Australian Dairy Nutritionals Group

Australia Dairy Nutritionals Limited ABN 36 057 046 607 and
Dairy Fund Management Limited ABN 14 140 957 286 ASFL 498896 as
Responsible Entity for the Australian Dairy Farms Trust ARSN 600 601 689

INTERIM FINANCIAL REPORT

For the Half-Year ended 31 December 2018

CONTENTS

Australian Dairy Nutritionals Group
ASX Code: AHF

AUSTRALIAN DAIRY NUTRITIONALS GROUP (ASX CODE: AHF)
RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the half-year ended 31 December 2018

	% Change	$000 December 2018	$000 December 2017
Revenues from ordinary activities	0%	10,599	10,634
Loss from ordinary activities after tax attributable to members of the stapled entity	38%	(1,192)	(866)
Loss for the period attributable to members of the stapled entity	38%	(1,192)	(866)
		December 2018 cents	**June 2018 cents**
Net tangible asset backing per stapled security		9.4	9.8

Dividend Information	Amount per Share (Cents)	Franked Amount per Share (Cents)	Tax Rate for Franking (%)
Final dividend	Nil	Nil	Nil
Interim dividend	Nil	Nil	Nil
Record date			Not Applicable

The Group does not have any dividend re-investment plan in operation.

Loss or gain of control over other entities

On 24 December 2018, the Group acquired Flahey's Nutritionals Pty Ltd (refer note 3).

Investment in associates and joint ventures

On 2 July 2018, the Group announced the termination of the Camperdown Cheese and Butter Factory Pty Ltd joint venture.

Audit Status

This report has been subject to audit review. There is no dispute or qualification to report.

Refer to the Directors' Report and Interim Financial Report for additional information.

The board of directors of Australian Dairy Nutritionals Limited ("the Company") submits to members the Interim Financial Report of the Company and its controlled entities ("the Group") for the half-year to 31 December 2018.

INFORMATION ON DIRECTORS

The following persons held office as directors of the Company during or since the end of the half-year. The names and details of the directors are:

Name	Position
Michael Hackett	Chairman
Adrian Rowley	Director
Peter Skene	CEO / Director
Paul Morrel	Director

OPERATING RESULTS

The consolidated net loss attributed to members of the Group, after providing for income tax was $1,191,727 (2017: $865,616).This result is comprised of a net loss from the dairy processing segment of $1,002,484 (2017: $1,038,640) and net loss from the dairy farm segment of $189,243 (2017: 173,024 profit).

Total income for the half-year ended 31 December 2018 is $10,741,845 up 1% against the 2017 comparative period of $10,633,866. This is a result of a $35,941 decrease in revenue from the dairy processing segment and a $143,920 increase from the dairy farm segment.

Total expenses for the half-year ended 31 December 2018 were $11,933,572, up 4% against the 2017 comparative period of

$11,499,482. This comprised a $72,097 decrease in expenses from the dairy processing segment and an increase of $506,187 from the dairy farm segment.

FINANCIAL POSITION

The net assets of the Group at 31 December 2018 total $32,755,805, an increase of $2,281,634 from the June 2018 comparative.

The key assets and liabilities in the statement of financial position at 31 December 2018 are:

- cash and cash equivalents of $3,053,929 (June 2018: $2,331,700);
- non-current assets held for sale of $2,363,123 (June 2018: $nil);
- property, plant and equipment of $28,917,235 (June 2018: $25,834,763);
- intangible assets of $7,709,364 (June 2018: $6,643,045;
- biological assets (livestock) of $5,026,666 (June 2018: $5,205,774); and
- total borrowings of $15,237,088 (June 2018: $10,478,421).

REVIEW OF OPERATIONS

Strategy Implementation

The Group's board and management continue to progress with conversion of its dairy farms to produce organic milk including the acquisition of Yaringa farm, which is expected to be fully converted organically and certified in late 2019. The Group also continues to shift its focus from production of low margin commodity bottled white milk to higher margin processed products and, entering the infant and toddler formula market with the acquisition of Flahey's Nutritionals as well as planning for the construction of new processing facilities on Camperdown Dairy Park.

Dairy Processing - Camperdown Dairy Company Pty Ltd (CDC)

CDC processes milk with outputs including bottled white milk, yoghurt, butter and cream, under the Group's own Camperdown Dairy branded milks including Jersey and Free-Range labels, as well as for a range of other labels via contract packing. CDC reported a net loss of $1,002,484 (2017: $1,038,640) and EBITDA of -$571,906 (2017: -$598,643) for the half-year ended 31 December 2018.

Included in expenses for the half-year ended 31 December 2018 is a bad debt provision of $695,693. The directors have taken a conservative approach by providing for the full amount of the outstanding balance of a single Victoria based customer which the directors understand has significant property assets which are currently being marketed for sale. Management is working with the customer to seek additional security for the debt and achieve future collection of the full amount.

Total income for the half-year is approximately 1% down on the 2017 comparative period. In line with the Group's announced strategy to decrease the focus on low margin commodity milk sales in favour of building higher margin brands and sales, Half-year ended 31 December saw an expected decline in sales of bottled white milk compared with the prior comparative period, which included Aussie Farmers Direct and Farmers Own contract packing. This has been partially offset in the half-year ended 31 December 2018 by commencement of the higher margin four year contract for production of a range of yoghurt products for The Collective. The Collective is a New Zealand based brand which has entered the Australian market after strong success over several years in New Zealand and the United Kingdom. Production of The Collective products commenced in late August 2018 and the products are ranged in Woolworths stores nationally. Sale volumes of the The Collective products have steadily increased in the first quarter of 2019 in line with expectations.

CDC was a participant in a butter manufacturing joint venture with Organic Dairy Farmers of Australia Ltd (ODFA) where CDC processed organic milk product received from ODFA into organic butter. The joint venture with ODFA was terminated by mutual agreement with effect from 2 July 2018 and Camperdown Dairy retained ownership of $400,000 of butter equipment and will receive $337,577 in compensation over the next 4 years for termination of take or pay contract arrangements.

Flahey's Nutritionals Acquisition

The business, brands, formulations and trademarks of Flahey's Nutritionals was acquired and settled in December 2018 launching the Group into the formula market in Australia with a range of toddler formulae which are sold through pharmacy chains in Australia. As part of the same transaction the brand's founder, Christopher Flahey, commenced employment as the Group's Sales and Marketing Director charged with the task of expanding sales of the existing products and the development of new formula brands (refer note 3).

Dairy Farms - Australian Dairy Farms Trust and SW Dairies Pty Ltd

The Group's dairy farms reported a net loss of $189,243 (2017: $173,024 profit) and EBITDA of $237,850 (2017: $399,327) for the half-year ended 31 December 2018.

Total farm milk sales for the year are in line with the 2017 comparative period. There has been an increase of $0.21 per kilogram in the net milk solids price from $5.82 to $6.03 during the half-year, offset by a 3% decrease in milk solids production.

Gain on change in fair value of livestock during the half-year was $143,253 (2017: $12,839 loss). This increase was largely attributable to a reduction in the carrying value of livestock following independent valuations in December 2018.

Operating costs in the half-year ended 31 December 2018 have increased $506,187 from the 2017 comparative. This is largely attributable to increased fodder and heifer rearing costs which are reflective of elevated market pricing of fodder arising from dry weather conditions.

During the period under review, the Yaringa Farm at Nirranda South was acquired. This farm is expected to become fully certified as an organic dairy farm later in 2019 and will be a significant cornerstone in the process of focusing on higher value added organic products including organic infant formula (refer note 7).

Capital Raise – SPP

The Group completed a Stapled Security Purchase Plan (SPP) on 30 October 2018 accepting 325 applications to raise $2,719,500 in new capital for the Group. The Group issued 20,919,363 new stapled securities at an issue price of $0.13 per security.

REVIEW OF OPERATIONS (cont'd)

Name change

At the 2018 AGM held in Melbourne on 29 November 2018, securityholders voted to approve a resolution to change the name of the Group from Australian Dairy Farms Group to Australian Dairy Nutritionals Group to better reflect the primary focus of the Group going forward to concentrate on milk powders and dairy nutritionals including the production of organic infant formula. The name change was implemented on 24 December 2018.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under S 307C of the Corporations Act 2001 is set out on page 23 for the half-year ended 31 December 2018.

This report is signed in accordance with a resolution of the board of directors.

Michael Hackett

Chairman

Brisbane

28 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	December 2018 $	December 2017 $
Revenue	4(a)	10,598,592	10,633,866
Other income	4(b)	143,253	-
Administration and non-dairy related costs	4(c)(v)	(374,751)	(351,440)
Employment expenses	4(c)(iv)	(2,624,716)	(2,344,965)
Finance costs	4(c)(i)	(301,360)	(227,899)
Dairy processing related costs	4(c)(iii)	(4,827,482)	(5,235,699)
Dairy farm related costs	4(c)(ii)	(2,877,791)	(2,517,993)
Depreciation and amortisation		(556,311)	(451,074)
Loss from changes to fair value of livestock	4(c)(vi)	-	(12,839)
Deemed cost of livestock sold	4(c)(vi)	(371,161)	(357,573)
Loss before income tax		**(1,191,727)**	**(865,616)**
Income tax expense	4(d)	-	-
Loss for the period		**(1,191,727)**	**(865,616)**
Other comprehensive income			
Items that may be classified subsequently to profit or loss when specific conditions are met:		-	-
Items that will not be reclassified to profit or loss		-	-
Other comprehensive income for the period		**-**	**-**
Total comprehensive loss for the period, net of tax		**(1,191,727)**	**(865,616)**
Loss is attributable to:			
Company shareholders		(734,534)	(446,467)
Trust unitholders		(457,193)	(419,149)
		(1,191,727)	**(865,616)**
Total comprehensive loss is attributable to:			
Company shareholders		(734,534)	(446,467)
Trust unitholders		(457,193)	(419,149)
		(1,191,727)	**(865,616)**
Earnings per stapled security:			
Basic earnings per stapled security (cents)	12	(0.47)	(0.39)
Diluted earnings per stapled security (cents)	12	(0.47)	(0.39)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	December 2018 $	June 2018 $
ASSETS			
Current Assets			
Cash and cash equivalents		3,053,929	2,331,700
Trade and other receivables		2,065,529	2,397,522
Inventories		1,320,273	625,509
Non-current assets held for sale	7(ii)	2,363,123	-
Other current assets		500,617	182,183
Total Current Assets		**9,303,471**	**5,536,914**
Non-Current Assets			
Biological assets	5	5,026,666	5,205,774
Intangible assets	6	7,709,364	6,643,045
Property, plant & equipment	7	28,917,235	25,834,763
Total Non-Current Assets		**41,653,265**	**37,683,582**
Total Assets		**50,956,736**	**43,220,496**
LIABILITIES			
Current Liabilities			
Trade and other payables		2,575,996	1,897,724
Provisions		259,263	260,816
Borrowings	8	379,151	10,177,445
Total Current Liabilities		**3,214,410**	**12,335,985**
Non-Current Liabilities			
Provisions		128,584	109,364
Borrowings	8	14,857,937	300,976
Total Non-Current Liabilities		**14,986,521**	**410,340**
Total Liabilities		**18,200,931**	**12,746,325**
Net Assets		**32,755,805**	**30,474,171**
EQUITY			
Issued capital	9	21,768,944	18,760,113
Reserves		1,204,392	761,279
Accumulated losses		(13,744,837)	(13,031,720)
Equity attributable to shareholders		**9,228,499**	**6,489,672**
Non-controlling interests			
Issued units	9	30,744,991	30,744,991
Accumulated losses		(7,217,685)	(6,760,492)
Equity attributed to non-controlling interests		**23,527,306**	**23,984,499**
Total Equity		**32,755,805**	**30,474,171**

The accompanying notes form part of these financial statements.

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	December 2018 $	December 2017 $
Cash Flows from Operating Activities			
Receipts from customers		10,953,671	12,505,442
Payments to suppliers and employees		(11,283,403)	(13,131,854)
Interest received		3,567	9,276
Finance costs		(301,360)	(227,899)
Net operating cash flows		**(627,525)**	**(845,035)**
Cash Flows from Investing Activities			
Payment for property, plant & equipment		(5,427,488)	(582,119)
Proceeds from sale of property, plant and equipment		-	71,818
Payment for biological assets	5	(48,800)	(195,329)
Payment for intangible assets		-	(34,645)
Payment for acquisition of Flahey's Nutritionals Pty Ltd	3	(400,000)	-
Net investing cash flows		**(5,876,288)**	**(740,275)**
Cash Flows from Financing Activities			
Proceeds from issue of stapled securities net of transaction costs	9	2,633,111	4,986,087
Net proceeds of loans - unsecured		112,057	140,583
Proceeds from CBA facility		4,550,000	-
Repayment of hire purchase loans		(69,126)	(81,034)
Net financing cash flows		**7,226,042**	**5,045,636**
Net increase / (decrease) in cash held		**722,229**	**3,460,326**
Cash at the beginning of the period		2,331,700	1,577,264
Cash at the end of the financial period		**3,053,929**	**5,037,590**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	Issued Capital Ordinary $	Option Reserve $	Accumulated Losses $	Non-controlling Interest (Trust) $	Total $
Balance at 1 July 2018		**18,760,113**	**761,279**	**(13,031,720)**	**23,984,499**	**30,474,171**
Comprehensive income for the half-year						
Loss attributable to company shareholders / trust unitholders		-	-	(734,534)	(457,193)	(1,191,727)
Total comprehensive loss for the half-year		**-**	**-**	**(734,534)**	**(457,193)**	**(1,191,727)**
Transactions with equityholders in their capacity as equity holders and other transfers:						
Contributions of equity, net of transaction costs	9	2,633,111	-	-	-	2,633,111
Option reserve - KMP options		-	15,250	-	-	15,250
Acquisition of Flahey's Nutritionals Pty Ltd	3	75,000	750,000	-	-	825,000
Transfer to retained earnings (options)		-	(21,417)	21,417	-	-
Transfer to issued capital (options)		300,720	(300,720)	-	-	-
Total transactions with equity holders		**3,008,831**	**443,113**	**21,417**	**-**	**3,473,361**
Balance at 31 December 2018		**21,768,944**	**1,204,392**	**(13,744,837)**	**23,527,306**	**32,755,805**

	Issued Capital Ordinary $	Option Reserve $	Accumulated Losses $	Non-controlling Interest (Trust) $	Total $
Balance at 1 July 2017	**17,379,491**	**363,360**	**(10,423,799)**	**21,345,146**	**28,664,198**
Comprehensive income for the half-year					
Loss attributable to company shareholders / trust unitholders	-	-	(446,467)	(419,149)	(865,616)
Total comprehensive loss for the half-year	**-**	**-**	**(446,467)**	**(419,149)**	**(865,616)**
Transactions with equityholders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	1,256,522	-	-	3,749,566	5,006,088
Option reserve - KMP options	-	79,141	-	-	79,141
Transfer to retained earnings	-	(121,804)	121,804	-	-
Total transactions with equity holders	**1,256,522**	**(42,663)**	**121,804**	**3,749,566**	**5,085,229**
Balance at 31 December 2017	**18,636,013**	**320,697**	**(10,748,462)**	**24,675,563**	**32,883,811**

The accompanying notes form part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

Australian Dairy Nutritionals Group ("the Group") was formed by the stapling of Australian Dairy Nutritionals Limited, previously named Australian Dairy Farms Limited ("the Company") and its controlled entities, and Australian Dairy Farms Trust ("the Trust"). The Financial Reports of the Group and the Trust have been presented jointly in accordance with ASIC Class Order 13/1050 relating to combining accounts under stapling and for the purpose of fulfilling the requirements of the Australian Securities Exchange. During the half-year the Company changed its name from Australian Dairy Farms Group to Australian Dairy Nutritionals Group.

These general purpose interim financial statements for the half-year reporting period ended 31 December 2018 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Group. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of Australian Dairy Nutritionals Group for the year ended 30 June 2018, together with any public announcements made during the half-year.

These financial statements were authorised for issue on the date of signing the directors' report.

(b) Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for those as described in note 2.

(c) Impact of Standards Issued but Not Yet Applied by the Group

- AASB 16: Leases

AASB 16: Leases (issued February 2016) will supersede the existing lease accounting requirements in AASB 117: Leases and the related Interpretations. It introduces a single lessee accounting model by eliminating the current requirement to distinguish leases as either operating leases or finance leases depending on the transfer of risks and rewards of ownership. The key requirements of AASB 16 are summarised as follows:

- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116: Property Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components, instead accounting for all components as a lease;
- inclusion of additional disclosure requirements; and
- accounting for lessors will not significantly change.

AASB 16 will affect primarily the accounting for the Group's operating leases. The Group is currently assessing to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit, financial position and classification of cash flows. At 31 December 2018 the Group has commitments under operating leases of $273,725 and does not expect AASB16 to have any material impact.

The Standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019 and the Group does not intend to adopt the Standard before its effective date

NOTE 2: CHANGES IN ACCOUNTING POLICIES

This note describes the nature and effect of the adoption of AASB 9: Financial Instruments and AASB 15: Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

As a result of the changes in the entity's accounting policies, prior year financial statements did not have to be restated.

(i) AASB 9: Financial Instruments – Impact of adoption

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. Most of the changes are not relevant to the Group, however there was a new impairment model introduced in AASB 9 which requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The adoption of AASB 9 Financial Instruments from 1 July 2018 resulted in changes to the Group's accounting policies. No opening adjustment was necessary as a result of the adoption of AASB 9.

Impairment of financial assets

The Group has one type of financial asset that is subject to AASB 9's new expected credit loss model:

- trade receivables for sales of dairy farm and dairy processing segment products.

The Group was required to review its impairment methodology under AASB 9 for each of these classes of assets and no adjustment was required.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on credit risk characteristics and the days past due. There was no material difference between the expected credit loss calculated under AASB 9 and AASB 139.

AASB 9 Financial Instruments - Accounting policy changes

From 1 July 2018, for the trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(ii) AASB 15: Financial Instruments – Impact of adoption

The Group has adopted AASB 15 Revenue from Contracts with Customers which resulted in changes in accounting policies and required no retrospective adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in AASB 15, the Group has adopted the new standard with the modified retrospective method and has determined the application of AASB 15 to have an immaterial impact on the Group's financial statements.

AASB 15 Revenue from Contracts with Customers - Accounting policy changes

- *Accounting for dairy farm and dairy processing segment products.*

The sale of these products are measured at the fair value of consideration received net of any trade discounts and volume rebates allowed.

The sale of dairy products represents a single performance obligation and accordingly, revenue will be recognised in respect of the sale of these goods at the point in time when control over the corresponding goods and services is transferred to the customer (i.e. at a point in time for sale of goods when the goods are delivered to the customer or transfer to the freight forwarder).

Under AASB 15, revenue is recognised when control of the goods transfer to the customer i.e. when the goods have been delivered to a customer pursuant to a sales order. This represents a change in revenue recognition accounting policy of the Group from previous recognition when the significant risks and rewards of ownership of the goods have passed to the buyer at the time of dispatch of the goods to customer - as stated above the accounting policy change has an immaterial impact on the Group financials.

NOTE 3: BUSINESS COMBINATIONS

On 24 December 2018, Australian Dairy Nutritionals Limited acquired 100% of the issued capital and control of Flahey's Nutritionals Pty Ltd (Flahey's) for a total purchase consideration of $1,095,260. This acquisition forms part of the Group's overall strategy to expand its dairy processing business and is a key step in entering the infant / toddler formula market. Additionally, Christopher Flahey, the founder of Flahey's Nutritionals and an experienced sales executive in the infant formula sector, joined the Group as its Sales and Marketing executive.

The identifiable assets acquired and liabilities assumed on acquisition of Flahey's were as follows:

	$
Purchase consideration:	
Cash	400,000
Completion price adjustment	(129,740)
Stapled securities[1.]	75,000
Performance rights[2.]	750,000
Total purchase consideration	**1,095,260**
Fair value of assets acquired and liabilities assumed:	
Other current assets	20,260
Intangible assets[3.]	1,072,140
Property, plant and equipment	2,860
Net identifiable assets acquired and liabilities assumed	**1,095,260**

[1.] On 24 December 2018, 625,000 stapled securities were issued at the market price of 12 cents.

[2.] On 24 December 2018, 6,250,000 consideration securities were issued and valued using both the binomial option pricing model and Black-Scholes model. The consideration securities are subject to various performance milestones and Christopher Flahey remaining employed with the company on a conversion date. The consideration securities are forfeited if performance hurdles are not satisfied and the conversion dates are as follows:

- 31 August 2019 - 1,875,000 consideration securities will be available to be converted to 1,875,000 stapled securities;
- 30 August 2020 - 1,875,000 consideration securities will be available to be converted to 1,875,000 stapled securities; and
- 31 August 2021 - 2,500,000 consideration securities will be available to be converted to 2,500,000 stapled securities.

The independent valuation resulted in a price of 12 cents per consideration security under both models.

[3.] In accordance with AASB 3: Business Combinations the acquirer is required to recognise separately from Goodwill the identifiable intangible assets of Flahey's on acquisition. Under the accounting standard, an intangible asset is considered identifiable if it meets the Contractual Legal Criterion. Flahey's uses a range of recipes, formulations and patents which meet the Contractual Legal Criterion and in accordance with this requirement the Group has attributed $1,072,140 to the fair value of identifiable intangible assets acquired.

Flahey's was a dormant company prior to acquisition on 24 December 2018 and there are no transactions from acquisition date to 31 December 2018. Costs of acquisition totalling $9,213 were expensed in the half-year period.

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

NOTE 4: REVENUE AND EXPENSES

	Note	December 2018	December 2017
(a) Revenue			
Revenue		**$**	**$**
Sale of milk		4,145,465	4,132,802
Dairy product sales		5,355,269	6,200,444
Livestock sales		199,111	225,194
Other income	(i)	895,180	66,150
		10,595,025	**10,624,590**
Other revenue			
Interest received - other persons		3,567	9,276
Total Revenue		**10,598,592**	**10,633,866**

(i) Included in other income is a $737,577 final distribution from the termination of the Camperdown Cheese and Butter Factory joint venture with ODFA.

		December 2018	December 2017
(b) Other Income			
Fair value adjustment of biological assets (refer note 5)		143,253	-
Total Other Income		**143,253**	**-**
(c) Expenses			
(i) Finance costs			
CBA facility		287,619	208,197
Loans - unsecured		516	7,029
Other		-	242
Finance charges payable under finance leases		13,225	12,431
		301,360	**227,899**
(ii) Dairy related costs			
Feed costs		1,446,576	1,216,742
Repairs, maintenance and vehicle costs		160,491	159,732
Animal health costs		49,969	59,169
Land holding and lease costs		76,491	66,657
Breeding and herd testing expenses		127,185	121,921
Dairy shed expenses		66,862	62,238
Electricity		66,498	93,655
Other dairy related costs		883,719	737,879
		2,877,791	**2,517,993**
(iii) Dairy processing related costs			
Costs of goods sold		3,195,938	4,040,284
Freight charges		187,120	397,235
Property related costs		214,015	204,704
Bad debt provision		695,693	-
Other dairy processing costs		534,716	593,476
Total dairy related costs		**4,827,482**	**5,235,699**
(iv) Employee benefits expenses			
Employee and director remuneration costs		2,609,466	2,265,824
Equity settled share based payment costs		15,250	79,141
		2,624,716	**2,344,965**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

NOTE 4: REVENUE AND EXPENSES (cont'd)

	December 2018 $	December 2017 $
(v) Administration and non-dairy related costs		
Administration costs	160,052	155,864
Professional costs	214,699	195,576
	374,751	**351,440**
(vi) Other significant items		
Deemed cost of livestock sold (refer note 5)	371,161	357,573
Loss from changes to fair value of livestock (refer note 5)	-	12,839

(d) Tax Expense

There is no income tax applicable to the result for the period due to the availability of carried forward tax losses.

NOTE 5: BIOLOGICAL ASSETS

	Note	December 2018 $	June 2018 $
Non-current			
Dairy cattle	(i)	5,026,666	5,205,744
Total biological assets		**5,026,666**	**5,205,744**
Movements during the period:			
Opening carrying amount		5,205,774	5,426,719
Purchases of livestock		48,800	336,014
Deemed cost of livestock disposed		(371,161)	(937,226)
Gain from changes to fair value		143,253	380,267
Closing carrying amount		**5,026,666**	**5,205,774**
Movements during the period:		**Number**	**Number**
Opening balance		3,812	3,504
Purchases		61	231
Natural increase and attrition		606	1,663
Sales		(629)	(1,586)
Closing balance		**3,850**	**3,812**

(i) Biological assets represent the dairy livestock owned by the Group. The livestock is valued at fair value, by an independent stock agent, based on the prices in the open dairy cattle market in the locality of the Group's dairy operations. A fair value gain of $143,253 (June 2018: $380,267) has been recognised in profit and loss at 31 December 2018, and represents price movements, natural increase and the movement in ages of young stock.

NOTE 6 INTANGIBLE ASSETS

	Notes	December 2018 $	June 2018 $
Goodwill			
- at cost	(i)	6,616,393	6,616,393
		6,616,393	**6,616,393**
Product development			
- at cost		34,645	34,645
Less accumulated amortisation		(13,814)	(7,993)
		20,831	**26,652**
Recipes, formulations and patents			
- at cost	(ii)	1,072,140	-
Total intangible assets		**7,709,364**	**6,643,045**

(i) The directors have reviewed the carrying value of goodwill and have adopted the current carrying values at 31 December 2018.

(ii) Recipes, formulations and patents relate to the acquisition of Flahey's Nutritionals Pty Ltd (refer note 3).

NOTE 7: PROPERTY, PLANT AND EQUIPMENT

	Note	December 2018 $	June 2018 $
Land, buildings and improvements			
- at cost		25,644,026	23,097,490
Less accumulated depreciation		(760,211)	(653,541)
Less accumulated impairment		(2,785,638)	(2,785,638)
	(i)	**22,098,177**	**19,658,311**
Plant and equipment - owned			
- at cost		7,882,746	7,057,687
Less accumulated depreciation		(1,921,188)	(1,613,877)
		5,961,558	**5,443,810**
Plant and equipment - leased			
- at cost		1,071,470	905,733
Less accumulated depreciation		(213,970)	(173,091)
		857,500	**732,642**
Total property, plant and equipment		**28,917,235**	**25,834,763**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

NOTE 7: PROPERTY, PLANT AND EQUIPMENT (cont'd)

(i) Below is a table showing the carrying value of land, buildings and improvements by farm/location:

Brucknell No 1 - Farm	22 October 2014	4,109,520
Brucknell No 2 - Farm	22 October 2014	3,996,884
Brucknell No 3 - Farm	6 March 2015	2,252,351
Missens Road - Farm	9 July 2015	1,517,124
Drumborg - Farm	16 September 2015	5,193,662
Depot & Old Geelong Rd (Camperdown) - Land	17 November 2017	272,974
Yarringa - Nirranda South[1.]	4 October 2018	4,755,662
Total		**22,098,177**

Land, buildings and improvements represents the total holding costs of each farm including purchase price, acquisition costs, capitalised development, land improvement and conversion to organic costs since acquisition.

[1.] As announced to ASX on 5 October 2018, the Group acquired the Yaringa farm at Nirranda South. The farm is NASAA certified and set for full organic certification in October 2019. Yaringa is an important cornerstone in the Group's strategy to focus its milk processing business on value-added premium dairy products and brand building.

(ii) On 13 November 2018, the Group announced to ASX that Ignatios Farm (4 Maddens Bridge Road) had been listed for sale by expressions of interest. The property remains listed for sale and has been accordingly classified as a non-current asset held for sale at the total holding cost of $2,363,123.

NOTE 8: BORROWINGS

	Note	December 2018 $	June 2018 $
Current			
Loans - unsecured		112,057	-
CBA facility		-	10,000,000
Bank hire purchase loans - secured		267,094	177,445
Total current borrowings		**379,151**	**10,177,445**
Non-current			
Bank hire purchase loans - secured		307,937	300,976
CBA facility	(i)	14,550,000	-
Total non-current borrowings		**14,857,937**	**300,976**
Total borrowings		**15,237,088**	**10,478,421**

(i) At 31 December 2018 the Group has banking facilities with the Commonwealth Bank of Australia Limited (CBA). The facility is a three year redrawable loan facility of $14,550,000 which has a maturity date of 4 October 2021. The facility is subject to compliance with predetermined covenants and an annual review. The directors have classified the facility as a non-current liability in its entirety based on the facility not maturing until 4 October 2021, the Group's intentions to retain the facility prior to maturity date and meeting all covenants during the period and subsequent to balance date.

Collateral Provided:

The CBA facility is secured by a first registered mortgage over all the Group farms and a general security interest over all Group assets. In addition the Company has provided a negative pledge to not grant a security interest over its shareholding in Camperdown Dairy Company, and an unlimited guarantee secured over all its present and after acquired property.

Lease liabilities are secured by the underlying leased assets.

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

NOTE 9: ISSUED CAPITAL

	December 2018 $	June 2018 $
Contributed equity of the Group	52,513,935	49,505,104

Movement in stapled securities:

Date	Details	Number of Stapled Securities	Issue Price $	Shareholders $	Unitholders $	Stapled Entity $
01 Jul 2018	Opening balance	242,792,046		18,760,113	30,744,991	49,505,104
02 Jul 2018	KPI performance rights (i)	3,000,000	0.10	300,720	-	300,720
30 Oct 2018	Stapled Security Purchase Plan (ii)	20,919,363	0.13	2,719,500	-	2,719,500
24 Dec 2018	Purchase of Flahey's Nutritionals Pty Ltd (iii)	625,000	0.12	75,000	-	75,000
	Transaction costs			(86,389)	-	(86,389)
31 December 2018		**267,336,409**		**21,768,944**	**30,744,991**	**52,513,935**
01 Jul 2017	Opening balance	197,633,109		17,379,491	26,995,425	44,374,916
07 Sep 2017	Placement	37,037,037	0.135	1,250,000	3,750,000	5,000,000
17 Nov 2017	Purchase of CDPT land	121,900	0.164	10,000	10,000	20,000
12 Feb 2018	KPI performance rights	1,000,000	0.121	124,100	-	124,100
12 Feb 2018	Loan securities	7,000,000	-	-	-	-
	Transaction costs			(3,478)	(10,434)	(13,912)
30 June 2018		**242,792,046**		**18,760,113**	**30,744,991**	**49,505,104**

The basis of allocation of the issue price of stapled securities issued post stapling is determined by arrangement between the Company and Trust as set out in the Stapling Deed.

(i) On 2 July 2018, there was 3,000,000 stapled securities granted to Peter Skene as a share-based payment. The fair value of securities granted, determined by independent valuation, was $300,720.

(ii) On 30 October 2018, there was 20,919,363 stapled securities issued to eligible securityholders under the Group's Stapled Security Purchase Plan at a price of $0.13 per security. The fair value of securities granted, determined by reference to the offer issue price, was $2,719,500.

(iii) On 24 December 2018, 625,000 stapled securities were issued as part of the acquisition of Flahey's Nutritionals. The fair value of securities issued, determined by reference to market price, was $75,000 (refer note 3).

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

NOTE 10: SEGMENT REPORTING

(a) Segment Performance	Dairy Farm	Dairy Processing	Total
31 December 2018			
Revenue	$	$	$
External sales	4,384,298	5,315,547	9,699,845
Other revenue	143,253	895,180	1,038,433
Interest revenue	3,567	-	3,567
Total segment revenue	**4,531,118**	**6,210,727**	**10,741,845**
Total group revenue			**10,741,845**
Segment net loss before tax	**(189,243)**	**(1,002,484)**	**(1,191,727)**

In accordance with AASB 8, corporate costs and KMP remuneration have been allocated to the dairy farm and dairy processing segments on a 50/50 basis. Finance costs - banking facility, have been allocated in accordance with historical use of funds. The 31 December 2017 comparative has also been restated to reflect these allocations.

Reporting of segment revenue has not been impacted by the adoption of AASB 15 (refer note 2).

Segment Performance	Dairy Farm	Dairy Processing	Total
31 December 2017			
Revenue	$	$	$
External sales	4,378,146	6,246,444	10,624,590
Interest revenue	9,052	224	9,276
Total segment revenue	**4,387,198**	**6,246,668**	**10,633,866**
Total group revenue			**10,633,866**
Segment net profit / (loss) before tax	**173,024**	**(1,038,640)**	**(865,616)**

	Dairy Farms	Dairy Processing	Total
(b) Segment Assets			
As at 31 December 2018	$	$	$
Segment assets	36,557,058	14,399,678	50,956,736
Segment assets include:			
Additions to non-current assets	5,578,834	1,535,331	7,114,165

	Dairy Farms	Dairy Processing	Total
Segment Assets			
As at 30 June 2018	$	$	$
Segment assets	30,990,054	12,230,442	43,220,496
Segment assets include:			
Additions to non-current assets	1,286,601	278,550	1,565,151

NOTE 10: SEGMENT REPORTING (cont'd)

(c) Segment Liabilities	**Dairy Farms**	**Dairy Processing**	**Total**
As at 31 December 2018	**$**	**$**	**$**
Segment liabilities	7,295,906	10,905,025	18,200,931

In accordance with AASB 8, the CBA facility has been allocated in accordance with historical use of funds. The 30 June 2018 comparative has also been restated to reflect this allocation.

(c) Segment Liabilities	**Dairy Farms**	**Dairy Processing**	**Total**
As at 30 June 2018	**$**	**$**	**$**
Segment liabilities	2,313,671	10,432,654	12,746,325

NOTE 11: FAIR VALUE MEASUREMENTS

(a) Fair Value Hierarchy

The following tables detail the Group's assets measured and recognised at fair value on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

31 December 2018

	Note	**Level 1**	**Level 2**	**Level 3**	**Total**
		$	**$**	**$**	**$**
Non-financial assets					
Biological assets	5	-	5,026,666	-	5,026,666
Total non-financial assets recognised at fair value on a recurring basis		**-**	**5,026,666**	**-**	**5,026,666**
30 June 2018					
Biological assets	5	-	5,205,774	-	5,205,774
Total non-financial assets recognised at fair value on a recurring basis		**-**	**5,205,774**	**-**	**5,205,774**

(b) Techniques and Inputs Used to Measure Level 2 Fair Values

Description	**Fair Value at 31 December 2018 $**	**Valuation Technique(s)**	**Input Used**
Non-financial assets			
Biological assets	5,026,666	Market approach using recent observable industry market data for dairy cattle	Breed, weight, condition
	5,026,666		

NOTE 12: EARNINGS PER STAPLED SECURITY CALCULATIONS

	December 2018 cents	December 2017 cents
Earnings per stapled security:		
Basic loss per stapled security	(0.47)	(0.39)
Diluted loss per stapled security	(0.47)	(0.39)
Reconciliation of earnings to profit or loss:		
Loss attributable to shareholders and unitholders	(1,191,727)	(865,616)
	Number of Securities	**Number of Securities**
Weighted average number of stapled securities outstanding during the year used in calculating basic EPS	252,886,994	220,937,059
Weighted average number of options outstanding	-	-
Weighted average number of stapled securities outstanding during the year used in calculating dilutive EPS	**252,886,994**	**220,937,059**

All options on issue are considered to be dilutive potential ordinary securities, however they are presently anti-dilutive at 31 December 2018 as the Group is in losses.

NOTE 13: EVENTS AFTER THE END OF THE INTERIM PERIOD

No material matters have arisen since 31 December 2018 that have significantly affected or may significantly affect the Group.

Australian Dairy Nutritionals Group

ASX Code: AHF

DIRECTORS' DECLARATION

For the half-year ended 31 December 2018

In accordance with a resolution of the directors of Australian Dairy Nutritionals Group, the directors of the stapled entity declare that:

(a) the financial statements and notes set out on pages 7 to 21 are in accordance with the Corporations *Act 2001*, including:

(i) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date.

(b) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Michael Hackett
Chairman

Brisbane

28 February 2019

Nexia Australia

Auditor's Independence Declaration

Under Section 307C of the *Corporations Act 2001*

To the Directors of Australian Dairy Nutritionals Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2018 there have been no contraventions of:

(i) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

This declaration is in respect of Australian Dairy Nutritionals Limited and the entities it controlled during the period.

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Nigel Bamford

ND Bamford
Director

Date: 28 February 2019

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Nexia Australia

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF AUSTRALIAN DAIRY NUTRITIONALS LIMITED

Report on the Half-Year Financial Report

Australian Dairy Nutritionals Group ("Australian Dairy Nutritionals") comprises Australian Dairy Nutritionals Limited and the entities it controlled at the end of the half-year or from time to time during the half-year, including Australian Dairy Farms Trust ("the Trust").

We have reviewed the accompanying half-year financial report of the Australian Dairy Nutritionals Group, which comprises the consolidated condensed statement of financial position as at 31 December 2018, the consolidated condensed statement of profit or loss and other comprehensive income, the consolidated condensed statement of changes in equity and the consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Director's Responsibility for the Half-Year Financial Report

The directors of Australian Dairy Nutritionals Limited and the directors of Dairy Fund Management Limited as responsible entity for the Australian Dairy Farms Trust (collectively referred to as "the directors") are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Australian Dairy Nutritionals Group financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Dairy Nutritionals Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Nexia Australia

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF AUSTRALIAN DAIRY NUTRITIONALS LIMITED (CONTINUED)

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Dairy Nutritionals Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

i. giving a true and fair view of Australian Dairy Nutritionals Group financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

ii. complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Nigel Bamford

ND Bamford
Director

Level 28, 10 Eagle Street,
Brisbane, QLD, 4000
Date: 28 February 2019

Board of Directors

Michael Hackett
Chairman

Adrian Rowley
Director

Peter Skene
Director

Paul Morrell
Director

Company Secretary

Kate Palethorpe
Company Secretary & Legal Counsel

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Stock Exchange

Australian Dairy Nutritionals Group is listed on the official List of the Australian Securities Exchange Limited (ASX).

The ASX Code is “AHF”.