

HALF YEAR REPORT 2008

PROUD PROGRESSIVE PARTNERSHIP



SILVER
FERN™
FARMS

ppcs
Limited



**SILVER
FERN™
FARMS**

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PPCS Limited has reported a positive result for the six months ended 29 February 2008, with profit after tax of \$11.3m compared to a loss of \$14.6m for the same period last year. Revenues remained static at \$885m (February 2007: \$872m) with mutton volumes increasing whilst lamb, beef and venison were comparable to the same period in 2007. Higher unit sale rates were, however, offset by continued currency strength.

An analysis of the six month average foreign exchange rates for the year showed New Zealand dollar increases of 13 per cent, eight per cent and one per cent against the US Dollar, the Pound and the Euro respectively. Notwithstanding the above we increased sales values and efficiencies enabled the business to withstand the appreciation in currency and improve returns to suppliers.

It was encouraging to see farmer payments being maintained in peak season for cattle in the face of an appreciating currency, and an improvement in lamb prices over last year. This can largely be ascribed to the success of marketing efforts and moves to open new markets. The performance also reflects cost containment measures related to plant operating costs and overheads, which have also proved effective in spite of inflationary pressures during the period. However, we remain acutely aware of the need to further and substantially improve returns to suppliers.

These outcomes demonstrate the positive impacts of an evolving business model and the benefits of the company's 'Rightsize' business re-positioning strategy, coupled with absolute dedication from management and staff to PPCS and its objective of delivering superior sustainable returns to its shareholders.

The financial position also demonstrates the commitment to debt reduction. Debt had come down by \$63m year-on-year, although finance costs remain high due to the higher debt servicing costs.

Further to the market announcement on 15 March 2008 the company confirmed that it had met its interest coverage ratio – EBITDA at 1.75 times interest costs – applicable to the PPCS030 bonds and that the interest rate therefore has decreased to 10.25 per cent from 15 March 2008.

There is, however, an expectation of further earnings over interest coverage breaches in the short term as a legacy of the 12 month's rolling average calculation impacted by the carry over from last year.

SILVER FERN FARMS

As part of our overall strategy of improving the effectiveness of both our onshore and offshore marketing, as of June 2008 PPCS will be known as Silver Fern Farms Limited. The New Zealand Stock Exchange (NZX) ticker codes will change from PPC020 and PPC030 to SFF020 and SFF030 respectively. Silver Fern™ is already one of our company's leading export brands and a by-word for consistency, quality and product innovation. The shift to a single, strong brand is a critical ingredient to evolving into a fully integrated marketing company investing in consumer products that will differentiate us and add value to suppliers, staff and customers.

In Silver Fern Farms we are creating a brand that showcases the very best of New Zealand; a banner under which we will take New Zealand product to the world and present a promise of purity, taste and quality. It is strongly aligned with our focus on marketing products in a form and pack size that meets modern, affluent customer's requirements and sets new standards in terms of traceability, sustainability, animal welfare and innovation. Through this brand, we intend to move forward as a **Proud, Progressive, Partnership.**



INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The previous half year results have been restated to comply with New Zealand equivalents of International Financial Reporting Standards (NZ IFRS). The interim reported 2007 Net Loss Before Tax has been restated downwards to reflect IFRS adjustments of \$2.1m and the balance sheet reflects changes to retained earnings, deferred tax and the reclassification of issued capital.

OUTLOOK

There have been positive signals for the remainder of the financial year. We are continuing our focus on ongoing debt reduction and improvements in operational performance attendant to implementation of our Rightsize programme and marketing initiatives.

At the same time, while the continuing high New Zealand dollar exchange rate will continue to impact farm gate returns, there is evidence of positive international pricing going forward particularly on the international lamb market.

PPCS remains committed to finding the best solution for the entire value chain to create a more sustainable platform for all industry participants.

Eoin Garden
Chairman

Keith Cooper
Chief Executive

CONSOLIDATED INCOME STATEMENT

UNAUDITED

\$000	Note	Six Months Ended 29 Feb 08	Six Months Ended 4 Mar 07
Continuing Operations			
Sale of Goods		849,323	864,632
Other income	3	35,186	6,948
Revenue	7	884,509	871,580
Changes in inventories		89,354	75,823
Raw materials and consumables used		(640,693)	(644,331)
Employee benefits expense		(156,439)	(150,607)
Depreciation expense		(13,428)	(14,073)
Other operating expenses		(133,862)	(143,227)
Finance costs	4	(14,368)	(14,193)
Profit/(Loss) from continuing operations before member distributions, income tax and non-recurring items		15,073	(19,028)
Member distributions		(653)	(2,095)
Profit/(Loss) from continuing operations before Income tax and non-recurring items		14,420	(21,123)
Non-recurring items		(1,985)	-
Profit/(Loss) from continuing operations before income tax		12,435	(21,123)
Income tax expense		(1,153)	6,510
Net profit/(loss) for the period	5	11,282	(14,613)
Attributable to:			
Minority Interest		(70)	-
Profit/(Loss) attributable to shareholders of the Parent Company	11	11,212	(14,613)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

UNAUDITED

\$000	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Minority Interests	Retained Earnings	Total
2007					
Opening balance at 4 September 06	6,280	2,895	193	195,532	204,900
Recognised loss for period	-	-	-	(14,613)	(14,613)
Movement asset revaluation	23,234	-	-	-	23,234
Movement on foreign currency translation	-	(2,707)	-	-	(2,707)
Closing balance at 4 March 07	29,514	188	193	180,919	210,814
2008					
Opening balance at 1 September 07	23,028	733	(35)	136,997	160,723
Recognised profit for period	-	-	-	11,212	11,212
Movement resulting from sale of Land and Buildings	12,342	-	-	(12,342)	-
Movement on foreign currency translation	-	(4,591)	-	-	(4,591)
Recognised loss on minority interests	-	-	(70)	-	(70)
Closing balance at 29 February 08	35,370	(3,858)	(105)	135,867	167,274

CONSOLIDATED BALANCE SHEET

UNAUDITED

\$000	Note	As at 29 Feb 08	As at 4 Mar 07	As at 31 Aug 07
ASSETS : Current Assets				
Cash & Cash Equivalents		12,427	7,072	4,392
Assets held for sale		4,900	-	8,551
Trade receivables		183,577	223,607	100,966
Other receivables		27,427	8,463	9,743
Inventories		289,599	335,752	200,244
Tax receivable		241	178	387
Fair value of derivative assets		11,204	-	-
Total Current Assets		529,375	575,072	324,283
ASSETS: Non-current Assets				
Available for sale financial assets		884	1,144	976
Investments in subsidiaries		-	130	-
Investments in associates		4,751	5,713	4,751
Deferred income tax asset		-	13,741	-
Property plant and equipment		313,945	334,363	320,798
Total Non-current Assets		319,580	355,091	326,525
Total Assets		848,955	930,163	650,808
LIABILITIES: Current Liabilities				
Bank overdraft		5,587	8,310	2,761
Fair value of derivative liabilities		-	1,217	2,381
Trade and other payables		135,263	132,576	54,909
Employee entitlements		19,945	22,762	17,072
Distributions to suppliers		-	-	5,366
Financial liabilities	6	309,085	245,904	78,449
Total Current Liabilities		469,880	410,769	160,938
LIABILITIES: Non-current Liabilities				
Employee entitlements		4,622	-	-
Deferred income tax liability		7,765	-	6,612
Financial liabilities	6	125,411	243,941	252,728
Provisions		5,125	4,449	4,700
Total Non-current liabilities (excluding members shares)		142,923	248,390	264,040
Total Liabilities (excluding Members Ordinary Shares)		612,803	659,159	424,978
NET ASSETS EXCLUDING MEMBERS SHARES		236,152	271,004	225,830
Convertible redeemable preference shares		2,691	2,774	2,720
Supplier investment shares		17,303	6,904	12,876
Members ordinary shares		48,884	50,512	49,581
TOTAL MEMBERS SHARES		68,878	60,190	65,177
NET ASSETS		167,274	210,814	160,653
EQUITY: Equity attributable to shareholders of the Parent				
Retained Earnings		135,867	180,919	136,927
Other reserves		31,512	29,702	23,761
Parent interests		167,379	210,621	160,688
Minority interests		(105)	193	(35)
TOTAL EQUITY	10	167,274	210,814	160,653

STATEMENT OF CASH FLOWS

UNAUDITED

\$000	Note	Six Months Ended 29 Feb 08	Six Months Ended 4 Mar 07
Cash flows from operating activities			
Receipts from customers		781,362	726,693
Payments to suppliers and employees		(864,260)	(802,098)
Income tax refund		-	233
Interest received		119	192
Dividends received		90	114
Interest paid		(7,364)	(6,549)
Net cash flows from operating activities	9	(90,053)	(81,415)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		8,972	2,018
Proceeds from sale of investments		92	194
Movement in subsidiary balances			
Purchase of property, plant and equipment		(13,463)	(12,960)
Net cash flows from investing activities	9	(4,399)	(10,748)
Cash flows from financing activities			
Proceeds from the issue of shares		4,427	6,916
Proceeds from borrowing		102,862	96,807
Distributions and retentions paid and shares surrendered		(7,648)	(9,082)
Supplier investment shares redeemed		-	(12)
Redeemable preference shares redeemed		(29)	(27)
Net cash flows from financing activities	9	99,612	94,602
Net increase (decrease) in cash and cash equivalents		5,160	2,439
Net foreign exchange difference		49	31
Cash and cash equivalents at the beginning of the period		1,631	(3,708)
Cash at the end of the period		6,840	(1,238)
Represented by:			
Cash		12,427	7,072
Bank overdraft		(5,587)	(8,310)
Cash at the end of the half year		6,840	(1,238)

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1 Corporate Information

The financial statements of PPCS Limited for the six months ending 29 February 2008 were authorised for issue in accordance with a resolution of the directors on 24 April 2008.

PPCS Limited (the Parent) is registered under the Companies Act 1993 and the Co-operative Companies Act 1996. PPCS Limited is an issuer for the purposes of the Financial Reporting Act 1993.

The nature of the operations and principal activities of the Group are described in note 7.

2 Summary of Significant Accounting Policies

a Basis of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The unaudited interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalent to International Reporting Standard (NZ IAS 34) "Interim Financial Reporting" and other applicable reporting standards appropriate for profit oriented entities.

The financial statements have also been prepared on a historical cost basis, except for land and buildings, derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

This is the first set of financial statements prepared based on NZ IFRS and comparatives for the six months ended 4 March 2007 have been restated accordingly. Reconciliations of equity at 4 September 2006, 4 March 2007 and 31 August 2007, and profit for the six months ended 4 March 2007 under NZ IFRS are detailed in note 10 and 11 below.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

The financial statements and related notes should be read in conjunction with the Company's 2007 Annual Report.

b Basis of Consolidation

The consolidated financial statements comprise the financial statements of PPCS Limited and its subsidiaries as at each period end (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and the contingent liabilities assumed at the date of acquisition.

Minority interests not held by the Group are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholder's equity.

c Business Combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred, assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets is recognised as goodwill. If the cost of acquisition is less than the Group's share of the identifiable assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

d Segment Reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

e Foreign Currency Translation**(i) Functional and presentation currency**

Both the functional and presentation currency of PPCS Limited and its New Zealand subsidiaries is New Zealand dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historic costs in a foreign currency are not translated.

All exchange differences in the consolidated financial statements are taken to the income statement for the period.

(iii) Foreign Operations

On consolidation, the assets and the liabilities of the groups overseas operations are translated into the presentation currency of PPCS Limited at the exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to the foreign currency translation reserve, a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

f Cash and Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

g Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Allowance for impairment loss on trade receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management. Due to the large number of debtors, this assessment is based on supportable past collection history and historical write-offs of bad debts.

h Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is calculated on the first-in-first-out basis.

The cost of meat and associated products includes the price of livestock, plus processing and other expenses incurred to bring it to a saleable condition and location. Costs include direct and indirect overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

i Derivative Financial Instruments

The group enters into foreign currency forward exchange contracts, foreign currency loans and options to hedge trading transactions to reduce the exposure to fluctuations in foreign currency exchange rates and interest rates swaps to manage volatility in interest rate fluctuations.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into, and are subsequently re-measured to their fair value at each reporting date.

Changes in the fair value of any derivative financial instruments are recognised in the Income Statement.

Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

j Investments and Other Financial Assets

Financial assets in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available for sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

All purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Purchases or

sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

(i) Financial assets at fair value through profit and loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

k Biological assets

Biological assets consist of sheep and cattle.

The group purchases sheep and cattle through Lambplan and Beefplan as part of its normal operations. Sheep and cattle are valued at fair value which is the market price for procurement.

l Investment in Associates

The Group's investment in associates is accounted for under the equity method of accounting in the consolidated financial statements. The associates are entities in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After the application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

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

The financial statements of the associate are used by the Group to apply the equity method. Where reporting dates of the associate and the Group are different, financial statements have been prepared by the associate for the same reporting dates as the group. Both the group and the associates use consistent accounting policies.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable in the consolidated statement of changes in equity.

m Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Cost includes the original purchase price and costs attributable to bring the item of plant and equipment to the location and condition for its intended use.

Land and buildings are measured at fair value less accumulated depreciation on buildings.

All items of property, plant and equipment other than land are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

Land Improvements	5 to 50 years
Buildings	5 to 50 years
Plant and equipment	4 to 20 years
Motor Vehicles	5 to 8 years

(i) Revaluations of land and buildings

Following initial recognition at cost, operating land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet unless it reverses a revaluation decrease of the same asset previously recognised in the income statement.

Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus in the same asset in the asset revaluation reserve.

In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(ii) Disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

n Leases

(i) Group as Lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the income statement as finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(ii) **Group as Lessor**

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases.

o Impairment

At each balance sheet date, the group reviews the carrying amounts of its non current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

For an asset that does not generate largely independent inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

p Trade and Other Payables

Trade payables, other accounts payable and accrued expenses are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group at the end of the financial reporting period that are unpaid and arise when the Group becomes obliged to make

future payments in respect of the purchase of these goods and services. The amounts are unsecured and usually paid in 30 days of recognition.

q Interest-bearing Loans and Borrowings

Loans and borrowings are measured initially at the fair value of the consideration received net of transaction costs. Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest method which allocates the cost through the expected life of the loan or borrowing. Amortised cost is calculated taking into account any issue costs.

Bank loans 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 balance sheet date.

PPCS bonds are measured initially at fair value net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the Income Statement over the period of the borrowing using the effective interest rate method. Interest expense is measured in the Income Statement using the effective interest rate method.

(i) Borrowing costs

Borrowing costs are expensed as incurred except when they are directly attributable to the acquisition or construction of a qualifying asset. When this is the case, they are capitalised as part of the cost of that asset.

r Financial Liabilities

Financial liabilities in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial liabilities at fair value through profit or loss or other liabilities. When financial liabilities are recognised initially, they are measured at fair value, plus, in the case of liabilities not at fair value through profit or loss, directly attributable transaction costs. The Group

determines the classification of its financial liabilities after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial reporting period.

(i) Financial liabilities at fair value through profit and loss

Financial liabilities classified as held for trading are included in the category 'financial liabilities at fair value through profit or loss'. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

s Provisions and Employee Leave Benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(i) Wages, salaries, annual leave and sick leave

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

(ii) Long Service Leave

The liability for long service leave is recognised and measured in the balance sheet at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures, and periods of service.

t Convertible Redeemable Preference Shares

The convertible redeemable preference shares exhibit characteristics of a liability, and are therefore recognised as a liability in the balance sheet, net of issue costs.

The convertible redeemable preference shares, are measured initially at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, these loans and borrowings are subsequently measured at amortised cost using the effective interest method which allocates the cost through the expected life of the loan or borrowing. Amortised cost is calculated taking into account any issue costs.

u Members Shares

(i) Members Ordinary Shares

The Co-operatives share capital includes the amount of shares issued to the members of the Co-operative. From time to time, existing members leave the Co-operative and new members join the Co-operative. Members who leave the Co-operative are entitled, after a length of time, to have their share capital amounts repaid to them. New members are required to subscribe to shares in the Co-operative.

PPCS has two classes of ordinary shares: Rebate Shares which are issued to suppliers who supply stock under PPCS' rebate system and, Supplier Investment Shares, which are issued to all suppliers of stock to PPCS (subject to certain restrictions). All ordinary shares have a nominal value of one dollar per share. Supplier Investment Shares are paid to ninety cents by the supplier with the balance of ten cents being paid by way of a dividend.

Rebate Shares carry full voting rights subject to the shareholder being a Current Supplier (as defined in PPCS' constitution) at the time of voting. Supplier Investment Shares carry voting rights in relation to director elections only. Ordinary shares participate equally on winding up.

The current maximum shareholding for Rebate Shares and Supplier Investment Shares is 17,500 and 15,000 respectively.

PPCS' ordinary shares are eligible to receive a dividend subject to profitability. Rebate shareholders are eligible to receive a rebate based on the profit earned from stock supplied.

Redeemable Preference Shares were issued on 1 December 2002. A dividend of 6% (or as otherwise determined by the board) plus any available imputation credits, is paid on the anniversary of their issue. Redeemable Preference Shares may be next redeemed at the option of the holder on 1 December 2008 and every three years thereafter.

Due to the Co-operatives above obligations, the Co-operative members shares meets the definition of a financial liability as per NZ IAS 32: Financial Instruments Disclosure and Presentation, and hence, the issued and paid up capital is classified as a financial liability.

v Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered to be passed to the buyer at the time of shipment.

(ii) Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(iii) Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

w Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current periods taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when the taxable temporary differences is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(i) **Other Taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

x Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

y Research and development

Expenditure on research and development is written off in the Income Statement in the year in which it is incurred.

3 Other Income

\$000	Six Months Ended 29 Feb 08	Six Months Ended 4 Mar 07
Dividend	90	114
Foreign Exchange	32,006	3,930
Interest	114	192
Rental	389	319
Other	2,587	2,393
	35,186	6,948

The foreign exchange position is derived from the process of managing currency risk on cash receipts and is part of normal business operations. It reflects a mark to market position whereby hedged rates are compared to market rates prevailing at balance date and are partially offset by movement in foreign currency working capital.

4 Expenses

Finance costs includes amortisation of bond costs, bank facility fees and interest.

5 Seasonality of Results

PPCS operates in a seasonal industry which affects the distribution of earnings over its financial year. As a result, PPCS Group six monthly earnings can be subject to substantial volatility, as the profile of PPCS' processing season can vary from year to year between its two six monthly reporting periods.

6 Movements In Bonds Issued

\$000	Six Months Ended 29 Feb 08	Six Months Ended 4 Mar 07
Opening Balance	122,884	123,772
Bonds issued	-	50,000
Bond redeemed	-	(31,196)
Bond issue costs	-	(2,081)
Bond costs amortised	457	583
Closing balance	123,341	141,078

7 Business Segment Information

The Group's primary segment reporting format is business segments as the Group's risks and rates of return are affected predominantly by differences in the products produced.

The operating businesses are organised and managed according to the nature of the products provided.

The meat segment is a supplier of meat products. The hides and skins segment sells hides and skins. The associated products segment sells by-products of the meat segment and the hides and skins segment.

\$000	Six Months Ended 29 Feb 08	Six Months Ended 4 Mar 07
Revenue		
Meat	719,094	722,063
Hides and skins	62,532	62,328
Associated products	99,598	84,237
Unallocated revenue	3,285	2,952
	884,509	871,580
Profit before unallocated items		
Meat	9,231	(16,012)
Hides and skins	237	(2,784)
Associated products	335	(3,184)
	9,803	(21,980)
Unallocated items		
Unallocated revenue	3,285	2,952
Unallocated expense	(653)	(2,095)
Total recognised profit before income tax and minority interests	12,435	(21,123)

8 Changes In Contingent Liabilities

Discounted bills of exchange are \$46.871 million compared to \$28.130 million at year end as disclosed in the 2007 Annual Report. There are no other changes in contingencies.

9 Reconciliation of Net Profit to Net Cash Flows from Operating Activities

\$000	Six Months Ended 29 Feb 08	Six Months Ended 4 Mar 07
Net profit/(loss)	11,212	(14,613)
Adjustments for:		
Depreciation and amortisation	13,886	14,603
Foreign exchange movement in cash	(49)	(31)
Net (profit) / loss on disposal of property, plant and equipment	36	(652)
Interest payable	4,801	5,160
Share of associate income	-	(255)
Member distributions	654	2,095
Movement in tax balance	1,298	(5,374)
	31,838	933
Changes in assets and liabilities		
(Increase) / decrease in inventories	(101,826)	(119,343)
(Increase) / decrease in trade and other receivables	(90,885)	(76,270)
(Increase) / decrease in trade and other payables	70,820	113,265
Net cash flows from operating activities	(90,053)	(81,415)

Definitions used in the Statement of Cash Flows

Investing Activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

Financing Activities are those activities relating to changes in the debt capital structure of the Company and the Group and those activities relating to members distributions.

Operating Activities include all transactions and other events that are not investing or financing activities.

10 Reconciliation Of Equity As Presented Under Previous NZ GAAP To That Under NZ IFRS

\$000	Transition Balance As as 4 Sep 06	As at 4 Mar 07	Balance as at 31 Aug 07
As reported under previous NZ GAAP	261,780	273,526	241,632
Adjustments to share capital			
Reclassification of members shares as debt (a)	(54,358)	(60,190)	(65,177)
	207,422	213,336	176,455
Adjustments to retained earnings (net of tax)			
Restatement of long service leave (b)	(3,416)	(3,416)	(3,416)
Tax effect of movement on employee entitlements	1,127	1,127	1,243
Tax effect on recognition of deferred tax on plant property & equipment	(233)	(233)	(14,877)
Change in corporate tax rate	-	-	1,248
Total Equity Under NZ IFRS	204,900	210,814	160,653

(a) Reclassification of members shares as debt

Members shares are required to be classified as a liability under NZ IAS 32. This is a change from the previous NZ GAAP where balances were classified as equity.

(b) Long service leave

Long service leave is recognised under NZ IAS 19 as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Previous recognition was based on the amount payable to those entitled to long service leave as at the reporting date.

11 Reconciliation Of Profit Before Tax Under Previous NZ GAAP To That Under NZ IFRS

\$000	Six Months Ended 4 Mar 07
As reported under previous NZ GAAP	(12,518)
Reclassification of members distributions (a)	(2,095)
Loss reported under NZ IFRS	(14,613)

(a) Reclassification of members distributions

Members shares, due to the Co-operative structure of PPCS, are required to be classified as a liability under NZ IAS 32, but were recognised under previous NZ GAAP as a component of equity. Distributions to members are required, as a result of this change to be recognised as an expense under NZ IFRS, but were recognised as a post profit distribution under the previous NZ GAAP.



218 George St, PO Box 941
Dunedin 9054
New Zealand
T: +64 3 477 3980
F: +64 3 474 1087
www.silverfernfarms.co.nz