance rights outstanding at the end of the financial year, is set out in note 32.

(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 2016 was 58% (2015: 54%).

22 Reserves and retained earnings

(a) Reserves

		Consolidated	
		2016	**2015**
		$'000	**$'000**
Hedging reserve - cash flow hedges		(809)	(690)
Share-based payments reserve		246	107
		(563)	(583)

Movements:			
Hedging reserve - cash flow hedges			
Opening balance 1 July		(690)	(1,054)
Revaluation		(169)	519
Deferred tax		51	(155)
Balance 30 June		**(808)**	**(690)**
Movements:			
Share-based payments reserve			
Balance 1 July		107	160
Option expense / (gain)		138	(53)
Balance 30 June		**245**	**107**

(b) Retained earnings

Movements in retained earnings were as follows:

Balance 1 July		65,748	69,356
Net profit for the year		13,013	2,055
Items of other comprehensive income recognised directly in retained earnings			
Acquisition of associate		-	(239)
Dividends	23	(10,722)	(5,424)
Balance 30 June		**68,039**	**65,748**

(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

23 Dividends

(a) Ordinary shares

	Consolidated	
	2016 **$'000**	**2015** **$'000**
Final ordinary dividend for the year ended 30 June 2015 of 5.0 cents (2014 - 3.9 cents) per fully paid share paid on 8 October 2015.		
Fully franked based on tax paid @ 30% - 5.0 cents (2014 - 3.9 cents) per share	6,962	5,427
Interim ordinary dividend for the year ended 30 June 2016 of 2.7 cents (2015 - nil cents) per fully paid share on 15 April 2016.		
Fully franked based on tax paid @ 30% - 2.7 cents (2015 - nil cents) per share	3,760	-
Total dividends provided for or paid	**10,722**	**5,427**

Dividends paid in cash during the years ended 30 June 2016 and 2015 were as follows:		
Paid in cash	10,722	5,427

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

In addition to the above dividends, since year end the directors have not recommended the payment of a final dividend (2015 - 5.0 cents).	-	6,962

(c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2016 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 2016.

	Consolidated	
	2016 **$'000**	**2015** **$'000**
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2015 - 30%)	21,392	23,006

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 will be nil (2015: $3,043,261).

24 Key management personnel disclosures

(a) Directors

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

(i) *Chairman - non-executive*
- Mark G Smith

(ii) *Executive director*
- Steven C Chaur, Managing Director & Chief Executive Officer

(iii) *Non-executive directors*
- Gregory J Dhnaram;
- J Curt Leonard, (Deputy Chairman);
- Henricus 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 (resigned 31 July 2015)	Chief Financial Officer
Denis Gerrard	General Manager, Operations
Stuart Smyth	General Manager, Innovation & Marketing
Jeff Pentney	General Manager, People & Organisation
Bethaney George	General Manager, In Home
Greg Wharton	General Manager, Out of Home
Steve Beauchier	Group Procurement Manager
Robin Donohue (appointed 23 December 2015)	Chief Finance Officer
Clinton Orr (appointed 18 September 2014)	Company Secretary / In house Legal Counsel

(c) Key management personnel compensation

	Consolidated	
	2016	**2015**
	$	**$**
Short-term employee benefits	2,863,548	2,490,488
Post-employment benefits	345,069	341,447
Long-term benefits	76,150	35,224
Termination benefits	66,656	522,663
Share-based payments	245,757	(73,843)
	3,597,180	**3,315,979**

24 Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel

(i) *Options & performance rights provided as remuneration and shares issued on exercise of such options & performance rights*

Details of options and performance rights provided as remuneration and shares issued on the exercise of such options and performance rights, together with terms and conditions of the options and performance rights, can be found in the remuneration report on pages 11 - 26.

(ii) *Option and performance rights holdings*

The numbers of options and performance rights 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.

2016 Name	Balance at start of the year	Granted as compen-sation	Exercised	Lapsed	Balance at end of the year	Vested and exercisable	Unvested
Directors of Patties Foods Limited							
Steven Chaur	200,000	248,571	-	-	448,571	-	448,571
Other key management personnel of the Group							
Denis Gerrard	100,000	98,209	-	-	198,209	-	198,209
Jeff Pentney	120,000	81,734	-	(45,000)	156,734	-	156,734
Bethany George (1)	-	78,459	-	-	78,459	-	78,459
Greg Wharton (2)	-	70,408	-	-	70,408	-	70,408
Stuart Smyth (3)	-	70,560	-	-	70,560	-	70,560
Steve Beauchier (4)	-	65,816	-	-	65,816	-	65,816
Robin Donohue (5)	-	40,075	-	-	40,075	-	40,075

(1) Ms George commenced 10 December 2014
(2) Mr Wharton became a KMP and was promoted to the Role of General Manager Out of Home on 17 November 2014
(3) Mr Smyth commenced 8 December 2014
(4) Mr Beauchier became a KMP and was promoted to the role of Group Manager Procurement on 24 September 2014
(5) Mr Donohue was promoted to CFO on 23 December 2015

2015 Name	Balance at start of the year	Granted as compen-sation	Exercised	Lapsed	Balance at end of the year	Vested and exercisable	Unvested
Directors of Patties Foods Limited							
Steven Chaur	-	200,000	-	-	200,000	-	200,000
Other key management personnel of the Group							
Denis Gerrard (1)	-	100,000	-	-	100,000	-	100,000
Jeff Pentney	106,760	75,000	-	(61,760)	120,000	-	120,000
Michael Knaap	213,520	100,000	-	(313,520)	-	-	-
Tim Peters (2)	213,520	100,000	-	(313,520)	-	-	-
Mark Kluver (3)	106,760	-	-	(89,254)	17,506	-	17,506

24 Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)
(ii) *Option and performance rights holdings (continued)*

(1) Mr Gerrard commenced 11 August 2014
(2) Mr Peters ceased on 14 November 2014
(3) Mr Kluver ceased on 12 September 2014

25 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	
	2016	**2015**
	$	**$**
Audit and review of financial reports and other audit work under the Corporations Act 2001	217,000	207,750
Other audit related services	-	70,000
Total remuneration for audit and other services	**217,000**	**277,750**

26 Commitments

(a) Capital commitments

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

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Property, plant and equipment		
Payable:		
Within one year	4,083	2,171

(b) Lease commitments: Group as lessee

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Representing:		
Non-cancellable operating leases	1,327	1,542

(i) Non-cancellable operating leases

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

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	913	765
Later than one year but not later than five years	414	777
	1,327	**1,542**

27 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 29.

(c) Subsidiaries

Interests in subsidiaries are set out in note 28.

(d) Transactions with other related parties

The following transactions occurred with related parties:

	Consolidated	
	2016	**2015**
	$	**$**
Sales of goods and services		
Sale of raw materials & finished goods to Davies Bakery Pty Ltd	12,865	270,645
Rent from Davies Bakery Pty Ltd	15,972	21,074
	28,837	**291,719**
Purchases of goods and services with associates		
Finished goods from Davies Bakery Pty Ltd (associated company)	16,695,815	18,703,506
Air flight services from Piper Partners Pty Ltd (associated company)	-	60,489
	16,695,815	**18,763,995**
Sponsorship		
Regional Business and Tourism Associations (common director)	62,830	60,757
Superannuation contributions		
Contributions to superannuation funds on behalf of employees	2,986,847	3,026,564

(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	
	2016	**2015**
	$	**$**
Current receivables (sales of goods and services)		
Davies Bakery Pty Ltd	431	578
Current payables (purchases of goods)		
Davies Bakery Pty Ltd	2,115,486	3,073,113

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.

27 Related party transactions (continued)

(f) Loans to/from related parties

There are no loans to directors or executives at 30 June 2016 other than loans to executives of up to $1,000 under standard terms of the Group's exempt employee share plan.

28 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 2016 %	Equity holding 2015 %
Chef's Pride Pty Ltd	Australia	Ordinary	100	100
Herbert Adams Pty Ltd	Australia	Ordinary	100	100
Piper Partners Pty Ltd	Australia	Ordinary	100	100

29 Investments in associates

(a) Movements in carrying amounts

	Consolidated 2016 $'000	Consolidated 2015 $'000
Carrying amount at the beginning of the financial year	12,064	10,833
Share of profits after income tax	2,527	1,904
Ceasing to be an associate	-	(173)
Dividends received/receivable	(1,000)	(500)
Carrying amount at the end of the financial year	13,591	12,064

(b) Summarised financial information of associates

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

	Ownership Interest %	Assets $'000	Liabilities $'000	Group's share of: Revenues $'000	Group's share of: Profit/(loss) $'000
2016					
Davies Bakery Pty Ltd	50	19,357	6,282	31,804	2,527
2015					
Davies Bakery Pty Ltd	50	17,022	5,311	27,975	1,904

All of the above associates are incorporated in Australia.

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

30 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	
	2016	**2015**
	$'000	**$'000**
Cash and cash equivalents	74	664
Bank overdrafts	(683)	-
Balances per statement of cash flows	(609)	664

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

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Profit for the year	13,013	2,055
Depreciation and amortisation	8,181	8,417
Impairment	-	10,300
Fair value adjustment to derivatives	(118)	364
Share of (profits)/losses of associates and joint venture partnership	(2,527)	(1,731)
Net (profit) / loss on sale of assets	(306)	255
Transfer of interest income to Investing cash flows	-	(15)
Change in operating assets and liabilities:		
(Increase) decrease in trade debtors	(4,163)	(6,657)
(Increase) decrease in inventories	14,672	(4,934)
(Increase) decrease in other operating assets	(1,552)	1,084
(Decrease) increase in trade creditors	(896)	(3,272)
(Decrease) increase in provision for income taxes payable	2,036	(891)
(Decrease) increase in deferred tax liabilities	(515)	464
(Decrease) increase in other provisions	478	347
Increase (decrease) in derivative financial instruments	169	(519)
transfer of business sale from operating to investing	(1,302)	-
Net cash inflow (outflow) from operating activities	**27,170**	**5,267**

31 Earnings per share

(a) Basic earnings per share

	Consolidated	
	2016	**2015**
	Cents	**Cents**
Basic earnings per share from continuing operations attributable to the ordinary equity holders of the company	9.3	1.5

(b) Diluted earnings per share

Diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company	9.3	1.5

31 Earnings per share (continued)

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

	Consolidated	
	2016 $'000	**2015 $'000**
Basic earnings per share		
Profit from continuing operations	13,013	2,055

(d) Weighted average number of shares used as denominator

	Consolidated	
	2016 Number	**2015 Number**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	139,312,537	139,234,153
Performance rights	282,028	180,334
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	139,594,565	139,414,487

(e) Information on the classification of securities

(i) *Options and performance rights*

Options and performance rights 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 and performance rights have not been included in the determination of basic earnings per share. Details relating to the options and performance rights are set out in note 32.

32 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 or performance rights 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 performance rights that will vest depends on the achievement of specified compound annual earnings per share (EPS) growth. Once vested, the performance rights remain exercisable for a period of three years. Performance rights are granted under the plan for no consideration.

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

When exercisable, each performance right is convertible into one ordinary share.

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

32 Share-based payments (continued)

(a) Long-Term Incentive Plan (continued)

Set out below are summaries of options and performance rights 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 - 2016							
19 August 2013	3 September 2016	-	103,730	-	-	(103,730)	-
18 September 2014	18 September 2017	-	175,000	-	-	-	175,000
18 November 2014	18 September 2017	-	200,000	-	-	-	200,000
30 September 2015	30 September 2018	-	-	465,186	-	-	465,186
19 November 2015	30 September 2018	-	-	248,571	-	-	248,571
4 February 2016	30 September 2018	-	-	40,075	-	-	40,075
Total			**478,730**	**753,832**	**-**	**(103,730)**	**1,128,832**
Weighted average exercise price				-	-	-	$0.87

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 - 2015							
19 August 2013	3 September 2016	-	311,224	-	-	(207,494)	103,730
18 September 2014	18 September 2017	-	-	375,000	-	(200,000)	175,000
18 November 2014	18 September 2017	-	-	200,000	-	-	200,000
3 September 2012	3 September 2016	-	370,560	-	-	(370,560)	-
Total			**681,784**	**575,000**	**-**	**(778,054)**	**478,730**
Weighted average exercise price				-	-	-	$0.89

The weighted average remaining contractual life of performance rights outstanding at the end of the period was 1.85 years (2015 - 1.89 years).

32 Share-based payments (continued)

(a) Long-Term Incentive Plan (continued)

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2016 was between $0.517 and $0.996. (2015 - between $1.03 and $1.06). The fair value at grant date is independently determined using a Monte Carlo simulation that takes into account the exercise price, the term of the performance right, 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 performance right.

The model inputs for performance rights granted during the year ended 30 June 2016 included:

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

(b) exercise price: N/A

(c) vesting date: 30 June 2018

(d) grant date: 30 September 2015, 19 November 2015 and 4 February 2016 (2015 - 30 September 2014 and 18 November 2014)

(e) expiry date: N/A (2015 - N/A)

(f) share price at grant date: 30 September 2015: $1.15, 19 November 2015: $1.165 and 4 February 2016: $1.130 (2015 - 30 September 2014: $1.26 and 18 November 2014: $1.285)

(g) expected price volatility of the Company's shares: 27% (2015 - 30%)

(h) expected dividend yield: 5.9% (2015 - 5.9%)

(i) risk-free interest rate: between 1.82% and 2.13% across the different grant dates (2015 - 2.50%)

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.

32 Share-based payments (continued)

(b) Deferred shares - executives short-term incentive scheme
(c) 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. There have been six rounds of the Exempt Employee Plan Offer. The first round was conducted in November 2006 through to the eighth in December 2015.

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.

(d) 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 $138,000 in 2016 (2015: -$74,000) for the consolidated entity.

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

33 Reconciliation between Statutory and Pro forma results

The Company provides the following reconciliation between the statutory result and the pro-forma result that excludes frozen fruit. The basis of preparation for the pro forma frozen fruit result is the specific gross profit contribution and all costs directly attributable to frozen fruit.

The Company have provided pro-forma financial information in the Directors' Report.

Post the Frozen Berry recall in February 2015, the Company continued to closely monitor the frozen fruit category and chose to completely exit the frozen fruit business in December 2015 to concentrate in its core frozen bakery business.

Accordingly to assist users of the financial statements, the Company provides the following financial information;

	Consolidated (Statutory)			**Frozen Fruit (Pro Forma)**			**Bakery (Pro Forma)**		
$'000	**FY16**	**FY15**	**% change**	**FY16**	**FY15**	**% change**	**FY16**	**FY15**	**% change**
Net Sales Revenue	245,072	256,850	-4.6%	11,591	33,530	-65.4%	233,481	223,320	4.6%
EBIT (underlying)	22,413	23,840	-6.0%	(2,971)	1,793	-265.7%	25,384	22,047	15.1%
NPAT (underlying)	14,095	15,438	-8.7%	(2,426)	899	-369.9%	16,521	14,539	13.6%

The FY16 reported profit was adjusted for a significant item related to costs from the Scheme of Arrangement ($1.3m pre-tax and $1.1m post-tax) (refer to note 6(b)).
The FY15 reported profit adjusted for significant items of $14.7m pre-tax and $13.4m post-tax. This relates to an organisational restructure ($1.1m pre-tax and $0.8m post-tax), the direct costs of the frozen berries recall and; a non-cash impairment of the frozen fruit product business (refer to note 6(b)).

34 Parent entity financial information

(a) Summary financial information

	Parent Entity	
	2016	**2015**
	$'000	**$'000**
Balance sheet		
Current assets	109,617	122,075
Non-current assets	155,534	158,495
Total assets	265,151	280,570
Current liabilities	64,096	64,894
Non-current liabilities	65,940	81,726
Total liabilities	130,036	146,621
Net assets	**135,115**	**133,949**
Shareholders' equity		
Contributed equity	68,889	68,797
Reserves	(563)	(583)
Retained earnings	66,789	65,735
	135,115	133,949
Profit or loss for the year	**11,777**	**10,931**
Cash flow hedges	(169)	519
Income tax relating to components of other comprehensive income	51	(156)
Other comprehensive income for the year, net of tax	**(118)**	**363**
Total comprehensive income	**11,658**	**11,294**

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

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

As at 30 June 2016, the parent entity had contractual commitments for the acquisition of property, plant or equipment totaling $4,083,000 (2015 $2,171,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

35 Events occuring after the reporting period

Scheme of Arrangement

Patties Foods Limited has announced that it has registered an Explanatory Booklet in relation to the previously announced Scheme of Arrangement with ASIC for the proposed acquisition of Patties by Australasian Foods Bidco Pty Ltd. The terms of the proposed Scheme are as announced to ASX on 2 June 2016.

An Independent Expert's report, prepared by Deloitte Corporate Finance Pty Limited (Deloitte) has concluded that, in the absence of a superior proposal, the proposed Scheme is fair and reasonable and therefore is in the best interests of Patties shareholders.

Your Directors continue to unanimously recommend that Patties shareholders vote in favour of the Scheme at the upcoming Scheme Meeting, in the absence of a superior proposal.

The Scheme meeting will be held at 10:00am on Friday, 26 August 2016 at Minter Ellison, Level 23, 525 Collins Street, Melbourne, Victoria.

In the directors' opinion:

(a) the financial statements and notes set out on pages 41 to 94 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 2016 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.

Mark G Smith

Mark G Smith
Chairman

Melbourne
19 August 2016

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

Report on the financial report

We have audited the accompanying financial report of Patties Foods Limited (the company), which comprises the consolidated balance sheet as at 30 June 2016, the statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Patties Foods Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation 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, 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. Those 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 consolidated 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.

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

Independence

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

Auditor's opinion

In our opinion:

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

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(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(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 11 to 26 of the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Patties Foods Limited (the company) for the year ended 30 June 2016 included on Patties Foods Limited's web site. The company's directors are responsible for the integrity of Patties Foods Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Lisa Harker

Lisa Harker
Partner

Melbourne
19 August 2016

The shareholder information set out below was applicable as at 31 July 2016.

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	1,375	878,905	.63%
1,001 - 5,000	2,295	6,103,684	4.38%
5,001 - 10,000	702	5,433,487	3.90%
10,001 - 100,000	607	15,555,650	11.17%
100,001 - 9,999,999	75	111,340,811	79.92%
	5,054	**139,312,537**	**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
N&F Rijs Pty Ltd (The N & F Rijs Family A/C)	10,715,348	7.69
Aldakdta Pty Ltd (Aldakda Family A/C)	9,728,764	6.98
National Nominees Limited	8,758,080	6.29
Hank Pty Ltd (Ankh Family A/C)	8,384,780	6.02
Ludamon Pty Ltd (Marich Family A/C)	7,493,500	5.38
JP Morgan Nominees Australia Ltd	6,446,032	4.63
Citicorp Nominees Pty Limited	6,408,030	4.60
Frills Pty Ltd (Frills Family A/C)	6,247,834	4.48
HSBC Custody Nominees (Australia) Limited	6,017,992	4.32
The Myer Family Investments Pty Ltd	5,000,000	3.59
Sargents Charity Limited	4,200,000	3.01
Frills Super Co Pty Ltd (Frills Super Fund A/C)	3,478,359	2.50
Barr Family Pty Ltd (Barr Family Foundation A/C)	2,742,087	1.97
Marcia M Rijs Pty Ltd (Marcia M Fijs Family A/C)	2,285,972	1.64
LT MM Super Investments P/L (LT MM Rijs Super A/C)	2,220,276	1.59
Mondalu Pty Ltd (RC & MW Rijs Superannuation)	1,506,502	1.08
Mrs Julie Ann Dennison	1,407,163	1.01
EMK Investments Pty Ltd	1,214,955	0.87
Mr. Michael Thomas Bartholomew	1,182,323	0.85
Totals: top 20 holders of issued capital	**95,437,997**	**68.50**
Total remaining holders balance	**43,874,540**	**31.50**

C. Substantial holders

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

	Number held	Percentage
Ordinary shares		
Adrian & Louise Rijs	11,951,051	8.58%
The Myer Family Company Pty Ltd	11,594,449	8.32%
N & F Rijs	10,715,348	7.70%
Frank & Wilhelmina Rijs	9,834,693	7.06%
Harry Rijs	9,500,000	6.82%
Richard C Rijs	9,000,002	6.46%

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.