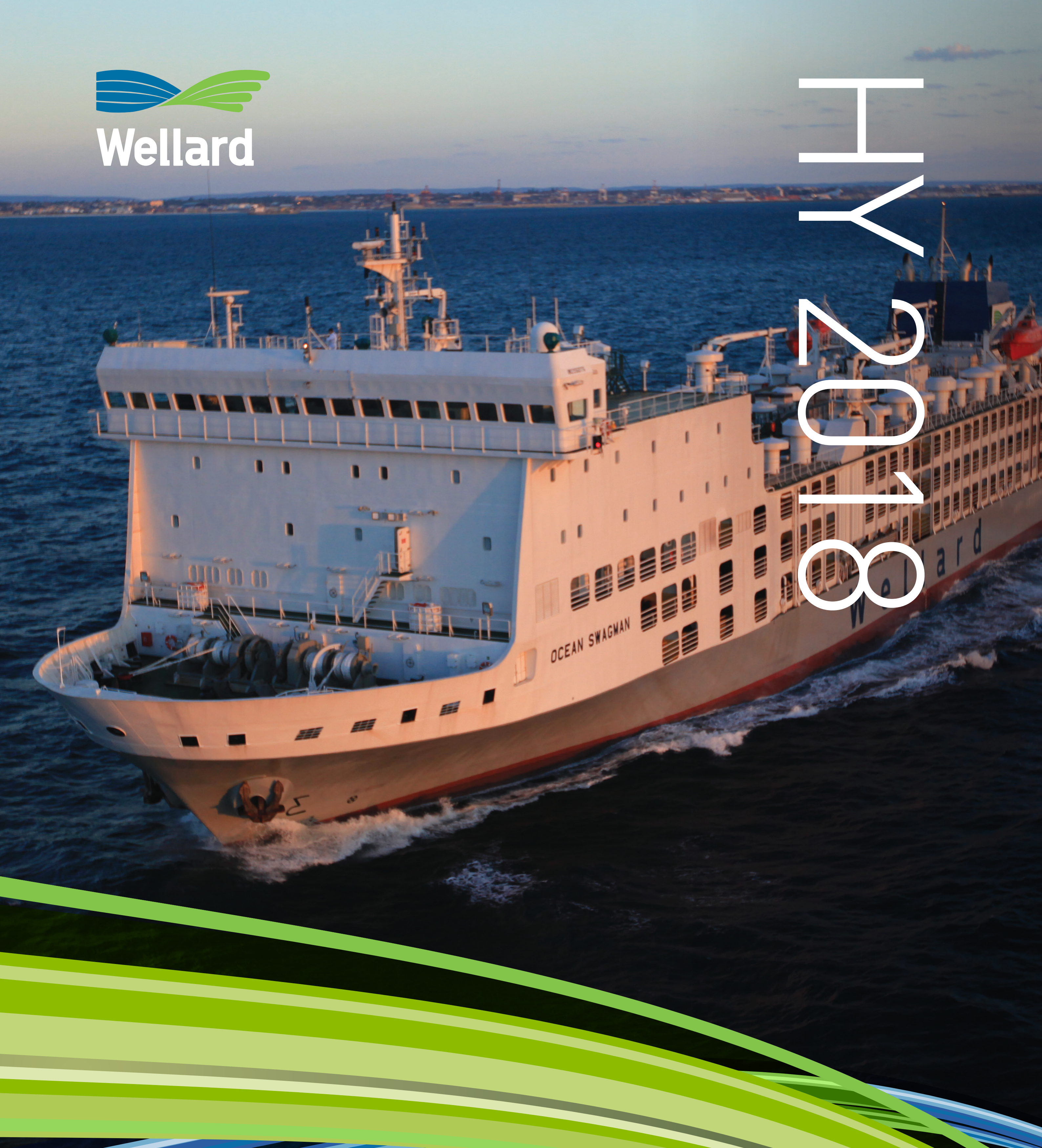



# Appendix 4D and Interim Financial Report

Results for Announcement to the market for the
Half Year ended 31 December 2017

# Appendix 4D

# WELLARD LIMITED

**ABN 53 607 708 190**

# Half Year Report

**Results for announcement to the market**
**for the half year ended 31 December 2017**

The information that is required by the Australian Securities Exchange Listing Rules is as follows.

1. The reporting period is to 31 December 2017 and the previous corresponding period is to 31 December 2016.

2. Results for announcement to the market:

| | | Change from prior period % | Change from prior period $'000 | Current period $'000 |
|---|---|---|---|---|
| 2.1 | Revenues from ordinary activities | (41.9) | (118,246) | 163,665 |
| 2.2 | Profit/(loss) from ordinary activities after tax attributable to members | 58.3 | 10,454 | (7,472) |
| 2.3 | Net profit/(loss) for the period attributable to members | 58.3 | 10,454 | (7,472) |
| 2.4 | Dividends (distributions) | Nil | Nil | Nil |

3. Net tangible assets per security:

| | | 31 Dec 2016 | 31 Dec 2017 |
|---|---|---|---|
| 3.1 | Net tangible assets per ordinary security | 0.42 | 0.21 |

4. Details of entities over which control has been gained or lost during the period:

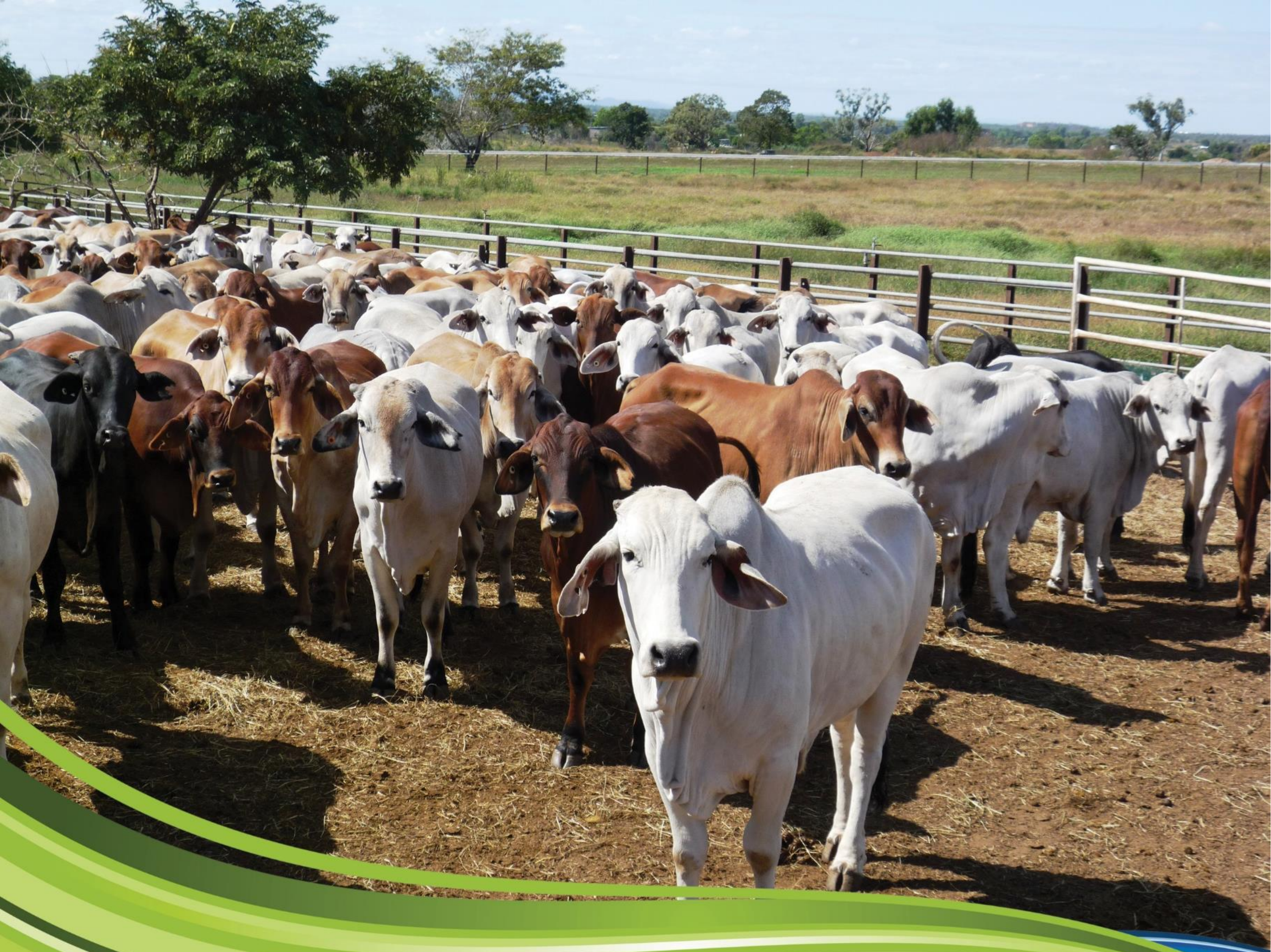
   N/A

5. No dividends were paid during the period.

6. The Company does not have a dividend re-investment plan.

7. The Company does not have any associates or joint venture entities.

The audited financial statements for the half year ended 31 December 2017 are attached to this Appendix 4D. The independent auditors review report contains a material uncertainty related to going concern. For further information refer Note 1(c) in the attached Interim Financial Report.



# WELLARD LIMITED

ABN 53 607 708 190

## INTERIM FINANCIAL REPORT

For the period ended 31 December 2017

The Board of Directors of Wellard Limited (the **Company** or, together with the entities it controls, the **Group**) submits its report in respect of the half-year ended 31 December 2017.

The Directors of the Company in office during the half year and at the date of this report are:

| | Position | Appointed | Resigned |
|---|---|---|---|
| David Griffiths | Non-Executive Chairman | 19 November 2015 | - |
| Mauro Balzarini | Managing Director and CEO | 19 November 2015 | - |
| Philip Clausius | Non-Executive Director | 19 November 2015 | - |
| John Klepec | Non-Executive Director | 15 November 2016 | - |
| Kanda Lu | Executive Director | 12 May 2017 | - |
| Fred Troncone | Executive Director | 26 June 2017 | - |

Company Secretary, Michael Silbert.

## Review and Results from Operations

### Financial Summary

| Period ended | | 31 Dec 2017 | 31 Dec 2016 | Movement |
|---|---|---|---|---|
| Total revenue | $m | 163.665 | 281.911 | (41.9%) |
| **Gross profit** | $m | **25.345** | **16.295** | **55.5%** |
| Gross margin % | | 15.5% | 5.8% | 167.2% |
| Operational expenses [1] | $m | (17.296) | (25.180) | 31.3% |
| Administrative expenses | $m | (5.814) | (9.228) | 37.0% |
| Labour expenses | $m | (9.211) | (11.404) | 19.2% |
| **EBITDA** [2] | $m | **8.049** | **(8.885)** | **190.6%** |
| Non-recurring expenses [3] | $m | (0.866) | (3.553) | 75.6% |
| Operating EBITDA[4] | $m | 8.915 | (5.332) | 267.2% |
| Net loss after tax | $m | (7.472) | (17.926) | 58.3% |
| Operating cashflow | $m | (7.684) | (16.547) | 53.6% |

| As at | | 31 Dec 2017 | 30 Jun 2017 | Movement |
|---|---|---|---|---|
| Working capital (pro forma) [5] | $m | 8.159 | 23.567 | (65.4%) |
| Net debt [6] | $m | 136.559 | 159.123 | 14.2% |
| Debt to capital ratio [7] | | 54.9% | 59.4% | 7.6% |
| Loan to asset book value [8] | | 77.9% | 96.4% | 19.2% |
| Net tangible assets [9] | $m | 113.833 | 122.609 | (7.2%) |
| Net tangible assets per security | cps | 21.4 | 23.1 | (7.2%) |

[1] *Combined administration, operating and other expenses.*

[2] *EBITDA equals loss from continuing operations before income tax less depreciation and amortisation expenses less net finance costs less other gains (losses).*

[3] *Non-recurring expenses comprise items which are considered to be outside the normal course of business and are excluded to aid comparability of financial performance from period to period.*

[4] *Operating EBITDA equals EBITDA less non-recurring expenses.*

[5] *Working capital (proforma) equals current assets less current liabilities less loans and borrowings classified as current, although their scheduled due date is after 12 months from balance date.*

[6] *Net debt equals loans and borrowings less cash and cash equivalents.*

[7] *Debt to capital ratio equals loans and borrowings divided by total equity plus loans and borrowings.*

[8] *Calculated on the Group's fleet of 4 vessels.*

[9] *Excludes intangible assets.*

## Financial Review

Unless otherwise stated, all comparisons are in relation to the same period last year.

The Group has recorded a considerable improvement in performance in the current period, with the financial highlights being:

- 55.5% improvement in gross profit to $25.345 million;
- 31.3% or $7.884 million reduction in operational expenses;
- 267.2% or $14.247 million improvement in operating EBITDA[1];
- 58.3% or $10.454 million reduction in net loss after tax;
- 53.6% or $8.863 million improvement in operating cashflow; and
- 14.2% or $22.564 million reduction in net debt.

Revenue decreased 41.9% to $163.665 million (2016: $281.911 million) due predominantly to an increase in the proportion of charter shipments undertaken during the period, as well as a reduction in revenue due to the sale of the M/V Ocean Outback in July 2017. Revenue earned from chartering the Group's vessels, as a percentage of total revenue, increased to 15.2% compared to 5.3% last year, with a corresponding reduction in revenue from trading. This reflects a shift away from the currently underperforming Australian supply markets to the more active markets in the Americas and the Mediterranean and highlights the Group's flexibility in securing global opportunities.

Despite the reduction in revenue, gross profit increased by 55.5% to $25.345 million (2016: $16.295 million) and gross margins increased to 15.5% (2016: 5.8%). Whilst trading margins have improved on lower volumes, gross profitability in the current period was driven by solid charter earnings, particularly for our large vessels.

As a result of the Group's 'Costs Out' program, total operational expenses have reduced by 31.3% or $7.884 million to $17.296 million (2016: $25.180 million). The major items within those total savings are labour and administration expenses which comprise $2.193 million and $3.414 million respectively, which together represent 71.1% of the total savings for the current period.

A restructured cost base together with margin improvement are the key drivers for the Group's 190.6% improvement in EBITDA to $8.049 million (2016: $8.885 million loss). In addition, $0.866 million worth of non-recurring costs, predominantly once-off items associated with the Group's restructuring, have been excluded in operating EBITDA[1] of $8.915 million (2016: $5.332 million loss).

As noted above, the trend of cost savings and margin improvements are positive, however volumes in the current period were insufficient to return the Group to net profitability. Whilst profitability after tax improved by $10.454 million, the Group reported a net loss after tax of $7.472 million (2016: $17.926 million).

As previously announced, the Group sold its vessel, the M/V Ocean Outback in July 2017 for $32.971 million, with $15.950 million of the funds being used to fully repay associated debt, and the balance being used to fund working capital.

The cost and balance sheet restructuring undertaken by the Group, resulting in the improved financial performance, has also allowed for better and more pro-active working capital and debt management. Short term working capital debt[2] plus trade and other payables have been reduced by 75.0% or $29.591 million, which has improved the Group's trading flexibility.

Cash as at 31 December 2017 reduced by $20.870 million to a balance of $12.157 million.

Net debt has also been reduced by 14.2% or $22.564 million to $136.559 million (30 June 2017: $159.123 million). The Group's debt to capital ratio has improved to 54.9% (30 June 2017: 59.4%) despite equity reducing due to reported net losses. Financing costs have increased by $0.532 million to $5.122 million (2016: $4.590 million) as a result of restructuring costs, however the restructuring undertaken to date will result in future savings in this area.

The reported financial results caused breaches of Wellard's banking covenants and convertible notes on 31 December 2017, requiring the Company to continue categorising all long-term debt as a current liability, regardless of tenure. Loans and borrowings of $123.219 million in the absence of these breaches would have otherwise been classified as non-current liabilities as they are due to mature beyond 12 months from balance date. As in the past, the Company has requested and expects to receive waivers for all covenant breaches that occurred on or up to 31 December 2017. The Group made all payments due under its working capital facility and ship financing facilities during the period.

[1] Operating EBITDA equals EBITDA less non-recurring expenses.

[2] Short term working capital refers to the existing working capital facility with a balance at 31 December 2017 of $nil (30 June 2017: $15.000 million).

The Group's loan to asset book value ratio is 77.9% (30 June 2017: 96.4%).

Loss per share for the period was 1.41 cents (31 December 2016: 4.5 cents), whilst net tangible asset value per share as at period end was 21.4 cents (30 June 2017: 23.1 cents). The number of shares on issue at 31 December 2017 of 531,250,312 (30 June 2017: 531,250,312) remained unchanged during the period.

## Operational Review

As noted above, the biggest change to Wellard's operations in the past six months came as a result of the Company taking advantage of chartering opportunities for our large, modern vessels onto the South America to Mediterranean route while using small vessels to retain longstanding customers in a very competitive, low margin South East Asian market with a resultant decrease in market share in the second quarter.

During the period ending 31 December 2017, Wellard completed its first shipment of beef steers for processing to China. The shipment of approximately 2,000 cattle performed well and was positively received by the customer.

Wellard also shipped a second consignment of dairy heifers, from Portland, Victoria, to Sri Lanka, as part of the Company's long-term contract with the Sri Lankan Government's Ministry of Rural Economy.

In total, Wellard vessels performed 20 voyages in the current period.

The number of cattle exported by the company fell by 46% as both of the Company's larger vessels were chartered out to third parties for long haul voyages outside of Australia. Also, and in line with the Company's strategic decision to match shipping capacity to market demands, the size of the Wellard fleet was reduced by the sale of the M/V Ocean Outback in July 2017.

Sheep processing volumes in the Company's abattoir were down 27% on the prior corresponding period due to restricted supply and high prices, however that trend eased later in the half, leading to improved profitability in the final two months of the calendar year.

As part of Wellard's 'Costs Out' program, the number of full time staff in the Company's South American operation was reduced to key management positions, and cattle will be sourced through contractors who can provide a buying and aggregation service more cost-effectively. These changes have also enabled the closure of the Brescia (Italy) office and a further reduction in full time staff numbers.

## Outlook

While the Company is pleased it has been able to post improved results in the first half compared to the prior corresponding period, market conditions remain challenging for the second half of the financial year. While there are some early signs of minor improvements in selected markets, strong competitive pressures will continue to require sustained effort to claw back market share in the Company's traditional markets and profitability.

The Company expects demand for live cattle from countries in the Mediterranean, including Turkey, to continue to be strong and expects a significant proportion of this these cattle will continue to be sourced from South America. The Company has recognised an increase in shipping capacity being diverted into servicing these markets, which creates greater competition for the Company, but Wellard is receiving a good level of inquiry for its high-quality vessels, which importers recognise produce improved animal welfare and commercial outcomes.

The number of inquiries for live sheep delivered to Middle Eastern markets is also increasing, which is also suited to Wellard's fleet profile. In the December quarter the company renewed its marketing efforts in the Middle East, which resulted in a charter being signed in January for a large vessel from Australia into the Arabian Gulf. The Company has since received further inquiries for other voyages into the region.

The Company notes that live export from Australia continues to be challenging, however, the price of heavy cattle is trending downward. The eastern young cattle indicator for January 2018 is approximately 15% lower than the corresponding period in 2017. This improvement has opened opportunities for small shipments of heavy cattle to China, which the Company expects will gradually increase as quarantine and processing infrastructure in coastal China develops, and assuming that Australian livestock prices remain attractive.

The Company was pleased with its first shipment of slaughter cattle to China in November 2017 and has since received inquiry for further shipments. Negotiations that commenced in the December quarter have resulted in Wellard securing a contract to supply a large shipment of 10,000 breeding cattle to China before financial year end.

Shipments into Vietnam and Indonesia, which are Wellard's traditional markets, continue to deliver tight margins. Although the price of heavy (slaughter-ready) cattle has eased, this is partly offset by the appreciation of the Australian dollar to approximately US80c. The supply and price response at the end of the northern Australian wet season will be an important determinant of the profitability and size of Wellard's Australian operations for the remainder of the financial year.

The Company's costs out program continues and remains on target, and the Directors are pleased with what the Company has been able to achieve with the reduction of overheads. The Directors expect to be able to exceed the Company's target of a $10 million reduction in overheads in the financial year. The Directors are optimistic and believe that with a lower administrative cost base and a renewed marketing effort across all main livestock demand centres, Wellard is better positioned to make compelling and more competitively priced offers across shipping charters and livestock trades.

## Rounding of Amounts

Wellard is an entity of the kind specified in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. In accordance with that legislative instrument, amounts in the financial report and Directors' report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise. All amounts are in Australian dollars only, unless otherwise stated.

## Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

This report has been made in accordance with a resolution of the Directors.

D C Griffiths
**Chairman**

F Troncone
**Executive Director - Operations**

## Auditor's Independence Declaration

As lead auditor for the review of Wellard Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review, and

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

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

Douglas Craig
Partner
PricewaterhouseCoopers

Perth
6 February 2018

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*T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au*

# Consolidated Statement of Comprehensive Income

For the half-year ended 31 December 2017

| | Note | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 2 | 163,665 | 281,911 |
| Cost of sales | 3 | (138,320) | (265,616) |
| **Gross profit** | | **25,345** | **16,295** |
| Other gains (losses) | 3 | (731) | 4,000 |
| Net finance costs | 3 | (5,122) | (4,590) |
| Depreciation and amortisation expenses | | (9,668) | (11,097) |
| Administration expenses | 3 | (5,814) | (9,228) |
| Operating expenses | 3 | (10,637) | (13,615) |
| Other expenses | 3 | (845) | (2,337) |
| **Loss from continuing operations before income tax** | | **(7,472)** | **(20,572)** |
| Income tax (expense) benefit | 5 | - | 2,646 |
| **Net loss for the period after tax** | | **(7,472)** | **(17,926)** |
| **Other comprehensive income (loss)** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| (Loss) gain from foreign currency translation | | (1,541) | 1,888 |
| **Other comprehensive income (loss) for the period, net of tax** | | **(1,541)** | **1,888** |
| **Total comprehensive loss for the period** | | **(9,013)** | **(16,038)** |

| | | Cents | Cents |
|---|---|---|---|
| **Loss per share for loss from continuing operations attributable to the ordinary equity holders of the company:** | | | |
| Basic loss per share | 6 | 1.41 | 4.5 |
| Diluted loss per share | 6 | 1.41 | 4.5 |

The accompanying notes form an integral part of this consolidated statement of comprehensive income.

# Consolidated Statement of Financial Position

As at 31 December 2017

| | Note | 31 Dec 2017 $'000 | 30 Jun 2017 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 12,157 | 33,027 |
| Trade and other receivables | | 26,101 | 31,307 |
| Inventories | | 10,271 | 8,091 |
| Biological assets | | 3,315 | 3,453 |
| Derivative financial assets | | 1,670 | 188 |
| Other assets | | 2,302 | 5,425 |
| Assets held for sale | | - | 33,489 |
| **Total current assets** | | **55,816** | **114,980** |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 222,416 | 230,735 |
| Intangible assets | 12 | 8,238 | 8,587 |
| Deferred tax assets | | 5,890 | 5,874 |
| Other assets | | 723 | 751 |
| **Total non-current assets** | | **237,267** | **245,947** |
| **Total assets** | | **293,083** | **360,927** |
| **Current liabilities** | | | |
| Trade and other payables | | 9,879 | 24,470 |
| Loans and borrowings | 7 | 148,716 | 176,314 |
| Provisions | | 1,182 | 1,503 |
| Deferred revenue | | 8,815 | 10,173 |
| Derivative financial liabilities | | 2,284 | 1,317 |
| Liabilities directly associated with assets held for sale | | - | 15,836 |
| **Total current liabilities** | | **170,876** | **229,613** |
| **Non-current liabilities** | | | |
| Provisions | | 136 | 118 |
| **Total non-current liabilities** | | **136** | **118** |
| **Total liabilities** | | **171,012** | **229,731** |
| **Net assets** | | **122,071** | **131,196** |
| **Equity** | | | |
| Issued capital | 10 | 572,132 | 572,132 |
| Reserves | | (397,616) | (396,090) |
| Retained earnings (accumulated losses) | | (52,445) | (44,846) |
| **Total equity** | | **122,071** | **131,196** |

The accompanying notes form an integral part of this consolidated statement of financial position.

# Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2017

| | | Attributable to Owners | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Issued capital $'000 | Accumulated losses $'000 | Share based payments Reserve $'000 | Other reserves $'000 | Common control Reserve $'000 | Total $'000 |
| **Balance at 1 July 2016** | | **548,515** | **30,491** | **18,014** | **2,752** | **(411,017)** | **188,755** |
| Loss for the period | | - | (17,926) | - | - | - | (17,926) |
| Other comprehensive loss | | - | - | - | 1,888 | - | 1,888 |
| **Total comprehensive loss for the period** | | **-** | **(17,926)** | **--** | **1,888** | **-** | **(16,038)** |
| **Balance at 31 December 2016** | | **548,515** | **12,565** | **18,014** | **4,640** | **(411,017)** | **172,717** |
| **Balance at 1 July 2017** | | **572,132** | **(44,846)** | **18,014** | **(3,087)** | **(411,017)** | **131,196** |
| Adjustment on adoption of new revenue standard | 2 | - | (127) | - | - | - | (127) |
| **Restated balance at 1 July 2017** | | **572,132** | **(44,973)** | **18,014** | **(3,087)** | **(411,017)** | **131,069** |
| Loss for the period | | - | (7,472) | - | - | - | (7,472) |
| Other comprehensive income (loss) | | - | - | - | (1,541) | - | (1,541) |
| **Total comprehensive (loss) income for the period** | | **-** | **(7,472)** | **-** | **(1,541)** | **-** | **(9,013)** |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Share based payment | | - | - | 15 | - | - | 15 |
| **Balance at 31 December 2017** | | **572,132** | **(52,445)** | **18,029** | **(4,628)** | **(411,017)** | **122,071** |

The accompanying notes form an integral part of this consolidated statement of changes in equity

# Consolidated Statement of Cashflows

For the half-year ended 31 December 2017

| | Note | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 166,483 | 286,495 |
| Payments to suppliers and employees (inclusive of GST) | | (170,219) | (298,631) |
| Interest paid | | (3,903) | (4,897) |
| Interest received | | 1 | 487 |
| Income tax paid | | (46) | (1) |
| **Net operating cash flows** | 9 | **(7,684)** | **(16,547)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant & equipment | | (4,758) | (6,564) |
| Purchase of intangible assets | | (15) | (381) |
| Proceeds from sale of property, plant & equipment | | 516 | 23 |
| Proceeds from sale of assets held for sale | | 32,971 | - |
| Proceeds from sale of investment | | 1 | - |
| **Net investing cash flows** | | **28,715** | **(6,922)** |
| **Cash flows from financing activities** | | | |
| Balances settled by related parties | | - | 15,796 |
| Proceeds from borrowings | | - | 37,115 |
| Repayments of borrowings | | (41,351) | (43,390) |
| Loans with related parties | | - | (1,696) |
| Lease liability payments | | - | (30) |
| Transfers to restricted cash | | 19 | (1,258) |
| **Net financing cash flows** | | **(41,332)** | **6,537** |
| Net decrease in cash held | | (20,301) | (16,932) |
| Cash at the beginning of the financial period | | 33,027 | 31,930 |
| Effect of exchange rate changes on cash and cash equivalents | | (569) | 17 |
| **Cash at the end of financial period** | 8 | **12,157** | **15,015** |

The accompanying notes form an integral part of this consolidated statement of cash flow.

# Notes to the Consolidated Financial Statements

# 1. Corporate information and basis of preparation

## (a) Corporate information

This consolidated financial report relates to the Group, comprising Wellard Limited (**Company** or **Wellard**) and the entities that it controlled (**Group**) during the 6 months ended 31 December 2017, were authorised for issue in accordance with a resolution of the Directors on 6 February 2018.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of operations and principal activities of the Group is an agribusiness that connects primary producers of cattle, sheep and other livestock to customers globally through a vertically integrated supply chain.

The address of the registered office and principal place of business is 1A Pakenham Street, Fremantle Western Australia 6160.

## (b) Basis of preparation

This interim financial report for the half-year ended 31 December 2017 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This half-year report does not include all the notes of the type normally included in the annual financial report. It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Wellard Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Where applicable, comparative information is reclassified and restated for consistence with current period disclosures.

The same accounting policies and methods of computation have been applied by the consolidated Group and are consistent with those adopted and disclosed in the most recent annual financial report.

## (c) Going concern

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

As at 30 September 2016, 31 December 2016, 31 March 2017, 30 June 2017, and 31 December 2017, entities within the Group breached financial covenants and undertakings on the working capital facility and ship financing facilities. In respect of many of the breaches, Wellard has either remedied the breach or has requested waivers from the relevant facility provider. In respect of those breaches which remain outstanding (i.e. they have not been remedied or waived), Wellard continues to work with the relevant facility provider in respect of waivers. While a breach remains outstanding, this allows the relevant financier to accelerate and enforce its facility. It may also allow Wellard's other financiers to accelerate and enforce their own facilities (by virtue of cross-default provisions in their own facilities, depending on the terms of these cross-default provisions).

As at 31 December 2017, entities within the Group breached financial covenants on the convertible notes. The Company has requested and expects to receive waivers for all covenant breaches that occurred on or up to 31 December 2017.

The Company’s existing working capital facility was renewed for twelve months on 20 September 2017. This working capital facility is used to fund a majority of the Group’s livestock purchases in Australia, with the balance funded by internal cashflow. The Group’s various ship financing facilities mature between 2019 and 2026. The Company made all payments due under its working capital facility and ship financing facilities during the reporting period, and despite the breaches in financial covenants and undertakings noted above, the Company maintains a working relationship with all of its financiers.

As was the position in the prior period, due to the Company breaching financial covenants and undertakings as noted above, all of its loans and borrowings have been reclassified as current as at period end, despite $123.219 million of those liabilities being due after 31 December 2018. This accounting treatment, which is in accordance with AASB 101, reflects the potential for the relevant financiers to accelerate and enforce their facilities, noting that up to the date of the directors' declaration for this report no financier had taken any acceleration or enforcement action. This reclassification of non-current liabilities to current has resulted in the Company reporting a working capital deficiency of $115.060 million as at 31 December 2017 (30 June 2017: $114.633 million). If loans and borrowings due beyond 12 months had not been classified as current liabilities, the Company would have reported a positive working capital position of $8.159 million as at 31 December 2017 (30 June 2017: $23.567 million).

As a consequence of the above matters, a material uncertainty exists that may cast significant doubt as to whether Wellard will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts in this report. However, the Directors believe that there are reasonable grounds to believe that the use of the going concern basis remains appropriate as there is an expectation that the Group:

- will be able to obtain waivers for any outstanding covenant breaches, or otherwise that the Group's financiers will not take any acceleration or enforcement action in respect of any outstanding covenant breaches or in respect of any cross-defaults that arise as a result of those outstanding covenant breaches; and
- will be able to raise sufficient amounts of either debt or equity or cash from asset sales if required.

This Financial Report does not include adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Wellard Group not continue as a going concern.

### (d) Critical accounting estimates and judgements

The preparation of the consolidated financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in future years include:

#### (i) Deferred tax asset recognition

Management assesses the extent to which it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. Due to sufficient uncertainty in its trading markets, Management have decided not to recognise the current year deferred tax assets relating to the tax losses carried forward. In the current period a total of A$1.152 million in respect of previously recognised losses have been reversed against income tax expense in the profit and loss.

Deferred tax assets include an amount of $0.539 million (30 June 2017: $1.691 million) which relates to carried forward tax losses of the Australian tax consolidated Group for the year ended 30 June 2016.

Deferred tax assets, tax effected, relating to the tax losses of the Australian tax consolidated Group, Uruguay, Brazil and Singapore have not been recognised since 30 June 2016. There is no expiration date for these amounts other than a five-year limit for Uruguay.

#### (ii) Valuation of biological assets

Biological assets are measured on initial recognition and at each reporting date at their fair values less estimated point of sale costs. The fair value is determined based on the actual selling prices approximating those at year end less estimated point-of-sale costs.

#### (iii) Valuation of convertible note derivative

Key inputs into the valuation of the convertible note derivative at fair value include the Wellard Limited share price volatility and the USD to AUD FX forward curve.

#### (iv) Impairment of assets

All assets are assessed for impairment at each period end by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the Group. Impairment indicators include market capitalisation, declining product or processing performance, technology changes, adverse changes in the economic or political environment or future product expectations. If an indicator of impairment exists, the recoverable amount of the asset is determined. If the recoverable amount of an assets or cash generating asset (CGU) is estimated to be less than the carrying amount, the carrying amount of the CGU is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

**(v) Useful life and residual value of livestock carrying vessels**
Management reviews the appropriateness of the useful life and residual value of vessels at each balance date. Certain estimates regarding the useful life and residual value of vessels are made by management based on past experience and these are in line with the industry. Changes in the expected level of usage, scrap value of steel and market factors could impact the economic useful life and residual value of the vessels. When there is a material change in the useful life and residual value of vessels, such a change will impact both the depreciation charges in the period in which the changes arise and future depreciation charges.

## 2. Revenue

| | 31 Dec 2017<br>$'000 | 31 Dec 2016<br>$'000 |
|---|---|---|
| **Revenue** | | |
| Sales revenue | 138,150 | 266,906 |
| Services and other revenue | 25,515 | 15,005 |
| | **163,665** | **281,911** |

*Recognition and measurement*

AASB 15 Revenue from Contracts with Customers, states that an entity shall recognise revenue (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of the asset.

If revenue is not recognised over time it is recognised at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the following requirements are considered:

a) The entity has a present right to payment for an asset;
b) The customer has legal title to the asset;
c) The entity has transferred physical possession of the asset, however physical possession may not coincide with control of the asset;
d) The customer has significant risks and rewards of ownership of the asset; and
e) The customer has accepted the asset.

**Sale of goods**
Revenue is determined on a per shipment or per contract basis and is recognised in line with the customer trading terms.

Wellard currently trade using CIF contract terms (cost, insurance and freight). Control of the assets does not pass until unloading of the vessel, as such shipping is not a separate performance obligation. Revenue is recognised on discharge.

**Vessel chartering**
Freight revenue for external shipments meets the criteria of a performance obligation satisfied over time.

Voyage charter revenue is recognised on a percentage of completion basis which is determined on a time proportion method of each individual voyage. Any demurrage and dispatch are recognised when considered probable.

*Impact of adoption of AASB 15*
Wellard have adopted AASB 15 Revenue from Contracts with Customers retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application (1 July 2017) in accordance with paragraph C3(b) of AASB 15 Revenue from Contracts with Customers. Additionally, Wellard have elected to apply the standard to contracts not completed at the date of initial application.

It has been determined a component of a one-off contract to supply dairy cattle to Sri Lanka is a distinct service which will be performed after livestock are delivered. As such, revenue is allocated to this service and deferred until the service is provided. For the year ended 30 June 2017 supply of cattle under Tranche 1 of the contract had been completed, however certain services related to those delivered cattle had not yet been performed. As such, revenue of A$167,000 recognised in the prior year would, under the new standard, be recognised in the 30 June 2018 financial year. Expenses attributable to this income of A$40,000 also recognised in the 30 June 2017 financial year would be recognised in the current financial year.

Had revenue been recognised under the new standard the balances at 30 June 2017 would have been as follows:

| | 30 June 2017 $'000 | 30 June 2017 $'000 |
|---|---|---|
| | **Revised** | **Reported** |
| Other assets | 5,465 | 5,425 |
| Unearned revenue | 10,340 | 10,173 |
| Retained earnings | (44,973) | (44,846) |

Tranche 2 of the supply of cattle under the contract was completed in the period 31 December 2017. As with Tranche 1, the distinct service associated with Tranche 2 had not yet been performed as of 31 December 2017. As such, revenue of A$336,184 and costs of A$78,178 have been deferred in line with the standard and will be recognised over the applicable timeframe. Under the previous policy the deferred amounts would have been recognised in the income statement in the current period.

## 3. Expenses

| | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|
| **(a) Cost of sales** | | |
| Cost of sales | 138,320 | 265,616 |
| | **138,320** | **265,616** |
| **(b) Other (gains) losses** | | |
| Net foreign exchange losses | (157) | - |
| Fair value losses (gains) on financial assets at fair value | 1,025 | 366 |
| Net gain from changes in fair value of inventories and biological assets | - | (4,378) |
| Net loss (gain) on disposal of property, plant and equipment | (137) | 12 |
| | **731** | **(4,000)** |
| **(c) Net finance costs** | | |
| Interest income | (1) | (487) |
| Interest expense | 4,191 | 4,932 |
| Borrowing costs | 932 | 145 |
| | **5,122** | **4,590** |
| **(d) Administrative expenses** | | |
| Consulting costs | 1,820 | 2,048 |
| Occupancy costs | 1,513 | 2,904 |
| General and administration costs | 1,691 | 2,794 |
| Travel expenses | 790 | 1,482 |
| | **5,814** | **9,228** |

| | Note | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|---|
| **(e) Operating expenses** | | | |
| Bad and doubtful debts expense | | 36 | 499 |
| Labour expenses | (g) | 9,211 | 11,404 |
| Motor vehicle expenses | | 368 | 519 |
| Repairs and maintenance | | 1,022 | 1,193 |
| | | **10,637** | **13,615** |
| **(f) Other expenses** | | | |
| Restructuring and integration costs | | 830 | 1,232 |
| Transaction costs | | - | 146 |
| Share based payment expense | | 15 | 11 |
| Impairment expense | | - | 660 |
| Non-recurring foreign expenditure | | - | 215 |
| Withholding tax | | - | 73 |
| | | **845** | **2,337** |
| **(g) Labour expenses** | | | |
| Wages and salaries | | 7,653 | 10,057 |
| Employee entitlements and on costs | | 707 | 151 |
| Superannuation | | 545 | 677 |
| Payroll tax | | 306 | 519 |
| | | **9,211** | **11,404** |

## 4. Segment information

The Group's management has considered the reportable segments in which the Group will report in this financial statement and in the future.

As a result of this process, Wellard's management has determined that livestock marketing, export and transportation represents the only reportable segment, including the marketing and export of cattle and sheep. These export activities have similar production and distribution channels, similar products and similar end customers, and as such are aggregated and classified as one segment. Meat processing and distribution as well as corporate services are not considered to be reportable operating segments and have been presented in an 'other segments' column.

These classifications are in accordance with AASB 8 guidelines.

*Description of segments and principal activities*

**(a)** **Livestock marketing, export and transportation**: This segment is engaged in the business of buying livestock from multiple sources for export to international markets and includes all the logistics and transport required to supply livestock to its customers.

**(b)** **Other segments**: This segment consists of meat processing and distribution as well as corporate services. Meat processing and distribution operates abattoirs and markets the processed meat to domestic and international markets. The processed meat is sourced from the Beaufort River Meats abattoir, which is owned and operated by the Group, or procured from external suppliers. Corporate services consist of a centralised support function which provides specialised services across several disciplines to the rest of the Group, including human resources, finance and payroll, information technology and communication, legal services and the board of directors.

Management primarily uses a measure of statutory net profit / loss before income tax to assess the performance of the operating segments. However, management also receives financial information about segment revenue, EBITDA, interest expense, assets and liabilities on a monthly basis.

**Segment result**

| | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|
| Livestock marketing and export | (581) | (15,863) |
| Other | (6,891) | (4,709) |
| **Net (loss) profit before tax** | **(7,472)** | **(20,572)** |

## 5. Taxation

| | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|
| **(a) Income tax expense / (benefit)** | | |
| *Major components of income tax expense are:* | | |
| Current tax | - | (1,006) |
| Deferred tax | (892) | (1,640) |
| Foreign tax paid | 13 | - |
| Derecognition of prior year tax losses | 1,152 | - |
| Under provision for current income tax in prior years | 3 | - |
| Over provision for deferred income tax in prior year | (276) | - |
| **Income tax expense (benefit) reported in the income statement** | **-** | **(2,646)** |

| | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|
| **(b) Numerical reconciliation** | | |
| **The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:** | | |
| Prima facie tax payable on loss from ordinary activities before income tax at 30% (2016: 30%) | (2,242) | (6,172) |
| **Add/(less) tax effect of:** | | |
| *Other assessable items* | | |
| Attributable foreign income | 74 | 1,535 |
| Under provision for deferred income tax in prior year | (276) | - |
| Foreign taxes paid | 13 | - |
| Current year losses not recognised | 2,002 | - |
| Derecognition of prior year tax losses | 1,152 | |
| Other non-allowable items | 15 | (65) |
| Shared based payment | 4 | (242) |
| | **742** | **(4,944)** |
| **Add/(less):** | | |
| Tax effect of: | | |
| Effect of different rates of tax on overseas profit | (742) | 2,298 |
| | **(742)** | **2,298** |
| **Income tax expense (benefit) attributable to entity** | **-** | **(2,646)** |

## 6. Earnings per share

| | 31 Dec 2017 Cents | 31 Dec 2016 Cents |
|---|---|---|
| **(a) Basic and diluted loss per share** | | |
| From continuing operations, attributable to the ordinary equity holders of the company | 1.41 | 4.5 |

| | 31 Dec 2017 Number | 31 Dec 2016 Number |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator | 531,250,312 | 400,000,000 |

# 7. Loans and borrowings

| | Note | 31 Dec 2017 $'000 | 30 Jun 2017 $'000 |
|---|---|---|---|
| **Current** | | | |
| Bank loans - secured | | 76,558 | 97,992 |
| Finance leases - secured | | 48,195 | 55,471 |
| Trade finance - unsecured | | 66 | 171 |
| Other loans - unsecured | | 2,650 | 1,752 |
| Convertible notes - unsecured | 7(a) | 24,101 | 24,169 |
| Deferred borrowing costs | | (2,854) | (3,241) |
| **Total current** | | **148,716** | **176,314** |

As at 30 June 2017 and 31 December 2017 entities within the Group breached financial covenants on the working capital facility and ship financing facilities. Wellard has since either remedied the breach, or has requested waivers from the relevant facility provider, or is continuing to work with the relevant facility provider in respect of waivers.

Terms and conditions of outstanding loans were as follows:

| Name | Currency | Financial Year of Maturity | 31 Dec 2017 $'000 | 30 Jun 2017 $'000 |
|---|---|---|---|---|
| Secured bank loans | AUD | 2018 | - | 15,000 |
| Secured bank loans | USD | 2026 | 64,237 | 69,087 |
| Secured bank loans | USD | 2022 | 12,321 | 13,905 |
| Unsecured bank loans | USD | 2018 | 2,650 | 1,752 |
| Convertible notes | USD | 2020 | 24,101 | 24,169 |
| Trade Asset finance | USD | 2020 | 35,861 | 40,623 |
| Trade Asset finance | USD | 2020 | 12,334 | 14,848 |
| Trade Asset finance | AUD | 2019 | 56 | 150 |
| Trade Asset finance | BRL | 2018 | 10 | 21 |
| | | | **151,570** | **179,555** |

| Name | Currency | Financial Year of Maturity | 31 Dec 2017 $'000 | 30 Jun 2017 $'000 |
|---|---|---|---|---|
| *Liabilities directly associated with assets classified as held for sale* | | | | |
| Secured bank loans* | USD | 2018 | - | 15,836 |

*Secured bank loans of $15.836 million have been reclassified to liabilities directly associated with assets held for sale as at 30 June 2017.

### (a) Convertible note

On 11 April and 6 June 2017, Wellard issued tranche 1 and tranche 2 convertible notes of US$7.350 million and US$12.65m respectively, totalling US$20.000 million. The term of the notes are 36 months from issue and interest is payable at 6% per annum. The notes are convertible into ordinary shares of the parent entity at the conversion price of US$0.21 per share, at the option of the holders, subject to conditions. The notes are redeemable by Wellard after 18 months, subject to conditions. On maturity, the notes will be repayable in cash unless redeemed or converted earlier. The notes are also subject to financial covenants with which Wellard complied at 30 June 2017, however the convertible note liability and derivative are classified as current liabilities as there is no unconditional right to defer payment for 12 months, refer note 1(c). As at 31 December 2017, entities within the Group breached financial covenants on the convertible notes. The Company has remedied the breach and requested waivers for all covenant breaches that occurred on or up to 31 December 2017. There are 20 million notes on issue, none of which have converted as at 31 December 2017.

Movements in the convertible note are shown below:

| | 31 Dec 2017 $'000 | 30 Jun 2017 $'000 |
|---|---|---|
| **Opening balance** | **24,169** | **-** |
| Amortisation of transaction costs | 68 | - |
| Interest expense[1] | 1,057 | 188 |
| Interest paid | (776) | (191) |
| Foreign exchange revaluation | (417) | (801) |
| Current liability | **24,101** | **24,169** |

1. Interest expense is calculated by applying the effective interest rate of 8.13% for tranche 1 and 8.16% for tranche 2 to the liability component, net of transaction costs.

## 8. Cash and cash equivalents

| | 31 Dec 2017 $'000 | 30 Jun 2017 $'000 |
|---|---|---|
| Cash at bank and in hand | 12,157 | 33,027 |

Cash at bank and in hand excludes restricted cash held in bank accounts by the Group. Restricted cash of $592,049 (30 June 2017: $601,370) is included in non-current other assets.

## 9. Cash flow statement reconciliation

| | 31 Dec 2017 $'000 | 31 Dec 2016 $'000 |
|---|---|---|
| **(a) Reconciliation of net loss after tax to net cash flows from operating** | | |
| **Loss after tax** | **(7,472)** | **(17,926)** |
| *Non-cash flows in loss:* | | |
| Depreciation and amortisation | 9,668 | 11,097 |
| Income tax benefit | - | (2,647) |
| Bad and doubtful debts | - | 499 |
| Net loss (gain) on disposal of property, plant and equipment | (137) | 11 |
| Net loss (gain) on fair value of derivatives | (78) | 1,056 |
| Share based payments expenses | 15 | - |
| Change in fair value of inventories and biological assets | - | (4,378) |
| Impairment expense | - | 660 |
| Write down of inventory | - | 1,343 |
| Amortisation of deferred borrowing costs | 423 | 145 |
| Finance costs and accrued interest | 282 | 34 |
| Unrealised foreign exchange losses (gains) | (277) | (1,355) |
| *Changes in assets and liabilities, net of the effects of purchase and of subsidiaries* | | |
| Change in trade, other receivables and other current assets | 8,369 | 21,292 |
| Change in inventories and biological assets | (2,042) | 15,877 |
| Change in net deferred tax assets/liabilities | (16) | (1,047) |
| Change in trade and other payables | (14,591) | (40,783) |
| Change in deferred revenue | (1,525) | - |
| Change in provisions | (303) | (425) |
| | **(7,684)** | **(16,547)** |

## 10. Issued capital

| | 31 Dec 2017 $'000 | 30 Jun 2017 $'000 |
|---|---|---|
| **Issued capital** | | |
| At beginning of reporting period | 572,132 | 548,515 |
| Restructure of Group: | | |
| Ordinary shares issued | - | 25,656 |
| Costs related to issuing securities net of tax effect | - | (2,039) |
| **At the end of reporting period** | **572,132** | **572,132** |

The Group has authorised share capital amounting to 531,250,312 (30 June 2017: 531,250,312) ordinary shares issued and fully paid.

Movements in ordinary shares:

| | 31 Dec 2017 '000 | 30 Jun 2017 '000 |
|---|---|---|
| At the beginning of reporting period | 531,250 | 400,000 |
| Shares issued during year | - | 131,250 |
| **At the end of reporting period** | **531,250** | **531,250** |

*Terms and conditions*

Issued share capital consists of ordinary shares only, with equal voting rights. Ordinary shares have no par value. Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held.

The following shares were issued during the 2017 Financial Year:

a) 25,000,000 placement shares were issued on 7 April 2017 to sophisticated and institutional investors; and
b) 106,250,312 shares were issued on 15 May 2017 under the fully underwritten entitlement offer.

Wellard Limited was registered in Western Australia on 10 September 2015 with 1,000 Shares being issued split between WGH (999 Shares) and Camuna Pte Ltd (1 Share).

## 11. Property, plant and equipment

| | Freehold land at cost $'000 | Sheds and buildings $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|---|
| **Half-year ended 31 Dec 2017** | | | | |
| Opening net book amount | 7,134 | 3,160 | 220,441 | **230,735** |
| Additions | - | 580 | 4,183 | **4,763** |
| Disposals | - | - | (395) | **(395)** |
| Foreign exchange revaluation | - | (3) | (3,304) | **(3,307)** |
| Depreciation expense | (2) | (84) | (9,294) | **(9,380)** |
| **Closing net book amount** | **7,132** | **3,653** | **211,631** | **222,416** |
| | | | | |
| Cost | 7,164 | 4,548 | 304,091 | **315,803** |
| Accumulated depreciation and impairment | (32) | (895) | (92,460) | **(93,387)** |
| **Net book amount** | **7,132** | **3,653** | **211,631** | **222,416** |

| | Freehold land at cost $'000 | Sheds and buildings $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|---|
| **Half-year ended 30 June 2017** | | | | |
| Opening net book amount | 6,859 | 1,365 | 286,646 | **294,870** |
| Additions | 276 | 2,066 | 7,052 | **9,394** |
| Wellao acquisition | - | - | 1,387 | **1,387** |
| Impairment expense | - | (235) | (13,758) | **(13,993)** |
| Transfer to asset held for sale | - | - | (33,489) | **(33,489)** |
| Foreign exchange revaluation | - | - | (16,958) | **(16,958)** |
| Depreciation expense | (1) | (36) | (10,439) | **(10,476)** |
| **Closing net book amount** | **7,134** | **3,160** | **220,441** | **230,735** |
| | | | | |
| Cost | 7,164 | 3,652 | 309,015 | **320,164** |
| Accumulated depreciation and impairment | (30) | (492) | (88,907) | **(89,429)** |
| **Net book amount** | **7,134** | **3,160** | **220,441** | **230,735** |

Property, plant and equipment with a carrying amount of $191,016,740,000 (30 June 2017: $230,735,000) are pledged as security for the current liabilities as disclosed in note 7.

Included in plant and equipment are assets under construction of $16,059,947 (30 June 2017: $16,018,028).

## 12. Intangible assets

| | Goodwill $'000 | Rights for land use $'000 | Client relationships $'000 | Software $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Half year ended 31 Dec 2017** | | | | | |
| Opening net book amount | 448 | 4,207 | - | 3,932 | **8,587** |
| Additions | - | - | - | 15 | **15** |
| Disposals | - | - | - | (1) | **(1)** |
| Foreign exchange revaluation | (8) | (63) | - | (4) | **(75)** |
| Amortisation expense | - | (32) | - | (256) | **(288)** |
| **Closing net book amount** | **440** | **4,112** | **-** | **3,686** | **8,238** |
| | | | | | |
| Cost | 440 | 4,212 | 3,300 | 4,368 | **12,320** |
| Accumulated amortisation | - | (100) | (3,300) | (682) | **(4,082)** |
| **Net book amount** | **440** | **4,112** | **-** | **3,686** | **8,238** |

| | Goodwill $'000 | Rights for land use $'000 | Client relationships $'000 | Software $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Half year ended 30 June 2017** | | | | | |
| Opening net book amount | 43 | - | 333 | 4,099 | **4,475** |
| Additions | - | - | - | 118 | **118** |
| Wellao acquisition | 406 | 4,207 | - | - | **4,613** |
| Foreign exchange revaluation | (1) | - | - | (13) | **(14)** |
| Amortisation expense | - | - | (333) | (272) | **(605)** |
| **Closing net book amount** | **448** | **4,207** | **-** | **3,932** | **8,587** |
| Cost | 448 | 4,278 | 3,300 | 4,360 | **12,386** |
| Accumulated amortisation | - | (71) | (3,300) | (428) | **(3,799)** |
| **Net book amount** | **448** | **4,207** | **-** | **3,932** | **8,587** |

For further information on the Wellao acquisition please refer note 16.

In July 2012, the Group acquired a business for $3,300,000 including the client relationships, existing compliance processes and protocols crucial to live export of cattle to China, which was recognised as an intangible asset and amortised over five years. This asset has been fully amortised as at 30 June 2017.

Software includes amounts spent on the implementation of an enterprise resource planning system since the selection phase was concluded and has been in use since May 2016. Software is amortised over ten years.

## 13. Contingent assets and liabilities

*Contingent assets*
During the half year ended 31 December 2017 and at balance date, no events occurred that gave rise to any contingent assets.

*Contingent liabilities*
During the half year ended 31 December 2017 and at balance date, no events occurred that gave rise to any contingent liabilities.

## 14. Subsequent events

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

## 15. Commitments

*Capital Commitments*

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities are as follows:

| | 31 Dec 2017 $'000 | 30 Jun 2017 $'000 |
|---|---|---|
| Property, plant and equipment – vessel under construction | 74,750 | 72,798 |
| Property, plant and equipment – feedlot and PEQ facilities | 2,253 | 2,425 |
| | **77,003** | **75,223** |

## 16. Business combination

**Summary of acquisition**

On 14 June 2017, the Wellard Group acquired control of 100% of the issued capital of Wellao Agri (Cangzhou) Co. Ltd, a feedlot and abattoir development project based in China which provides on-ground presence in a new market and is expected to complement Wellard's vertically integrated supply chain.

Wellao currently plans to build two feedlots and an abattoir to process Australian cattle. Wellao holds land and leases where the infrastructure will be built and is located within 50kms of a port. Wellao also holds a business license and environmental impact assessment approval.

Since 30 June 2017, the accounting entries have been updated to reflect the final valuations received.

The impact of this was an increase in the value of the Intangible asset – rights for land use of A$1.241 million and a corresponding reduction in goodwill. The 30 June 2017 comparative numbers have been updated in the account to reflect this change.

| | 31 Dec 2017 Final $'000 | 30 Jun 2017 Provisional $'000 |
|---|---|---|
| *Details of the purchase consideration, the net assets acquired and goodwill:* | | |
| Purchase consideration: | | |
| Loan receivable in settlement of shares transferred | 3,903 | 3,903 |
| Final Wellao acquisition settlement accrued | 2,745 | 2,745 |
| | **6,648** | **6,648** |
| *Fair values of assets and liabilities recognised as a result of the acquisition are as follows:* | | |
| Cash | 331 | 331 |
| Trade, other receivables and other assets – current | 316 | 316 |
| Property, plant & equipment – assets under construction | 1,387 | 1,387 |
| Intangible assets – rights for land use | 4,207 | 2,966 |
| Trade and other payables – current | 1 | 1 |
| **Net identifiable assets acquired** | **6,242** | **5,001** |
| Add: goodwill | 406 | 1,647 |
| **Net assets acquired** | **6,648** | **6,648** |

* As reported in the 30 June 2017 Annual Report.

# 17. Related party transactions

All transactions with related parties are recorded on an arms-length basis at commercial terms and conditions.

**Transactions with other related parties**

| | 31 Dec 2017 $ | 31 Dec 2016 $ |
|---|---|---|
| Entities controlled by key management personnel | | |
| Sales to | 9,864 | - |
| Purchases from | 1,682,157 | 1,259,161 |
| Lease payments made to | 214,506 | 462,740 |

During the period the existing sheep feedlot at Baldivis was sold by WGH Estates (a subsidiary of WGH) to an external party. Lease payments made to WGH Estates in relation to the feedlot totalled $90,909 (excluding GST).

**Outstanding balance from sales / purchases of goods and services**

| | 31 Dec 2017 $ | 30 Jun 2017 $ |
|---|---|---|
| *Current payables (purchases of goods and services)* | | |
| Entities controlled by key management personnel | - | (101,745) |
| *Current receivables (sales of goods and services)* | | |
| Entities controlled by key management personnel | | |
| Current receivable | 127,063 | 182,146 |
| Provision for doubtful debt | (122,180) | (102,078) |
| | **4,883** | **80,068** |

## Directors' Declaration

In accordance with a resolution of the directors of Wellard Ltd, we state that:

In the opinion of the directors:

(a) The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

    (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and

    (ii) complying with the Australian Accounting Standards (including the Australian Accounting Interpretations), Corporations Regulations 2001, and other mandatory professional reporting requirements.

(b) There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board

D C Griffiths
Chairman
Perth
Date: 6 February 2018

F C Troncone
Executive Director – Operations
Perth
Date: 6 February 2018

# Independent auditor's review report to the members of Wellard Limited

## *Report on the Half-Year Financial Report*

We have reviewed the accompanying half-year financial report of Wellard Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Wellard Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

### *Directors' responsibility for the half-year financial report*

The directors of the Company are responsible for the preparation 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 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 Australian 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 the consolidated entity's financial position as at 31 December 2017 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 Wellard Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 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.

### *Independence*

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

### *Material uncertainty related to going concern*

We draw attention to Note 1 (c) in the financial report, which states that the consolidated entity has a working capital deficiency of $115.060 million as at 31 December 2017. The note comments on the ability of the consolidated entity to continue as a going concern being dependent on the consolidated entity's financiers providing waivers for outstanding covenant breaches or otherwise not taking any acceleration or enforcement action in respect of those outstanding covenant breaches, and being able

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to raise sufficient funds if required. These conditions, along with other matters as set forth in Note 1 (c) indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

### *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 Wellard Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date,

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

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Perth
6 February 2018