Australian Dairy Farms Group

ASX Code: AHF

2016 ANNUAL REPORT

...every bit as *natural* as the *air* in Camperdown.

Australian Dairy Farm Group consisting of

Australian Dairy Farms Limited ABN 36 057 046 607 and

Australian Dairy Farms Trust ARSN 600 601 689

I would like to thank all of our employees and the people involved in the company for their support and hard work during the year. Dairy farmers milk cows 7 days per week and start very early in the morning (rain hail or shine). The factory operates at all different times and being in the fresh dairy products section of the industry, management and staff are effectively always on duty. During the year we exceeded all delivery service levels for supply of products to our customers and provided them with high quality dairy products..

The financial year just completed, 30th of June 2016 was one of the most challenging in history for the Dairy Industry. The year saw dry conditions on farms require very high volumes of purchased in feed, necessary for the herd, which in turn increased demand and thus prices for feed. A reduction in milk price (at the raw milk level) meant that ADFG and other farms suffered very high costs while receiving reduced revenue. These economics are not sustainable for dairy farmers and as per previous cycles we are seeing adjustments that should lead to corrections.

While still early in the new financial year there are indicators of positive corrections. In Western Victoria, which is the location of our farms, favourable rainfall is producing increased on farm grass growth which will reduce purchased in feed costs and allow for a significant increase in the self-production of hay for feeding at appropriate times. Global dairy commodity prices have risen significantly over the last 6 months.

On farm investments made during the year are providing significant benefits in the now current year and will result in additional grass and hay production.

The year saw an updating of the strategy for the company with the acquisition of Camperdown Dairy Company which was completed on the 15th April 2016. We now have a platform which extends from on farm to delivery of high quality branded dairy products across three key dairy categories (fresh milk, butter and yoghurts) into key markets. The vertical integration provides opportunity for differentiation of products and services. Value and differentiation are at the core of our strategy as is the production, marketing and sales of high quality natural dairy products.

Our focus is on being a market driven company in which we continually monitor and review for opportunities. New products due for launch this year will be consistent with the brand charter and extend our reach to consumer desires. Consumers are now more interested than ever in where their food comes from and in natural wholesome foods without unnecessary additives.

We are working on several new exciting opportunities, some of which are commercially sensitive. We look forward to sharing these with you at the appropriate time.

I would like to thank the securityholders for their support during the year and assure them that they are top of mind in all respects. For those of you who are able to make it to the AGM, please introduce yourself and I look forward to meeting you then.

Peter Skene
CHIEF EXECUTIVE OFFICER/ DIRECTOR

Director's Report

The board of directors of Australian Dairy Farms Limited (the Company) submits to members the Annual Report of the company and its controlled entities (the Group) for the financial year ended 30 June 2016.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN THE NATURE OF THOSE ACTIVITIES

The principal activities of the Group during the year were:

- the ownership and operation of dairy farms and dairy livestock for the production and sale of fresh raw milk to external processing factories for conversion to milk and milk products; and
- from 15 April 2016, through the acquisition of Camperdown Dairy Company Pty Ltd, the activities extended to the processing and sale of dairy products to domestic and export markets.

OUR BUSINESS MODEL AND OBJECTIVES

The Group is focused on efficiently producing high quality farm milk and manufacturing, marketing and selling value added processed dairy products to the domestic and the global market. This, combined with the differentiation opportunities now available via vertical integration from farm to customer, is a strategy which the directors believe has sound prospects for increasing securityholder value and returns.

The directors seek to implement the following growth plans:

- operate existing high quality dairy farms with value growth capability in prime locations and look to add further fresh milk supply via alliances with farmer / owners particularly in speciality milk and related production;
- grow revenues and securityholder value by differentiating farm supplied milk, value adding via brands, and extending our participation in the grocery, route and other dairy product markets;
- invest in high value categories and foster cooperative relationships with initial producers and end sellers including in organic milk production, manufacture and sales; and
- continue to build the value and diversity of our brand portfolio targeting strategic markets.

OPERATING RESULTS

The results for the financial year ended 30 June 2016 include the continued ownership and operation of dairy farms in South-West Victoria and the processing and sale of dairy products from the newly acquired Camperdown Dairy Company Pty Ltd (CDC) from 15 April 2016.

Total revenue from ordinary activities for the year ended 30 June 2016 is $9,844,465, up 261% against the 2015 comparative period. This is a result of the full year operation of farms acquired in the 2015 financial year, the addition of the Missens Road farm in July 2015 and Drumborg farm in September 2015 and the total income of $3,191,166 since acquisition date from CDC.

The consolidated net loss attributed to members of the Group, after providing for income tax is $3,703,625 (2015: $2,051,668). This result is comprised of a net loss from the Dairy Farm segment of $2,712,010, net profit from the Dairy Processing segment of $36,598 and corporate costs and bank facility finance charges of $1,039,725.

The Dairy Farm segment loss has been adversely impacted by farm revaluations and a hot and dry El Nino summer that resulted in higher than anticipated feed costs. An independent fair market price valuation was conducted on an all farms for the year ended 30 June 2016 resulting in an impairment expense of $1,809,399 (2015: $638,165).

REVIEW OF OPERATIONS

The financial year ending 30 June 2016 (FY2016) has been a transformational year for the Group, which, will be seen in the future as instrumental in establishing the success and profitability of the Group.

The Group commenced FY2016 after completing a successful Institutional and Share Purchase Plan capital raising in May and June 2015 based on the proposed acquisition of new farms and livestock to increase milk production.

Since that time, several events intervened to change the strategic direction of the Group and position it to become the first ASX listed vertically integrated dairy farming and milk product manufacturer, with the emphasis moving from milk production to milk processing and sales of value added milk products. The Group has also increased its securityholder base from approximately 900 holders to over 4,500 holders at FY2016 end.

REVIEW OF OPERATIONS (cont'd)

In July and August 2015, the Bureau of Meteorology (BOM) raised awareness of an increasing threat of an El Nino weather effect developing for the late spring and summer. An El Nino event in 2012 had produced very severe dry weather conditions in spring, summer and autumn with the normal rainfall virtually ceasing in mid-September instead of as late as December and early January in an average year. The result of the 2012 seasonal event was a combination of failed on farm production of grass and silage and very high prices for purchased hay and grain with a reduction in quality.

Additionally, there was considerable industry discussion at the time, about the expectations of weakness in milk prices globally and questions about the sustainability of local Victorian farmgate prices, which in April 2016, eventuated in announcements from major processors to retrospectively reduce prices.

After analysing pasture growth budgets and other farm scenarios, the directors made a conscious and concerned decision that it was of greater benefit to the Group to withhold from acquiring further farms and conserve cash resources – on the basis that there was no advantage in producing additional milk when input costs were likely to exceed revenues.

Forward contracts were negotiated with hay and fodder suppliers at fixed prices based on expected consumption levels to manage existing herds. Ultimately, the summer and autumn seasons were far worse than expectations in terms of lack of rain and greater heat, and hay and fodder suppliers were themselves hit by materially lower production. This then resulted in increased purchase requirements and significantly increased prices driven by exported hay and fodder demand, while on farm fodder production dried off months earlier than average.

Directors undertook a detailed assessment of the existing farms and the level of development work that could be undertaken to viably protect or mitigate the impact of adverse weather such as improving the drainage and water storage on farms, the installation of irrigation and additional or increase volumes of surface water storage facilities.

A comprehensive program of development work and irrigation was compiled for each of the farms for implementation during the dry summer so that new water storage would be in place when the autumn rains and wetter winter expectations eventuated. The extensive planned upgrades to each farm were costed and undertaken with internal project management to limit overheads.

The beneficial results of that work can be seen currently through very strong pasture growth, full dams, well-drained pastures and irrigation in place. This work should have positive affects year after year in more reliable and greater volume grass production, with lower cost and lower volumes of purchased feed. The development improvements were solidly tested in the wettest winter / spring season for several years from July to September 2016 and the drainage works have already proved their value. This value is expected to result in significanltly higher pasture and fodder growth on farms in the 2016 / 2017 finanical year.

At the same time in July to September 2015, the directors were actively considering ways to change the sole focus of the Group from simply supplying conventional milk to large milk processing factories, which priced their purchases relative to global markets. This included investigations into conversion to specialty milk production, such as organic and acquisition of existing organic or already converting farms.

In the second quarter of FY2016, the opportunity presented to acquire Camperdown Dairy Company Pty Ltd (CDC) to provide the potential to vertically integrate the dairy farming and milk production operation with milk processing and product marketing and capture the benefits of value adding to the milk produced.

After assessment and negotiation, a contract was executed two days before Christmas 2015, with a view to completion in early February 2016, using an extension of available CBA banking facilities and the security of the farm assets. Incumbent management was to be retained and the contract was conditional on several small matters relating to change of control of leases and agreement. These relatively minor matters delayed the completion until mid-April 2016 and final adjustments were not signed off by the vendor and buyer until 29 June 2016.

One month after completion the directors and CDC management met for two consecutive days to plan the strategies for the Group going forward and to identify and prioritise the most valuable opportunities for the Group, in terms of potential for growth and profitability.

Shortly after settlement, the milk industry in Victoria was impacted by announcements from major milk processors regarding the retrospective reduction in milk prices paid to farmers for the 2015/16 financial year. This had a positive flow on effect of focusing consumer awareness on the narrow margins that most Australian dairy farmers work on and resulted in a consumer driven move to purchase premium milk.

This changed the marketplace for CDC in June and July 2016, with the expected introduction of Camperdown milk and other products into major retailers expedited resulting in significant increases in sales volumes.

During this period, the Loyalty Options that were on issue to original investors in the Group were due to be exercised or expire. From January to April 2016, there was strong take-up of the Loyalty Options and member take-up combined with an underwriting of the balance saw approximately $6.1m of new capital raised for the Group.

REVIEW OF OPERATIONS (cont'd)

At the end of FY2016, the structure and future of the Group is one of good quality farms with very strong pasture cover and infrastructure that is materially protected from other than the worst of adverse seasonal conditions.

There is continued focus on integration of the milk produced and milk process to develop the provenance and traceability of product source so valuable in the dairy and other agricultural products.

Management is working with major retailers and boutique outlets to develop premium products, which are ideally branded under the Camperdown label, although also under retailer-associated brands with the advantage of being a company that is small enough to be flexible and innovative and large enough to be able to produce substantial volumes.

The Group has a pipeline of potentially very viable and profitable products and partnerships, which capitalise on the ability of the Group to be adaptive to market changes.

FINANCIAL POSITION

The net assets of the Group at 30 June 2016 total $27,446,181 an increase of $2,359,503 from the 2015 comparative.

The key assets in the statement of financial position at 30 June 2016 are:

- cash and cash equivalents of $2,472,232;
- property, plant and equipment of $26,271,715;
- intangible assets of $6,810,080; and
- biological assets (livestock) of $4,516,400.

Total current and non-current borrowings of the Group are $13,113,786 (2015: $6,757,028) comprising bank and supplier borrowings of $10,792,292 (2015: $4,607,568) and the liability amount of the convertible note of $2,321,494 (2015: $2,149,460).

The total debt to assets ratio is 39% at 30 June 2016 (2015: 23%).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant changes in the state of affairs of the Group occurred during the financial year:

- The Group completed the acquisition of the Missens Road Farm on 9 July 2015;
- The Group completed the acquisition of the Drumborg Farm on 16 September 2015; and
- During the year the Group received $6,219,778 from the issue of 24,879,113 stapled securities for the conversion of loyalty options pursuant to its bonus issue in November 2014.

Changes in controlled entities:

On 15 April 2016 Australian Dairy Farms Limited acquired 100% of the issued capital and control of Camperdown Dairy Company Pty Ltd (CDC) for a net cash purchase consideration of $10,927,665. This acquisition forms part of the Group's overall strategy to become the ASX's first vertically integrated dairy entity as a milk farmer, processor, manufacturer and exporter of dairy products.

EVENTS AFTER THE REPORTING PERIOD

On 29 July 2016 the Group held an Extraordinary General Meeting (EGM) of security holders to vote on seven separate resolutions. The resolutions included the approval of financial assistance for the CDC acquisition (refer note 15(c)), approval of changes to the conversion price of the convertible notes (refer note 15(a)), appointment of Dairy Funds Management Limited as responsible entity of Australian Dairy Farms Trust and approval of changes to terms of securities issued under the ADFG incentive plan to directors and KMP. Results of the EGM were released to ASX following the meeting with six of the seven resolutions passed. Resolution 6 relating to conversion to performance options of performance rights held by Keith Jackson was not approved.

On 19 September 2016 the Group issued 2,000,000 stapled securities in respect of performance rights, which vested on 01 July 2016 in connection with the renewal and extension of employment agreements for Camperdown Dairy Company KMP.

The directors are not aware of any other significant events post 30 June 2016.

ENVIRONMENTAL ISSUES

The Group is regulated by environmental obligations contained in the *Environment Protection Act 1970* and is subject to water licensing restrictions under the *Water Act 1989*.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

To improve the Group's profit and maximise securityholder wealth, the following developments are intended for implementation in the near future:

On farm productivity - improve existing production and livestock intensification, drive cost efficiencies with scale and deliver earnings to securityholders;

Scale - use scale to drive both revenue and cost synergies and achieve critical mass;

Innovative development – improve farm productivity and risk management by implementing considered drainage systems and farm combinations, targeted irrigation and water retention programs and in considering carefully the opportunities and viability for conversion of one or more farms to organic production and certification to take advantage of high milk pricing and the growing and unsatisfied demand for organic milk and products in Australia and internationally;

Grow brand value – investment in brand value and brand reach;

New products and product innovation – this will include building on the opportunities vertical integration provides; and

Strategic relationships - Continuing to on build strategic relationships, which have potential to add significant new business and products to the group.

These developments, together with the current strategy of continuous improvement and adherence to quality control are expected to assist in the achievement of the Group's long-term goals and development. The key risks of these strategies relate to weather factors, the changing business environment within the dairy industry and business risks generally.

INFORMATION ON DIRECTORS

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

Name	Position	Appointed/Retired
Michael Hackett	Chairman	
Adrian Rowley	Director	
Keith Jackson	Director	
Peter Skene	Group CEO / Director	Appointed 01 July 2016

DIRECTORS

Michael Hackett	Chairman (Non-Executive, Independent)
Qualifications	Bachelor of Commerce - University of Queensland Fellow - Institute of Chartered Accountants in Australia ACA Financial Planning Specialist
Directorships held in other listed entities in the past 3 years	Trustees Australia Limited – director from 1986 to current
Interest in Group securities & options	A relevant interest in 6,925,871 stapled securities at the date of this report. A relevant interest in 235 convertible notes at the date of this report. A relevant interest in 2,400,000 performance options at the date of this report.
Michael Hackett was appointed to the board on 8 May 2009. Michael is a Chartered Accountant who is the Managing Director of Trustees Australia Limited (ASX CODE: TAU). He has a Bachelor of Commerce degree from the University of Queensland. Michael has had considerable experience in managing and operating a wide range of businesses and property developments.	

Adrian Rowley	Director (Non-Executive, Independent)
Qualifications	Certified Financial Planner
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 1,286,000 stapled securities at the date of this report. A relevant interest in 2,400,000 performance options at the date of this report.
Adrian Rowley was appointed to the board on 20 July 2011. Adrian has had a career in financial services spanning 20 years and is currently Head of Equity Strategy at Watershed Funds Management.	

DIRECTORS (cont'd)

Keith Jackson	Director (Non-Executive, Independent)
Qualifications	Bachelor of Commerce - Otago University (NZ)
Directorships held in other listed entities in the past 3 years	Cooks Global Food Limited (NZ) - director from August 2008 to current TRS Investments Limited (NZ) - director from August 2001 to current
Interest in Group securities & options	No relevant interest in stapled securities or options at the date of this report.
Keith Jackson was appointed to the board on 23 October 2014. Keith has an extensive background in management and governance with particular emphasis on the food and dairy industries. He is a director of the vendor company from which the Group acquired the dairy farm at 463 Moreys Road Brucknell and has held director roles in several New Zealand listed and unlisted companies.	

Peter Skene	Director / Group CEO
Qualifications	Bachelor of Applied Science - Melbourne University Bachelor of Commerce - Deakin University Associate Diploma in Dairy Technology - VCAH
Directorships held in other listed entities in the past 3 years	No other current or former directorships in listed entities.
Interest in Group securities & options	A relevant interest in 1,010,000 stapled securities at the date of this report. A relevant interest in 6,240,000 performance options at the date of this report.
Peter Skene was appointed to the board on 1 July 2016. Peter's past experience reflects a vertical experience path starting on the factory floor and moving through positions from factory hand to Managing Director in dairy, food and other fast moving consumer goods (FMCG) industries. He has over 25 years experience in the areas of sales, global supply chain, manufacturing, quality management, research and development and general management. Peter has also taken on the role of Group CEO with effective operational responsibility for all aspects of the Group's business.	

COMPANY SECRETARY

The following persons held office as a company secretary of the Company during the financial year:

Jerome Jones	Company Secretary
Interest in Group securities & options	No relevant interest in stapled securities or options at the date of this report.
Jerome Jones was appointed company secretary on 28 August 2013. Jerome is an experienced financial and management accounting analyst with experience in Australia and the UK. He is CPA qualified with specialist skills and experience in detailed management accounting and procedure implementation in several private and ASX listed businesses.	

MEETINGS OF DIRECTORS

The board generally meets on a monthly basis either in person or by telephone conference. Directors meet bi-annually with the Group's auditor to discuss relevant issues. On matters of corporate governance, the board retains its direct interest rather than through a separate committee structure which is at this stage is inappropriate for a Company of this size and structure.

Aside from formally constituted directors' meetings, the directors and chairman are in regular contact regarding the operation of the Company and particular issues of importance. Written reports on trading activities and operating strategies are prepared by or provided to the directors on a regular basis or as required by changing circumstances.

MEETINGS OF DIRECTORS (cont'd)

The number of directors' meetings and number of meetings attended by each of the company directors during the financial year are set out in the table below:

Directors	Meetings eligible to attend	Meetings attended
Michael Hackett	10	10
Adrian Rowley	10	10
Keith Jackson	6	6

DIVIDENDS PAID OR RECOMMENDED

The directors have not recommended or paid a dividend for the year ended 30 June 2016 (2015: $nil) at the date of this report.

INDEMNIFYING OFFICERS OR AUDITOR

During the financial year, the Company paid an insurance premium in respect of an insurance policy insuring the directors, the company secretary and all executive officers of the Group against a liability incurred as a consequence of holding that office in the group to the extent permitted by the *Corporations Act 2001*. The amount of the premium was $20,784 (2015: $20,440) for all directors and officers for the year.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such by an officer or auditor.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of a court to bring proceedings against or on behalf of the Group or to intervene in any significant proceedings to which any such entity is a party for the purpose of taking responsibility for all or any part of those proceedings. No proceeding has had or is likely to have a material impact on the financial position of the Group.

NON-AUDIT SERVICES

The board is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and is satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

i) all non-audit services are reviewed and approved by the board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and,

ii) the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional Ethical Standards board.

During the year ended 30 June 2016 there was no payment to external auditors for non-audit services, (2015: $6,000).

OPTIONS

At the date of this report, the unissued ordinary securities of Australian Dairy Farms Limited under option are as follows:

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
1 July 2016	26 May 2019	25 cents - 27 cents	11,680,000
29 July 2016	31 December 2018	23 cents - 29 cents	7,200,000

Option holders do not have any rights, by virtue of holding options, to participate in any issues of securities or other interests of the Company or any other entity.

There have been no other options granted over unissued securities or interests of any controlled entity within the Group during or since the end of the reporting period.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

OPTIONS (cont'd)

During the year ended 30 June 2016, the following stapled securities of the Company were issued on the exercise of options granted pursuant to the Loyalty Options Offer Document lodged with ASX on 17 November 2014. No further securities have been issued since year-end. No amounts are unpaid on any of the shares.

Vesting Date	Exercise Date	Exercise Price	Number of Securities Issued
27 February 2015	Various to 31 March 2016	25 cents	24,879,113

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2016 has been received and a copy can be found at page 16.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of Australian Dairy Farms Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the Group is as follows:

- The remuneration policy is developed and approved by the Board, who form the remuneration committee due to the current size and nature of the Group's activities. Professional advice is sought from independent external consultants when required.
- All KMP receive a base salary (which is based on factors such as length of service and experience), superannuation and performance incentives.
- Performance incentives are only paid once predetermined key performance indicators (KPIs) have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and Group with those of the securityholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The remuneration committee reviews KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The performance of KMP is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The policy is designed to attract a high calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

KMP receive, at a minimum, a superannuation guarantee contribution required by the government, which is currently 9.5% of the individual's average weekly ordinary time earnings (AWOTE). Some individuals, however, may choose from time to time to sacrifice part of their salary to increase payments towards superannuation.

There are currently no defined benefit superannuation entitlements to executive KMP and upon retirement KMP are paid employee benefit entitlements accrued to the date of retirement. Any options not exercised before or on the date of termination will lapse.

All remuneration paid to KMP is valued at the cost to the company and expensed.

The Board's policy is to remunerate directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to directors is subject to approval by shareholders at the annual general meeting.

KMP are also entitled and encouraged to participate in the Long Term Incentive Plan (LTIP) to align directors' interests with shareholders' interests.

Options granted under the LTIP do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary security once the interim or final financial report has been disclosed to the public and is measured using the Black-Scholes methodology.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

In addition, the Board's remuneration policy prohibits directors and KMP from using Australian Dairy Farms Limited securities as collateral in any financial transaction, including margin loan arrangements.

REMUNERATION REPORT (cont'd)

Engagement of Remuneration Consultants

During the financial year, no consultants were engaged by the remuneration committee to review the elements of KMP remuneration and provide recommendations. As the size and nature of the Group's activities increase, this may become necessary.

Performance-based Remuneration

KPIs are set annually, with a certain level of consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for Group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed bi-annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, the Group bases the assessment on audited figures; however, where the KPI involves comparison of the Group, or a division within the Group, to the market, independent reports may be obtained from other organisations such as Standard & Poor's.

Relationship between Remuneration Policy and Group Performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The establishment of the LTIP is to encourage the alignment of personal and shareholder interests. The Group believes this policy should be effective in increasing shareholder wealth in future years.

The following table shows the gross revenue, profits and dividends for the last 5 years for the listed entity, as well as the share prices at the end of the respective financial years. Analysis of the actual figures will only become relevant in future years given the significant changes to the size and activities of the Group in the current financial year.

	2012	2013	2014	2015	2016
	$	$	$	$	$
Revenue	16,895	85,460	2,635	2,725,348	9,844,465
Net profit / (loss)	(47,256)	(100,536)	(423,889)	(2,051,668)	(3,703,625)
Net assets	904,282	709,571	483,449	25,086,678	27,446,181
Share price at year end	0.01	0.07	0.09	0.20	0.175
Dividends paid	-	-	-	-	-

The Board will maintain promotional activity so as to increase investor awareness of the Group and to stabilise the security price in line with a consistent and stable financial position.

Performance Conditions Linked to Remuneration

The Group seeks to emphasise reward incentives for results and continued commitment to the Group through the incorporation of incentive payments based on the achievement of revenue and production targets, return on equity and continued employment with the Group.

During the 2015 year, security holders approved the issue of Performance Rights to current KMP, however at the date of this report these are yet to be issued and as such there are no performance-related proportions of remuneration based on these targets included in the following table. The objective of the reward schemes will be to both reinforce the short and long-term goals of the Group and provide a common interest between management and shareholders.

The satisfaction of the performance conditions is based on a review of the audited financial statements and supporting production figures of the Group and The Board does not believe that performance conditions should include a comparison with any other measures or factors external to the Group at this time.

Employment Details of Members of Key Management Personnel

The following table provides employment details of persons who were, during the financial year, members of KMP of the consolidated Group. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

REMUNERATION REPORT (cont'd)

Name	Position held	Contract details	Non-salary cash based incentives	Shares	Options	Fixed salary / fees	Total
Directors			%	%	%	%	%
M Hackett	Chairman	N/A	-	-	-	100	100
A Rowley	Executive Director	N/A	-	-	-	100	100
K Jackson	Non-Executive Director	N/A	-	-	-	100	100

The Group is in the process of completing written agreements with each director setting out the terms and conditions of their appointment.

Changes in Directors and Executives Subsequent to Year-end

On 1 July 2016, Peter Skene was appointed as a director and Group CEO.

Remuneration Expense Details for the Year Ended 30 June 2016

The following table of benefits and payments represents the components of the current year and comparative year remuneration expenses for each member of KMP of the Group. Such amounts have been calculated in accordance with Australian Accounting Standards.

Key Management Personnel (KMP)	Short Term Benefit		Post Employment	Long Term Benefit	Termination	Equity Based Payments	Total
	Salary / Director's Fees	Bonus	Super Contributions	Long Service Leave	Termination benefits	Shares and options	
	$	$	$	$	$	$	$
M Hackett - 2016	40,000	-	3,800	-	-		43,800
M Hackett - 2015	27,105	-	2,575	-	-	75,000	104,680
A Rowley - 2016 [1]	30,000	-	2,850	-	-		32,850
A Rowley - 2015	20,329	-	1,931	-	-	30,000	52,260
K Jackson - 2016 [2]	30,000	-	2,850	-	-	-	32,850
K Jackson - 2105	20,329	-	1,931	-	-	-	22,260
G Anderson - 2016	-	-	-	-	-	-	-
G Anderson - 2015[3]	-	-	-	-	-	50,000	50,000
Total - 2016	**100,000**	**-**	**9,500**	**-**	**-**	**-**	**109,500**
Total - 2015	**67,763**	**-**	**6,437**	**-**	**-**	**155,000**	**229,200**

1. This amount is paid in accordance with a contract arrangement with Watershed Funds Management Pty Ltd, an entity associated with Adrian Rowley.

2. This amount is paid in accordance with a contract arrangement with Jackson and Associates Ltd, an entity associated with Keith Jackson.

3. Graham Anderson retired as a director on 23 October 2014.

Cash Bonuses, Performance-related Bonuses and Share-based Payments

In 2014, to reflect the contribution that each director had made for the five years from 1 July 2009 to 30 June 2014, an accrual of $155,000 was made for unpaid directors' fees. Following shareholder approval on 1 September 2014 a total of 775,000 stapled securities were issued in lieu of unpaid directors fees at 20 cents per security.

REMUNERATION REPORT (cont'd)

Securities Received that Are Not Performance-related

Other than the issue of securities for prior year unpaid directors fees above, no members of KMP are entitled to receive securities that are not performance-based as part of their remuneration package.

Options and Rights Granted as Remuneration

On 16 June 2015 shareholders approved the issue of up to 7,200,000 Performance Rights collectively to current and future directors as a form of incentive and to better align their interests to securityholders. The rights were to vest to stapled securities upon the Group achieving specified annualised production targets of 25,000,000 litres, 50,000,000 litres and 75,000,000 litres of milk.

The Performance Rights were to be issued to current directors as follows:

Name	Number
Michael Hackett	2,400,000
Adrian Rowley	2,400,000
Keith Jackson	1,200,000

The remaining 1,200,000 Performance Rights were not to be issued any later than 3 years after securityholder approval.

No Performance Rights have ever been issued to any of the directors.

On 29 July 2016 securityholders approved the replacement of the existing Performance Rights with an equivalent number of Performance Options linked to Total Securityholder Returns.

Other Equity-related KMP Transactions

There have been no other transactions involving equity instruments other than those described above relating to options, rights and shareholdings in the year.

Loans to KMP

At the date of of this report, there have been no loans made to or from any member of KMP.

KMP Securityholdings

The number of ordinary securities in Australian Dairy Farms Limited held by each KMP of the Group during the financial year is as follows:

Listed fully paid stapled securities

30 June 2016	Balance at 01/07/2015	Granted on settlement of liability	Issued on exercise of options	Other changes	Balance at 30/06/2016
Michael Hackett[1]	4,549,065	-	2,048,100	78,706	6,675,871
Adrian Rowley	1,464,000	-	24,000	(702,000)	786,000
Keith Jackson	-	-	-	-	-
Total	**6,013,065**	**-**	**2,072,100**	**(623,294)**	**7,461,871**

1. The balance includes interests held by Mr Hackett and his associates, including Trustees Australia Limited.

REMUNERATION REPORT (cont'd)

KMP Option Holdings

The number of options over ordinary securities in Australian Dairy Farms Limited held by each KMP of the Group during the financial year is as follows:

Unlisted options over stapled securities

30 June 2016	Balance at 01/07/2015	Conversion / lapse of loyalty options	Balance at 30/06/2016
Michael Hackett[1]	2,274,533	(2,274,533)	-
Adrian Rowley	773,494	(773,494)	-
Keith Jackson	-	-	-
Total	**3,048,027**	**(3,048,027)**	**-**

1. The balance includes interests held by Mr Hackett and his associates, including Trustees Australia Limited.

On 8 December 2014 the Group allotted 29,350,479 unlisted loyalty options over stapled securities pursuant to its bonus issue as set out in detail in the Offer Document dated 17 November 2014. On 27 February 2015, 4,449,173 options lapsed and 24,901,306 options vested to the holders of loyalty options on that date. The KMP in the table above were holders of stapled securities on these dates and were issued options in accordance with their holdings.

The vested loyalty options were not transferrable and could be exercised at any time on or after the vesting date of 27 February 2015 and before 31 March 2016 at the holders election by paying the exercise price of $0.25.

During the 2016 financial year loyalty option holders exercised 19,279,259 options (2015: 22,193) and the balance of 5,599,854 was fully underwritten by Bell Potter Securities and exercised in accordance with the underwriting agreement.

KMP Convertible Note Holdings

On 22 October 2014, the Group issued 235 unlisted convertible notes each with a face value of $10,000 to relevant interests of Michael Hackett, including Trustees Australia Limited. The key terms of the notes include a 2 year maturity date and the noteholder is able to convert the notes to fully paid Stapled Securities at a conversion price of 20 cents per stapled security. The notes bear interest at 2% above the rate paid by the Group on the CBA facility. Interest accrues daily and if the noteholder elects to convert to stapled securities, interest will be paid in cash or stapled securities issued at the conversion price at the Group's election.

Subsequent to the initial issue of the notes there has been a change to the conversion price of the notes from 20 cents to 18.38 cents per stapled security as a result of the dilutive effect of the bonus issue of loyalty options by the Group in November 2014. This change was resolved by shareholders at the EGM on 29 July 2016.

Other Transactions with KMP and/or their Related Parties

As set out in note 24(b) of the financial statements, the Group was charged $338,900 of costs and $172,034 interest on convertible notes by Trustees Australia Limited during the year.

There were no other transactions conducted between the Group and KMP or their related parties, other than those disclosed above relating to equity and compensation, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

Michael Leslie Hackett

Chairman

Brisbane

30 September 2016

CORPORATE GOVERNANCE STATEMENT

The board is responsible for the overall Corporate Governance of the Group.

The board monitors the operational and financial position and performance of the Group and oversees the business strategy, including approving the strategic goals of the Group and considering and approving its business plan and the associated farm and corporate budgets.

The board is committed to maximising performance and growth and generating appropriate levels of security holder value and returns. In conducting the Group's business, the board strives to ensure the Group is properly managed to protect and enhance securityholder interests and that the Group operates in an appropriate environment of Corporate Governance. In accordance with this, the board has developed and adopted a framework of Corporate Governance policies, risk management practices and internal controls that it beleives are appropriate for the Group.

Unless disclosed, as per ASX Listing rule 4 .10 .3 all the recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2016. The Group has generally adopted the Corporate Governance Statement to comply with the ASX's revised Corporate Governance Principles and Recommendations third edition which became effective on or after 1 July 2014. The Corporate Governance Statement which was lodged with this Annual Report, discloses the extent to which the Company will follow the recommendations taking into account that the relatively small size of the company requires that the cost and benefits of adoption need to be taken into account in determining the extent of practical implementation.

The principal governance related policies and practices are as follows:

- Corporate Governance Statement
- Board Charter
- Securityholder Communication Policy
- Risk Management Policy
- Continuous Disclosure Policy
- Code of Conduct

Details of the Group's key policies, charters for the board and code of conduct are available on the Group's website under the Governance tab at www.adfl.com.au.

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AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF AUSTRALIAN DAIRY FARMS LIMITED AND CONTROLLED ENTITIES

As lead auditor for the audit of Australian Dairy Farms Limited I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been no contraventions of:

i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. any applicable code of professional conduct in relation to the audit.

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

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Nigel Bamford

N D Bamford
Director

Date: 30 September 2016

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $	2015 $
Revenue	3(a)	9,844,465	2,725,348
Other income	3(b)	775,685	124,584
Administration and non-dairy related costs	3(c)(iv)	(924,019)	(779,281)
Employment expenses		(1,730,896)	(452,074)
Finance costs	3(c)(i)	(343,322)	(252,936)
Dairy related costs	3(c)(ii)	(4,935,072)	(2,015,122)
Dairy processing related costs	3(c)(iii)	(2,477,168)	-
Depreciation and amortisation expense		(753,449)	(112,672)
Deemed cost of livestock disposed	3(c)(v)	(1,350,450)	(623,310)
Loss from change in fair value of livestock	3(c)(v)	-	(28,040)
Impairment of property, plant and equipment	3(c)(v)	(1,809,399)	(638,165)
Loss before income tax		**(3,703,625)**	**(2,051,668)**
Tax expense	4	-	-
Net loss for the year		**(3,703,625)**	**(2,051,668)**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Fair value gain on available-for-sale financial asset, net of tax		-	3,400
		-	3,400
Items that will not be reclassified to profit or loss		-	-
Other comprehensive income for the year		**-**	**-**
Total comprehensive loss for the year		**(3,703,625)**	**(2,048,268)**
Loss is attributable to:			
Company shareholders		(1,003,181)	(815,973)
Trust unitholders		(2,700,444)	(1,235,695)
		(3,703,625)	**(2,051,668)**
Company shareholders		(1,003,181)	(812,573)
Trust unitholders		(2,700,444)	(1,235,695)
		(3,703,625)	**(2,048,268)**
Earnings per stapled security:			
Basic earnings per stapled security (cents)	30	(2.25)	(3.02)
Diluted earnings per stapled security (cents)	30	(2.25)	(3.02)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	2016 $	2015 $
ASSETS			
Current Assets			
Cash and cash equivalents	5	2,472,232	14,871,060
Trade and other receivables	6	3,607,626	770,078
Inventories	7	559,324	45,903
Non-current assets held for sale	8	-	15,800
Other current assets	9	457,346	107,238
Total Current Assets		**7,096,528**	**15,810,079**
Non-Current Assets			
Biological assets	10	4,516,400	2,369,500
Intangible assets	11	6,810,080	-
Property, plant & equipment	12	26,271,715	14,506,963
Total Non-Current Assets		**37,598,195**	**16,876,463**
Total Assets		**44,694,723**	**32,686,542**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	3,896,351	830,734
Provisions	14	165,780	12,102
Borrowings	15	2,733,413	349,086
Total Current Liabilities		**6,795,544**	**1,191,922**
Non-Current Liabilities			
Provisions	14	72,625	-
Borrowings	15	10,380,373	6,407,942
Total Non-Current Liabilities		**10,452,998**	**6,407,942**
Total Liabilities		**17,248,542**	**7,599,864**
Net Assets		**27,446,181**	**25,086,678**
EQUITY			
Issued capital	16	16,347,345	14,830,305
Reserves	17	-	5,056
Retained earnings		(9,399,531)	(8,396,350)
Equity attributable to shareholders		**6,947,814**	**6,439,011**
Non-controlling interests			
Issued units	16	24,978,986	20,427,841
Convetible notes	16	308,881	308,881
Accumulated losses		(4,789,500)	(2,089,055)
Equity attributed to non-controlling interests		**20,498,367**	**18,647,667**
Total Equity		**27,446,181**	**25,086,678**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $	2015 $
Cash Flows from Operating Activities			
Receipts from customers		9,187,802	2,344,572
Payments to suppliers and employees		(9,612,566)	(3,007,204)
Interest received		74,710	38,398
Finance costs		(171,288)	(144,595)
Net operating cash flows	5(b)	**(521,342)**	**(768,829)**
Cash Flows from Investing Activities			
Payment for property, plant & equipment		(10,533,867)	(10,869,583)
Proceeds from sales of property, plant & equipment		95,122	-
Proceeds from sale of non-current assets held for sale	8	22,256	627,095
Payment for biological assets	10	(2,755,800)	(2,059,637)
Payment for deposits on property and equipment		-	(93,591)
Payment for Camperdown Dairy Company Pty Ltd		(10,921,449)	-
Cash from acquisition of Trust		-	2,731
Net investing cash flows		**(24,093,738)**	**(12,392,985)**
Cash Flows from Financing Activities			
Proceeds from issue of stapled securities net of transaction costs	16	6,031,529	27,237,086
Net proceeds from loans - unsecured		87,620	1,990
Proceeds from CBA facility	15(c)	6,000,000	4,000,000
Proceeds from / (repayment to) loan - Fonterra	15(b)	(60,000)	260,000
Net proceeds from bank hire purchase loans		157,103	338,926
Repayment of loans on acquisition of Trust		-	(3,841,495)
Net financing cash flows		**12,216,252**	**27,996,507**
Net increase / (decrease) in cash held		**(12,398,828)**	**14,834,693**
Cash at the beginning of the period		14,871,060	36,367
Cash at the end of the financial period		**2,472,232**	**14,871,060**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Issued Capital Ordinary	Financial Asset Revaluation Reserve	Non-controlling Interest (Trust)	Retained Earnings	Total
	$	$	$	$	$
Balance at 1 July 2015	**14,830,305**	**5,056**	**18,647,667**	**(8,396,350)**	**25,086,678**
Comprehensive income for the year					
Loss attributable to company shareholders / trust unitholders	-	-	(2,700,444)	(1,003,181)	(3,703,625)
Total comprehensive income / (loss) for the year	**-**	**-**	**(2,700,444)**	**(1,003,181)**	**(3,703,625)**
Transactions with equityholders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	1,517,040	-	4,551,144	-	6,068,184
Total transactions with equity holders	**1,517,040**	**-**	**4,551,144**	**-**	**6,068,184**
Other					
De-recognition of revaluation increment on disposal of OHPL shares	-	(5,056)	-	-	(5,056)
Total other	**-**	**(5,056)**	**-**	**-**	**(5,056)**
Balance at 30 June 2016	**16,347,345**	**-**	**20,498,367**	**(9,399,531)**	**27,446,181**

	Issued Capital Ordinary	Financial Asset Revaluation Reserve	Non-controlling Interest (Trust)	Retained Earnings	Total
	$	$	$	$	$
Balance at 1 July 2014	**7,866,059**	**197,767**	**-**	**(7,580,377)**	**483,449**
Comprehensive income for the year					
Loss attributable to company shareholders / trust unitholders	-	-	(1,235,695)	(815,973)	(2,051,668)
Other comprehensive income	-	3,400	-	-	3,400
Total comprehensive income / (loss) for the year	**-**	**3,400**	**(1,235,695)**	**(815,973)**	**(2,048,268)**
Transactions with equityholders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	6,964,246	-	20,427,841	-	27,392,087
Issue convertible notes	-	-	308,881	-	308,881
Total transactions with equity holders	**6,964,246**	**-**	**20,736,722**	**-**	**27,700,968**
Other					
Recognition of non-controlling interest in ADFT	-	-	(853,260)	-	(853,260)
Trust units acquired on stapling	-	-	(100)	-	(100)
De-recognition of revaluation increment on disposal of OHPL shares	-	(196,111)	-	-	(196,111)
Total other	**-**	**(196,111)**	**(853,360)**	**-**	**(1,049,471)**
Balance at 30 June 2015	**14,830,305**	**5,056**	**18,647,667**	**(8,396,350)**	**25,086,678**

The accompanying notes form part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Australian Dairy Farms Group ("the Group") was formed by the stapling of 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.

The Trust is a registered managed investment scheme under the Corporations Act 2001. Trustees Australia Limited is the Responsible Entity of the Trust and is incorporated and domiciled in Australia. The Responsible Entity is governed by the terms and conditions specified in the constitution.

The Group was established for the purpose of facilitating a joint quotation of the Company and the Trust on the Australian Securities Exchange. The constitutions of the Trust and the Company ensure that, for so long as the two entities remain jointly quoted, the number of units in the Trust and the number of shares in the Company shall be equal and the unitholders and shareholders are identical. Both the Responsible Entity of the Trust and the Company must at all times act in the best interests of the Group.

To account for the stapling, Australian Accounting Standards require an acquirer (the Company) to be identified and an acquisition to be recognised. The net assets and net profit of the acquiree (the Trust) are recognised as non-controlling interest as they are not owned by the acquirer in the stapling arrangement.

The stapling arrangement will cease upon the earliest of either the winding up of the Company or the Trust or by agreement between the parties.

The principal accounting polices adopted in the preparation of the financial report are set out below.

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(b) Principles of Consolidation

Stapling

The stapling of the Company and the Trust was approved at separate meetings of the respective shareholders and unitholders on 1 September 2014. On 22 October 2014, shares in the Company and units in the Trust were stapled to one another and are now quoted as a single security on the Australian Securities Exchange.

Australian Accounting Standards require an acquirer to be identified and an in-substance acquisition to be recognised. In relation to the stapling of the Company and the Trust, the Company is identified as having acquired control over the assets of the Trust. To recognise the in-substance acquisition, the following accounting principles have been applied:

(1) no goodwill is recognised on acquisition of the Trust because no direct ownership interest was acquired by the Company in the Trust;

(2) the equity issued by the Company to unitholders to give effect to the transaction is recognised at the dollar value of the consideration payable by the unitholders. This is because the issue of shares by the Company was administrative in nature rather than for the purposes of the Company acquiring an ownership interest in the Trust; and

(3) the issued units of the Trust are not owned by the Company and are presented as non-controlling interests in the Group notwithstanding that the unitholders are also the shareholders by virtue of the stapling arrangement. Accordingly, the equity in the net assets of the Trust and the profit / (loss) arising from these net assets have been separately identified in the statement of comprehensive income and statement of financial position.

The Trust's contributed equity and accumulated losses are shown as a non-controlling interest in this Financial Report. Even though the interests of the equity holders of the identified acquiree (the Trust) are treated as non-controlling interests the equity holders of the acquiree are also equity holders in the acquirer (the Company) by virtue of the stapling arrangement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Principles of consolidation (cont'd)

Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of all subsidiaries from the date on which control is obtained by the Company.

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the business combinations by the Company. Inter-entity transactions, balances and unrealised gains on transactions between Company entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company. A list of subsidiaries appears in note 22 to the consolidated financial statements.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is obtained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

(i) the consideration transferred;

(ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and

(iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value remeasurements in any pre-existing equity holdings are recognised in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Principles of consolidation (cont'd)

Goodwill (cont'd)

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interest is recognised in the consolidated financial statements.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored and not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

(c) Income tax

Under current income tax legislation the Trust is not liable to pay tax provided its taxable income and realised capital gains are distributed to unitholders. The liability for capital gains tax that may arise if the land and buildings were sold is not accounted for in this report.

The Company's income tax expense for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity.

Tax consolidation

The Company and its wholly-owned entities (this excludes the Trust) have formed a tax-consolidated group with effect from 1 July 2014 and are, therefore, taxed as a single entity from that date. The head entity within the tax consolidated group is Australian Dairy Farms Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group, using the 'separate taxpayer within the group' approach by reference to carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Income tax (cont'd)

Any current tax liabilities or assets and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts referred to in the following section. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits to the tax consolidated group will be available against which the asset can be utilised. Any subsequent period adjustment to deferred tax assets arising from unused tax losses, as a result of revised assessments of the probability of recoverability, is recognised by the head entity only.

Tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax consolidate group, has entered into a tax funding arrangement, which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

(d) Fair value of assets and liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

(e) Inventories

Inventories and consumables held for use in operations are valued at the lower of cost and net realisable value. Cost is determined on the average cost basis and comprises the cost of purchase including transport costs.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Biological Assets

Biological assets are comprised of livestock (dairy cattle). Biological assets are measured at fair value less costs to sell, with any change recognised in profit or loss. Costs to sell include all costs that would be necessary to sell the assets, including freight and direct selling costs.

The Group, at each reporting date, appoints an external, independent valuer who having recent experience in the location and nature of cattle held by the Group performs a valuation for the reporting date. Fair value is determined by reference to market values for cattle of similar age, weight, breed and genetic make-up. The fair value represents the estimated amount for which cattle could be sold on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgably, prudently and without compulsion.

In the event an independent valuer has not been appointed the Group determines whether an active or other effective market exists for a biological asset in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an active market does not exist then the directors use one of the following valuation methods, when available, in determining fair value:

- the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period; or
- market prices, in markets accessible to the entity, for similar assets with adjustments to reflect differences.

(g) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

i. Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Financial instruments (cont'd)

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

v. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Impairment

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or as indicated, less, where applicable, accumulated depreciation and impairment losses.

Basis of measurement of carrying amount

Land, buildings and improvements, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The carrying amount of freehold land, buildings and improvements are reviewed annually by directors to ensure it is not in excess of the recoverable amount. The recoverable value of property is based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings and an assessment of the properties value in use.

In the event the carrying amount of property, plant and equipment is greater than its estimated recoverable amount, the carrying amount is written down immediately to its estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present (refer to note 1(m) for details of impairment).

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

Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of property, plant and equipment is the higher of fair value less costs of disposal and value in use. Depreciated replacement cost is used to determine value in use where the assets are not held principally for cash generating purposes and would be replaced if the Group was deprived of it. Depreciated replacement cost is the current replacement cost of an item of plant and equipment less, where applicable, accumulated depreciation to date, calculated on the basis of such cost. Value in use for all other assets is a discounted cash flow calculation.

An impairment loss exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Depreciation

The depreciable amount of all fixed assets, including buildings but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is available for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful-life rates used for each class of depreciable assets are:

Class of Fixed Assets	Depreciation Rate (years)
Land	Not depreciated
Land improvements	3 years
Buildings	40 years
Fixed Improvements	30 years
Plant and equipment - owned	3-10 years
Plant and equipment - leased	2-5 years
Motor Vehicles	5 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Non-current assets held for sale

Non-current assets are classified as held for sale and measured at the lower of carrying amount and fair value less costs to sell, where the carrying amount will be recovered principally through sale as opposed to continued use. No depreciation or amortisation is charged against assets classified as held for sale.

Classification as "held for sale" occurs when: management has committed to a plan for immediate sale; the sale is expected to occur within one year from the date of classification; and active marketing of the asset has commenced. Such assets are classified as current assets.

(j) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(k) Employee Benefits

Short-term employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Equity-settled compensation

The Group operates an employee share ownership plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(m) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is recognised immediately in profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(n) Investments in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control of those policies. Investments in associates are accounted for in the consolidated financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost (including transaction costs) and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. In addition, the Group's share of the profit or loss of the associate is included in the Group's profit or loss.

The carrying amount of the investment includes, when applicable, goodwill relating to the associate. Any discount on acquisition, whereby the Group's share of the net fair value of the associate exceeds the cost of investment, is recognised in profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

(o) Interests in Joint Arrangements

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint venture entities providing joint venturers with an interest to net assets are classified as a joint venture and accounted for using the equity method. Refer to Note 1(n) for a description of the equity method of accounting.

Joint operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Group's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the consolidated financial statements.

Gains and losses resulting from sales to a joint operation are recognised to the extent of the other parties' interests. When the Group makes purchases from a joint operation, it does not recognise its share of the gains and losses from the joint arrangement until it resells those goods/assets to a third party.

(p) Intangibles other than Goodwill

Contractual agreements

Contractual agreements are recognised at fair value. They have a finite life and are carried at fair value less any accumulated amortisation and any impairment losses. Contractual agreements are amortised over their useful lives.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

(r) Trade and other receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(m) for further discussion on the determination of impairment losses.

(s) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

(t) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(u) Revenue and Other Income

Revenue from the sale of milk, after taking into account dairy levies and volume charges, is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Dairy cattle fair value adjustments are determined at the end of each reporting date (refer note 10). The amount of the net increment or decrement in the fair value is recorded as either revenue or expense in the income statement and is determined as:

- The difference between the total net fair value of dairy cattle recognised at the beginning of the financial year and the total fair value of dairy cattle recognised as at the reporting date; less
- Costs expected to be incurred in realising the fair value (including freight and selling costs).

Dairy cattle sales are recognised when:

- there has been a transfer of risks and rewards to the customer (through the execution of a sales agreement at the time of delivery of the cattle to the customer);
- no further work or processing is required;
- the quantity and quality of the cattle has been determined; and
- the price is fixed and generally title has passed.

Revenue from the sale of dairy processing products is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(v) Critical Accounting Estimates and Judgments

The preparation of the financial statements requires directors to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. The director's continually evaluate their judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Judgements and estimates are based on historical experience and on other various factors they believe are reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

The following accounting policies for which significant judgements, estimates and assumptions have been made:

- Carrying value determination of land and buildings, refer note 12;
- Fair value determination of livestock, refer note 10;
- Fair value determination of financial liability and equity component of convertible notes, refer note 15;
- Impairment of non-financial and financial assets, refer note 1(m) and note 12;
- Income tax and other taxes, refer note 4; and
- Fair value determination of contractual agreements, refer note 1(p) and note 11.

Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(w) Compound Financial Instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognised at fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

(x) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

(y) New Accounting Standards for Applicable in Future Periods

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the company when adopted in future periods, are discussed below:

- AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments.

Although, the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(y) New Accounting Standards for Applicable in Future Periods (cont'd)

- AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles based model.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

NOTE 2: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards.

	2016 $	2015 $
Statement of Financial Position		
Assets		
Current assets	2,509,697	14,582,958
Non-current assets	10,936,592	100
Total assets	**13,446,289**	**14,583,058**
Liabilities		
Current liabilities	5,982,578	7,826,888
Total liabilities	**5,982,578**	**7,826,888**
Equity		
Issued capital	16,347,345	14,830,306
Retained earnings	(8,883,634)	(8,074,136)
Total Equity	**7,463,711**	**6,756,170**
Statement of Profit or Loss and Other Comprehensive Income		
Total profit / (loss)	(809,498)	(522,884)
Total comprehensive income / (loss)	(809,498)	(522,884)

Contingent liabilities and guarantees

The company does not have any contingent liabilities or guarantees in place for the year ended 30 June 2016.

Contractual commitments

At 30 June 2016, Australian Dairy Farms Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2015: $nil).

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 3: REVENUE AND EXPENSES

	2016	2015
(a) Revenue		
Revenue	**$**	**$**
Dairy farm milk sales	5,571,670	2,366,824
Dairy processing sales	3,162,751	-
Livestock sales	801,542	305,972
Other revenue	233,792	14,154
	9,769,755	**2,686,950**
Other revenue		
Interest received - other persons	74,710	38,398
Total Revenue	**9,844,465**	**2,725,348**
(b) Other Income		
Gain on disposal of other financial assets (refer note 8)	11,512	110,459
Gain on change in fair value of livestock (refer note 10)	741,550	-
Gain on disposal of property, plant and equipment	22,623	14,125
	775,685	**124,584**
(c) Expenses		
(i) Finance costs		
CBA facility	155,520	126,387
Loans - unsecured	4,712	1,966
Loans - Fonterra	334	560
Other	5	2,356
Finance charges payable under finance leases	10,717	5,603
Interest on loans (related parties)	-	7,723
Interest accured convertible notes (related parties)	172,034	108,341
	343,322	**252,936**
(ii) Dairy related costs		
Feed costs	3,439,257	1,404,762
Repairs, maintenance and vehicle costs	270,867	110,173
Animal health costs	214,307	74,783
Land holding and lease costs	78,312	66,431
Breeding and herd testing expenses	156,483	62,400
Dairy shed expenses	91,181	47,426
Electricity	129,083	43,601
Other dairy related costs	555,582	205,546
	4,935,072	**2,015,122**
(iii) Dairy processing related costs		
Cost of goods sold	1,999,998	-
Freight costs	223,181	-
Property and lease costs	131,294	-
Other dairy processing related costs	122,695	-
	2,477,168	**-**
(iv) Administration and non-dairy related costs		
Administration costs	238,709	113,908
Professional costs	468,668	309,308
Directors fees	109,500	74,200
CDC acquisition costs	107,142	-
Stapling transaction costs	-	281,565
	924,019	**779,281**

NOTE 3: REVENUE AND EXPENSES (cont'd)

	2016 $	2015 $
(v) Other significant items		
Deemed cost of livestock sold (refer note 10)	1,350,450	623,310
Loss from changes to fair value of livestock (refer note 10)	-	28,040
Impairment of land and buildings (refer note 12)	1,809,399	638,165

NOTE 4: INCOME TAX EXPENSE

	2016 $	2015 $
(a) The components of tax expense / (benefit) comprise		
Current tax	-	-
Deferred tax	-	-
	-	-

(b) The prima facie tax on profit before income tax is reconciled to the income tax as follows

	2016	2015
Prima facie tax payable / (benefit) on profit / (loss) from ordinary activities before income tax at 30% (2015: 30%):	(1,111,088)	(615,500)
Add /(less)		
Tax effect of:		
- trust loss not recognised	619,251	311,515
- current period tax losses not recognised	108,589	279,167
- non deductible expenses	3,021,546	1,179,265
- other income not included in assessable income	(225,918)	(33,138)
- other deductible expenses	(2,412,380)	(1,121,309)
Income tax expense / (benefit) attributable to entity	-	-
Applicable weighted average effective tax rates are as follows:	N/A	N/A

(c) Deferred tax assets not recognised

Deferred tax assets and liabilities not brought to account, the net benefit of which will only be realised if the conditions for deductibility set out in Note 1: Statement of Significant Accounting Policies occur.

	2016	2015
Temporary differences	212,023	233,379
Tax losses	3,052,614	2,324,774
Net unbooked deferred tax assets	**3,264,637**	**2,558,153**

The Group has revenue losses of $10,175,380 (2015: $7,749,247). These losses comprise $4,395,073 of Group losses and $5,780,307 of transferred in losses "pre-stapling". The transferred in losses can be carried forward and may be utilised against taxable income in future years provided the Same Business Test is satisfied. The Group is of the view that it satisfies the necessary criteria for these losses to be made available against future taxable profit, however the ATO will not rule on the availability to carry forward the losses at a point in time, they will only rule on the ability to utilise the losses at the date of utilisation.

Comparative year tax losses and temporary differences have been re-stated to agree to tax returns as lodged.

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 4: INCOME TAX EXPENSE (cont'd)

(d) Tax effects relating to each component of other comprehensive income

	2016			2015		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
	$	$	$	$	$	$
Financial assets revaluation	-	-	-	3,400	-	3,400
	-	**-**	**-**	**3,400**	**-**	**3,400**

NOTE 5: CASH AND CASH EQUIVALENTS

	2016	2015
	$	$
Current		
Cash at bank and in hand	2,472,232	14,871,060
Total cash and cash equivalents	**2,472,232**	**14,871,060**

Cash at bank earns interest at floating rates based on daily bank deposit rates.

At 30 June 2016 the Group had banking facilities with the Commonwealth Bank of Australia Limited (CBA) secured by registered mortgages and charges over all the Group farms. The facility is a three year loan facility of $10,000,000 which has a maturity date of 15 April 2019. The facility is subject to compliance with pre-determined covenants. The facility is fully drawn to $10,000,000 at the date of this report.

The fair value of cash, cash equivalents and overdrafts is $2,472,232 (2015: $14,871,060).

(a) Reconciliation of Cash

For the purpose of the Cash Flow Statement, cash includes cash and cash equivalents comprising the following at 30 June 2016:

	2016	2015
	$	$
Cash at bank and in hand	2,472,232	14,871,060
	2,472,232	**14,871,060**

A floating charge over cash and cash equivalents has been provided to the CBA as part of security arrangements for current facilities. For further details refer to Note 15: Borrowings.

(b) Reconciliation of Profit after Income Tax to Cash Flows from Operations

	2016	2015
	$	$
Net loss after income tax	(3,703,625)	(2,051,668)
Adjustment of non cash items		
Amortisation and depreciation	753,449	112,672
Deemed cost of livestock disposed	1,350,450	623,310
Fair value adjustment of biological assets	(741,550)	28,040
Impairment of property, plant and equipment	1,809,399	638,165
Gain on disposal of property, plant and equipment	(22,623)	(14,125)
Interest accrual on convertible notes - related party	172,034	108,341
Gain on disposal of financial assets	(11,512)	(110,459)
Changes in assets and liabilities, net of the effects of movements in subsidiaries		
(Increase) / decrease in trade and other receivables	(1,053,563)	(507,301)
(Increase) / decrease in other assets	(226,005)	(1,794)
(Increase) / decrease in inventories	1,864	(45,903)
Increase / (decrease) in trade and other payables*	1,076,768	439,791
Increase / (decrease) in provisions	52,572	12,102
Net operating cash flows	**521,342**	**768,829**

NOTE 6: TRADE AND OTHER RECEIVABLES

	2016	2015
	$	$
Current		
Trade debtors	3,114,806	500,021
Other receivables	492,820	270,057
Total current receivables	**3,607,626**	**770,078**

(a) Provision For Impairment of Receivables

Current trade and other receivables are non-interest bearing and generally on 14-60 day terms. Any non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. There are no balances within trade and other receivables that contain assets that are impaired.

CREDIT RISK — TRADE AND OTHER RECEIVABLES

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 6. The class of assets described as “trade and other receivables” is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group has all credit risk exposures in Australia.

The following table details the Group’s trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as ‘past due’ when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of good credit quality.

	Gross amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			1-30	31-60	61-90	>90	
2016	$	$	$	$	$	$	$
Trade and term receivables	3,114,806	-	234,935	33,001	37,980	142,171	2,666,719
Other receivables	492,820	-	-	-	-	-	492,820
Total	**3,607,626**	**-**	**234,935**	**33,001**	**37,980**	**142,171**	**3,159,539**

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

	Gross amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			31-60	31-60	61-90	>90	
2015	$	$	$	$	$	$	$
Trade and term receivables	500,021	-	-	-	-	-	500,021
Other receivables	270,057	-	-	-	-	-	270,057
Total	**770,078**	**-**	**-**	**-**	**-**	**-**	**770,078**

NOTE 6: TRADE AND OTHER RECEIVABLES (cont'd)

(b) Financial assets classified as loans and receivables

	Notes	2016 $	2015 $
Trade and other receivables			
Total current		3,607,626	770,078
Financial assets	28	**3,607,626**	**770,078**

(c) Collateral pledged

A floating charge over some trade receivables has been provided for certain debt. For futher details refer to Note 15: Borrowings.

NOTE 7: INVENTORIES

	2016 $	2015 $
Current		
Packaging	353,473	-
Raw materials, finished goods and chemicals	110,811	-
Feedstock, hay and silage	95,040	45,903
Total inventories	**559,324**	**45,903**

NOTE 8: NON-CURRENT ASSETS HELD FOR SALE

	Notes	2016 $	2015 $
Current			
Non-current assets held for sale		-	15,800
Total non-current assets held for sale		**-**	**15,800**
Listed investment, at fair value			
- shares in listed corporations	(a)	-	15,800
Total available-for-sale financial assets	28	**-**	**15,800**
Movements during the year:			
Opening balance		15,800	725,147
Proceeds from sales		(22,256)	(627,095)
Financial asset revaluation reserve increment		-	3,400
De-recognition of revaluation increment on disposal of shares		(5,056)	(196,111)
Gain on disposal		11,512	110,459
Total non-current assets held for sale		**-**	**15,800**

(a) On 16 November 2015 the Group disposed of the remaining 40,000 shares in OneVue Holdings Limited.

NOTE 9: OTHER ASSETS

	2016 $	2015 $
Current		
Prepayments	138,173	13,647
GST receivables	265,481	-
Bonds and deposits	53,692	93,591
Total other assets	**457,346**	**107,238**

NOTE 10: BIOLOGICAL ASSETS

	Notes	2016 $	2015 $
Non-current			
Dairy livestock	(a)	4,516,400	2,369,500
Total biological assets		**4,516,400**	**2,369,500**
Movements during the year:			
Opening carrying amount		2,369,500	-
Acquisition of livestock acquired through stapling		-	961,213
Purchases of livestock		2,755,800	2,059,637
Deemed cost of livestock disposed		(1,350,450)	(623,310)
Fair value adjustment of biological assets		741,550	(28,040)
Closing carrying amount		**4,516,400**	**2,369,500**

	2016 No.	2015 No.
Movements during the year (herd numbers):		
Opening balance	1,625	-
Purchases	1,765	1,854
Natural increase and attrition	1,672	496
Sales	(1,760)	(725)
Closing balance	**3,302**	**1,625**

(a) Biological assets represent the dairy livestock owned by the Group. At 30 June 2016 the livestock has been valued at fair value, by an independent stock agent, based on the prices in the open cattle market in the locality of the dairy operations.

NOTE 11: INTANGIBLE ASSETS

	Notes	2016 $	2015 $
Goodwill			
- at cost	(a)	6,616,393	-
		6,616,393	**-**
Contractual agreements			
- at fair value	22(b)	225,000	-
Less accumulated amortisation		(31,313)	-
		193,687	**-**
Total intangible assets		**6,810,080**	**-**

(a) On 15 April 2016 the Group acquired Camperdown Dairy Company Pty Ltd (CDC). In accordance with *AASB 3 Business Combinations*, the purchase price was allocated to the fair value of the net identifiable assets of CDC and the remaining amount is allocated to goodwill. Refer note 22(b) for further details.

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Notes	2016 $	2015 $
Land, buildings and improvements			
- at cost		22,428,442	14,016,159
Less accumulated depreciation		(472,186)	(65,645)
Less accumulated impairment	(b)	(2,447,564)	(638,165)
	(a)	**19,508,692**	**13,312,349**
Plant and equipment - owned			
- at cost		6,541,085	872,580
Less accumulated depreciation		(314,938)	(36,889)
		6,226,147	**835,691**
Plant and equipment - leased			
- at cost		578,207	369,061
Less accumulated depreciation		(41,331)	(10,138)
		536,876	**358,923**
Total property, plant and equipment		**26,271,715**	**14,506,963**

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

Farm name	Acquisition date	Carrying value
Brucknell No 1	22 October 2014	4,140,000
Brucknell No 2	22 October 2014	4,390,000
Ignatios	14 January 2015	2,223,692
Brucknell No 3	6 March 2015	2,290,899
Missens Road	9 July 2015	1,559,101
Drumborg	16 September 2015	4,905,000
Total		**19,508,692**

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

NOTE 12: PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b) With effective date at 30 June 2016 registered valuer Mr Roger Cussen provided an independent valuation of all farms in light of recent sales evidence, assessing the fair value of the combined properties at $19,508,692. Adjusting the carrying cost on the basis of the independent valuation resulted in an impairment of $1,809,399 for the year ended 30 June 2016.

In the comparative 2015 year, Mr Cussen also provided an independent valuation on 25 February 2015 on the Brucknell No 1 and Brucknell No 2 farms. The carrying cost on the basis of the independent valuation resulted in an impairment of $638,165 for the year ended 30 June 2015.

Movements in the Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Land, Buildings & Improvements	Plant & Equipment - Owned	Plant & Equipment - Leased	Total
2016	**$**	**$**	**$**	**$**
Balance beginning of the financial year	13,312,349	835,691	358,923	**14,506,963**
Additions	8,412,283	5,748,720	209,146	**14,370,149**
Disposals	-	(73,862)	-	**(73,862)**
Depreciation expense	(406,541)	(284,402)	(31,193)	**(722,136)**
Impairment expense	(1,809,399)	-	-	**(1,809,399)**
Balance at end of financial year	**19,508,692**	**6,226,147**	**536,876**	**26,271,715**

	Land, Buildings & Improvements	Plant & Equipment - Owned	Plant & Equipment - Leased	Total
2015	**$**	**$**	**$**	**$**
Balance beginning of the financial year	-	-	-	**-**
Additions	14,016,159	895,580	369,061	**15,280,800**
Disposals	-	(23,000)	-	**(23,000)**
Depreciation expense	(65,645)	(36,889)	(10,138)	**(112,672)**
Impairment expense	(638,165)	-	-	**(638,165)**
Balance at end of financial year	**13,312,349**	**835,691**	**358,923**	**14,506,963**

NOTE 13: TRADE AND OTHER PAYABLES

	Notes	2016 $	2015 $
Current			
Trade creditors		2,273,087	416,060
Sundry creditors and accrued expenses		1,623,264	414,674
Total trade and other payables		**3,896,351**	**830,734**
Financial liabilities at amortised cost classified as trade and other payables			
Total trade and other payables		3,896,351	830,734
Financial liabilities as trade and other payables	28	**3,896,351**	**830,734**

NOTE 14: PROVISIONS

	2016 $	2015 $
Current		
Employee benefits	165,780	12,102
Total current provisions	**165,780**	**12,102**
Non-current		
Employee benefits	72,625	-
Total non-current provisions	**72,625**	**-**
Total provisions	**238,405**	**12,102**
Movement in provisions:		
Opening balance	12,102	-
Provisions assumed on acquisition of CDC	173,731	-
Additional provision	94,036	37,403
Amounts used	(41,464)	(25,301)
Closing balance	**238,405**	**12,102**

Provision for employee benefits

A provision has been recognised for employee entitlements relating to annual leave and long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

NOTE 15: BORROWINGS

	Notes	2016 $	2015 $
Current			
Loans - unsecured		96,263	8,642
Bank hire purchase loans - secured		115,656	80,444
Convertible notes	(a)	2,321,494	-
Loan - Fonterra	(b)	200,000	260,000
Total current borrowings		**2,733,413**	**349,086**
Non-current			
Bank hire purchase loans - secured		380,373	258,482
CBA facility	(c)	10,000,000	4,000,000
Convertible notes	(a)	-	2,149,460
Total non-current borrowings		**10,380,373**	**6,407,942**
Total borrowings		**13,113,786**	**6,757,028**

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 15: BORROWINGS (cont'd)

(a) On 22 October 2014, the Group issued 235 unlisted convertible notes each with a face value of $10,000. The key terms of the notes included a 2 year maturity date and the noteholder is able to convert the notes to fully paid Stapled Securities at a conversion price of 20 cents per stapled security. The notes bear interest at 2% above the rate paid by the Group on the CBA facility. Interest accrues daily and if the noteholder elects to convert to stapled securities, interest will be paid in cash or stapled securities issued at the conversion price at the Group's election. Subsequent to the initial issue of the notes there has been a change to the conversion price of the notes from 20 cents to 18.38 cents per stapled security as a result of the dilutive effect of the bonus issue of loyalty options by the Group in November 2014. This change was resolved by shareholders at the EGM on 29 July 2016. This change has no impact on the carrying value of the convertible notes as they are measured at amortised cost using the effective interest method as per below. The notes have been classified as a current liability at 30 June 2016 as the maturity date is 22 October 2016.

The Group designated the convertible notes as a compound financial instrument comprising a debt component and an equity component. The debt component of the compound financial instrument was initially recognised at fair value of $2,041,119 and the equity component of $308,881 was initially recognised as the difference between the face value of the compound financial instrument and the fair value of the debt component.

Subsequent to initial recognition, the debt component of the compound financial instrument is measured at amortised cost using the effective interest method with a balance at 30 June 2016 of $2,321,494 (2105: $2,149,460). The equity component of the compound financial instrument is not remeasured.

(b) At 30 June 2016 the Group has a $200,000 interest free advance from Fonterra Milk Australia Pty Ltd which has a maturity date of 30 November 2016.

(c) At 30 June 2016 the Group had banking facilities with the Commonwealth Bank of Australia Limited (CBA) secured by registered mortgages and charges over all the Group farms. The facility is a three year loan facility of $10,000,000 which has a maturity date of 15 April 2019. The facility is subject to compliance with pre-determined covenants. The directors have classified the facility as a non-current liability in its entirety based on the facility not maturing until 15 April 2019, the Group not intending to repay the facility prior to maturity date and the meeting of all covenants during the period and subsequent to balance date.The facility is fully drawn to $10,000,000 at the date of this report.

Collateral Provided:

The CBA facility is secured by a first registered mortgage over all the Group farms and a general security interest over all assets of Australian Dairy Farms Trust (ADFT).

Lease liabilities are secured by the underlying leased assets.

The carrying amounts of assets pledged as security are:

	2016 $	2015 $
First mortgage over land and buildings at market value	19,508,692	10,847,511
General security interest over all assets of ADFT	13,837,243	14,192,561
First registered charge over leased equipment	536,876	358,923
Total assets pledged as security	**33,882,811**	**25,398,995**

NOTE 16: ISSUED CAPITAL

	2016 $	2015 $
Contributed equity of the Group	41,635,212	35,567,027

a) Movement in stapled securities:

Date	Details	Number of Stapled Securities	Issue Price $	Shareholders $	Unitholders $	Stapled Entity $
01 Jul 2015	Opening balance	156,126,217		14,830,305	20,736,722	35,567,027
31 Mar 2016	Loyalty options exercised	19,279,259	0.25	1,204,953	3,614,862	4,819,815
08 Apr 2016	Loyalty options exercised	5,599,854	0.25	349,991	1,049,972	1,399,963
	Transaction costs	-	-	(37,904)	(113,689)	(151,593)
30 June 2016		**181,005,330**		**16,347,345**	**25,287,867**	**41,635,212**
01 Jul 2015	Opening balance	60,986,733		7,866,059		7,866,059
22 Oct 2014	1:5 share consolidation	(48,789,323)	-	-	-	-
22 Oct 2014	Stapling arrangement	-	-	-	100	100
22 Oct 2014	Convertible notes	-	-	-	308,881	308,881
22 Oct 2014	Capital Raising	46,485,500	0.20	2,324,275	6,972,825	9,297,100
22 Oct 2014	Payment of director fees	775,000	0.20	155,000	-	155,000
30 Dec 2014	Placement	12,000,000	0.25	750,000	2,250,000	3,000,000
15 Apr 2015	Loyalty options exercised	19,693	0.25	1,230	3,693	4,923
10 Jun 2015	Loyalty options exercised	2,500	0.25	156	469	625
10 Jun 2015	Share Purchase Plan	6,200,000	0.20	310,000	930,000	1,240,000
22 Jun 2015	Capital Raising	78,446,114	0.20	3,922,306	11,766,917	15,689,223
	Transaction costs	-	-	(498,721)	(1,496,163)	(1,994,884)
30 June 2015		**156,126,217**		**14,830,305**	**20,736,722**	**35,567,027**

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.

(b) Stapled Securities

The fully paid ordinary shares in the Company are stapled with the fully paid units in the Trust to produce Stapled Securities. These entitle the holder to participate in dividends and distributions as declared from time to time and the proceeds on winding up. Subject to the Corporations Act 2001, every holder of stapled securities present at a meeting in person, or by proxy, is entitled to one vote for each stapled security held.

(c) Options

On 8 December 2014 the Group allotted 29,350,479 unlisted loyalty options over stapled securities pursuant to its bonus issue as set out in detail in the Offer Document dated 17 November 2014. On 27 February 2015, 4,449,173 options lapsed and 24,901,306 options vested to the holders of loyalty options on that date.

During the 2016 financial year loyalty option holders exercised 19,279,259 options (2015: 22,193) and the balance of 5,599,854 was fully underwritten by Bell Potter Securities and exercised in accordance with the underwriting agreement.

(d) Convertible Notes

On 22 October 2014, the Group issued 235 unlisted convertible notes each with a face value of $10,000. The key terms of the notes included a 2 year maturity date and the noteholder is able to convert the notes to fully paid Stapled Securities at a conversion price of 20 cents per stapled security. The notes bear interest at 2% above the rate paid by the Group on the CBA facility. Interest accrues daily and if the noteholder elects to convert to stapled securities, interest will be paid in cash or stapled securities issued at the conversion price at the Group's election.

NOTE 16: ISSUED CAPITAL (cont'd)

(d) Convertible notes (cont'd)

Subsequent to the initial issue of the notes there has been a change to the conversion price of the notes from 20 cents to 18.38 cents per stapled security as a result of the dilutive effect of the bonus issue of loyalty options by the Group in November 2014. This change was resolved by shareholders at the EGM on 29 July 2016. This change has no impact on the carrying value of the convertible notes as they are measured at amortised cost using the effective interest method as per below. The notes have been classified as a current liability at the 30 June 2016 as the maturity date is 22 October 2016.

The Group designated the convertible notes as a compound financial instrument comprising a debt component and an equity component. The debt component of the compound financial instrument was initially recognised at fair value of $2,041,119 and the equity component of $308,881 was initially recognised as the difference between the face value of the compound financial instrument and the fair value of the debt component.

Subsequent to initial recognition, the debt component of the compound financial instrument is measured at amortised cost using the effective interest method with a balance at 30 June 2016 of $2,321,494 (2105: $2,149,460). The equity component of the compound financial instrument is not remeasured.

(e) Capital management

Management controls the capital of the Group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital, convertible notes and financial liabilities, supported by financial assets.

The Group is not subject to any externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

This strategy is to ensure that the Group's gearing ratio remains below 35%. The gearing ratios for the years ended 30 June 2016 and 30 June 2015 are as follows:

		2016	2015
	Notes	**$**	**$**
Total borrowings	15	13,113,786	6,757,028
Less cash and cash equivalents	5	(2,472,232)	(14,871,060)
Net debt		10,641,554	(8,114,032)
Total equity		27,446,181	25,086,678
Total capital		38,087,735	16,972,646
Gearing ratio		27.9%	-47.8%

NOTE 17: RESERVES

Nature and purpose of reserves

The financial assets reserve records revaluation of financial assets.

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 18: CAPITAL AND LEASING COMMITMENTS

(a) Finance lease commitments:

	2016 $	2015 $
Payable - minimum lease payments		
Not later than 12 months	132,372	90,337
Between 12 months and 5 years	429,127	291,667
Greater than 5 years	-	-
Minimum lease payments	**561,499**	**382,004**
Less future finance charges	(65,470)	(43,078)
Present value of minimum lease payments	**496,029**	**338,926**

(b) Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2016 $	2015 $
Payable - minimum lease payments		
Not later than 12 months	187,800	-
Between 12 months and 5 years	366,712	-
Greater than 5 years	-	-
Present value of minimum lease payments	**554,512**	**-**

(c) Capital Expenditure Commitments

There are no capital expenditure commitments contracted for the year ended 30 June 2016.

NOTE 19: CONTINGENT LIABILITIES

The Group does not have any contingent liabilities for the year ended 30 June 2016.

NOTE 20: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2016.

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

	2016 $	2015 $
Short term	100,000	67,763
Post employment	9,500	6,437
Other long-term	-	-
Termination benefits	-	-
Share-based payments	-	155,000
	109,500	**229,200**

NOTE 20: KEY MANAGEMENT PERSONNEL COMPENSATION (cont'd)

Short-term employee benefits

These amounts include fees and benefits paid to the Chairmain and executive and non-executive directors.

Post-employment benefits

These amounts are the current-year's estimated cost of providing for the Group's superannuation contributions made during the year.

Other long-term benefits

These amounts represent long service leave benefits accruing during the year and deferred bonus payments.

Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date.

Further information in relation to KMP remuneration can be found in the directors' report.

NOTE 21: AUDITORS' REMUNERATION

Remuneration of the auditor for:

	2016 $	2015 $
Audit and review of the financial statements	62,976	55,407
Non audit services	-	6,000

NOTE 22: CONTROLLED ENTITIES

Particulars in relation to controlled entities	Note	Class of Equity	2016 Percentage Owned	2015 Percentage Owned
Parent Entity:			%	%
Australian Dairy Farms Limited	(a)			
Wholly Owned Controlled Entities				
SW Dairy Farms Pty Ltd		ordinary	100	100
Dairy Fund Management Limited		ordinary	100	100
DFI Operations Pty Ltd (dormant)		ordinary	100	100
Camperdown Dairy Company Pty Ltd	(b)	ordinary	100	-
Other Controlled Entities			%	%
Australian Dairy Farms Trust		units	-	-

The financial year of all controlled entities is the same as that of the holding company and all controlled entities are incorporated in Australia. There are no significant restrictions over the Group's ability to access or use assets, and settle liabilities, of the Group.

(a) Ultimate Controlling Entity

The ultimate controlling entity of the Group is Australian Dairy Farms Limited.

NOTE 22: CONTROLLED ENTITIES (cont'd)

(b) Acquisition of subsidiary

On 15 April 2016 Australian Dairy Farms Limited acquired 100% of the issued capital and control of Camperdown Dairy Company Pty Ltd (CDC) for a net cash purchase consideration of $10,927,665. This acquisition forms part of the Group's overall strategy to become the ASX's first vertically integrated dairy entity as a milk farmer, processor, manufacturer and exporter of dairy products.

The identifiable assets acquired and liabilities assumed on acquisition of CDC were as follows:

	$
Purchase consideration:	
- Cash	10,927,665
Less:	
Cash and cash equivalents	6,216
Trade and other receivables	1,801,985
Inventories	515,285
Other assets	124,102
Property, plant and equipment[1]	3,834,921
Intangible assets[2]	225,000
Trade and other payables	(2,022,506)
Provisions	(173,731)
Identifiable assets acquired and liabilities assumed	**4,311,272**
Goodwill[3]	**6,616,393**

1. Property, plant and equipment was independently valued by Henley Valuers on a fair value (going concern) basis.
2. In accordance with *AASB 3: Business Combinations* the acquirer is required to recognise separately from Goodwill the identifiable intangible assets of CDC on acquisition. Under the accounting standard, an intangible asset is considered identifiable if it meets the Contractual Legal Criterion. Customer supply agreements meet the Contractual Legal Creiterion and in accordance with this requirement the Group has attributed $225,000 to material supply agreements that are required to be amortised over the life of the agreements.
3. Goodwill is attributable to the significant time and costs to setup and establish the factory and business at Campberdown, including the establishment of the current workforce, management team and brand.

Total income of CDC included in the consolidated revenue of the Group since the acquisition date on 15 April 2016 amounted to $3,191,166 and net profit of $36,598 was included in consolidated profit of the Group since the acquisition date.

NOTE 23: ASSOCIATES AND JOINT ARRANGEMENTS

Information on Joint Ventures

Set out below are the details of the joint venture the Group acquired an ownership interest in as part of the acquisition of Camperdown Dairy Company Pty Ltd. The share capital of Camperdown Cheese & Butter Factory Pty Ltd consists solely of ordinary shares and the proportion of ordinary shares held by the Group equals the voting rights held by the Group.

The Group has designated the joint venture in accordance with *AASB 11: Joint Arrangement* and accounted for the joint venture using the "equity" method of accounting. The joint venture is operated on a break-even basis with issued capital of $200 and as such the Group will carry the investment as nil in accordance with *AASB 128 Investments in Associates and Joint Ventures*.

NOTE 23: ASSOCIATES AND JOINT ARRANGEMENTS (cont'd)

Name	Principal Activities	Country of Incorp.	Type	Ownership Interest		Carrying amount of investment	
				2016	2015	2016	2015
				%	%	$	$
Unlisted:							
Camperdown Cheese & Butter Factory Pty Ltd (CCB)	Manufacture of butter & cream	Aust	Shares	50.00	-	-	-

CCB is a private entity that manufactures butter and cream for the shareholders of the joint venture. The Group's interest in the company represents a strategic investment with the joint venture operated on a break-even basis and is not material to the Group.

NOTE 24: RELATED PARTY TRANSACTIONS

(a) The Group's main related parties are as follows:

(i) Entities exercising control over the Group:

The ultimate parent entity that exercises control over the Group is Australian Dairy Farms Limited, which is incorporated in Australia.

(ii) Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 20 and the remuneration report.

(iii) Other related parties:

Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel have joint control.

(b) Transactions with related parties:

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

(i) Michael Hackett and associated entities, including Trustees Australia Limited (TAU)

Michael Hackett is a director of TAU. During the year ended 30 June 2016 TAU had the following transactions with the Group:

- Recovery and accrual of employment, accounting and other administrative costs of $338,900 (2015: $256,000). There was $338,900 (2015: $250,216) due to TAU at 30 June 2016.
- Interest on 235 unlisted convertible notes charged during the year was $172,034 (2015: $108,341).

(ii) Watershed Funds Management Pty Ltd

Adrian Rowley is a director of Watershed Funds Management Pty Ltd. During the year ended 30 June 2016 Watershed Funds Management Pty Ltd was paid $32,850 (2015: $22,260) for the provision of Adrian Rowley as director.

(iii) Jackson and Associates Ltd

Keith Jackson is a director of Jackson and Associates Ltd. During the year ended 30 June 2016 Jackson and Associates Ltd was paid $32,850 (2015: $22,260) for the provision of Keith Jackson as director.

NOTE 25: SEGMENT REPORTING

SEGMENT INFORMATION

Identification of reportable segments

Until the acquisition of Camperdown Dairy Company Pty Ltd (CDC) on 15 April 2016 management determined the Group operated in one reportable segment. Following the acquisition of CDC another segment has been established as set out below and the 2016 financial results have been allocated and reported on this basis.

The Group has identified its operating segments based on the internal reports that are reviewed by the board in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the type or class of customer for the products or service; and
- external regulatory requirements.

Types of products and services by segment

Dairy Farms

The dairy farms segment includes the ownership and operation of dairy farms and dairy livestock for the production and sale of fresh raw milk to external processing factories for conversion to milk and milk products

Dairy Processing

The dairy processing segment includes the processing and sale of dairy products to domestic and export markets from 15 April 2016.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless otherwise stated, all amounts reported to the board with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Segment assets

If an asset is used across multiple segments, if possible it is allocated to the segment that receives the majority of economic value from it, otherwise it is split between segments. Segment assets are generally identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are, if possible, allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment, otherwise they are split between segments. Bank facility borrowings are considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables.

Comparative data

Where comparative data has not been presented the group was considered one operating segment being Dairy Farms.

All other segments

Other income from the gain on disposal of non-current assets held for sale has been disclosed in this segment.

Amounts not included in segment result but reviewed by the Board

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:

- corporate charges
- finance costs - bank facility

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 25: SEGMENT REPORTING (cont'd)

(i) Segment Performance	Dairy Farm	Dairy Processing	All Other Segments	Total
30 June 2016				
Revenue	**$**	**$**		**$**
External sales	6,578,589	3,191,166	-	9,769,755
Other income	764,173	-	11,512	775,685
Interest revenue	74,710	-	-	74,710
Total segment revenue	**7,417,472**	**3,191,166**	**11,512**	**10,620,150**
Total group revenue				**10,620,150**
Segment net profit / (loss) before tax	**(2,712,010)**	**36,598**	**11,512**	**(2,663,900)**
Reconciliation of segment result to group net profit/(loss) before tax				
(i) Amounts not included in segment result but reviewed by the Board				
Corporate charges				(884,205)
Finance costs - bank facility				(155,520)
Net profit before tax				**(3,703,625)**

	Dairy Farms	Dairy Processing	Total
(ii) Segment Assets			
As at 30 June 2016	**$**	**$**	**$**
Segment assets	23,376,929	15,317,794	44,694,723
Segment assets include:			
Additions to non-current assets	13,279,538	10,925,047	24,204,585
Total group assets			**44,694,723**
(iii) Segment Liabilities			
As at 30 June 2016			
Segment liabilities	4,246,694	3,001,848	7,248,542
Reconciliation of segment liabilities to group liabilities			
Unallocated liabilities			
CBA facility (refer note 15)			10,000,000
Total group liabilities			**17,248,542**

(iv) Revenue by geographic region

Revenue attributable to external customers is disclosed below, based on the location of the external customer

	2016	2015
	$	**$**
Australia	10,620,150	2,849,932
Other countries	-	-
Total revenue	**10,620,150**	**2,849,932**

NOTE 25: SEGMENT REPORTING (cont'd)

(v) Assets by geographic region

The location of segment assets is disclosed below by geographical location of the assets

	2016	2015
	$	$
Australia	44,694,723	32,686,542
Other countries	-	-
Total assets	**44,694,723**	**32,686,542**

NOTE 26: SHARE BASED PAYMENTS

(i) Long Term Incentive Plan (LTIP)

The LTIP was adopted by the company in a general meeting on 1 September 2014. The purpose of the LTIP is to allow the Board to make offers to eligible employees to acquire either directly or via performance rights or options, stapled securities (LTIP Securities) in the Group.

Eligible Participants

The plan is open to employees of the Group or its subsidiaries, joint venture companies and associates, as the board determines from time to time (including a director of the Group) or any other person who is declared by the board to be eligible to receive a grant of a performance right or option (as the case may be) under the LTIP.

Offers

The Board may, from time to time and in its absolute discretion, invite eligible employees to participate in a grant of stapled securities, which may comprise of any one or more of:

(a) stapled securities;

(a) performance rights over stapled securities; and/or

(c) options to acquire stapled securities.

Expiry Date

An option will lapse upon the earliest to occur of:

(a) 7 years or any other date nominated as the expiry date in the invitation letter;

(b) the option lapsing in accordance with the LTIP; and

(c) failure to meet a performance condition or any other conditions applicable to the option within the prescribed period.

Lapse

Where a participant ceases to be an employee of the Group, that participant's LTIP Securities will continue to be held by the participant (or by his or her estate as a representative) and continue to be subject to the rules of the LTIP except that any continuous service condition will be deemed to have been waived.

However, prior to or within 60 days after a participant ceases to be an employee of the Group the board may determine (in its absolute discretion) that some or all of a participant's LTIP Securities will:

(a) vest or become exercisable;

(b) are only exercisable for a prescribed period and will otherwise lapse;

(c) continue to be subject to some or all of the Performance Conditions; or

(d) lapse on the date of cessation of employment.

Securities issued on exercise of LTI Securities

Any securities issued under the LTIP will rank equally in all respects with other securities for the time being on issue by the Group except as regards any rights attaching to such securities by reference to a record date prior to the date of their issue.

Transferability and quotation

If the Group is listed on the ASX, the company will apply for quotation of securities issued under the LTIP within the period required by ASX.

NOTE 26: SHARE BASED PAYMENTS (cont'd)

(ii) Issue of Performance Rights under the LTIP

On 16 June 2015 shareholders approved the issue of up to 7,200,000 Performance Rights collectively to current and future directors as a form of incentive and to better align their interests to securityholders. The rights were to vest to stapled securities upon the Group achieving specified annualised production targets of 25,000,000 litres, 50,000,000 litres and 75,000,000 litres of milk.

The Performance Rights were to be issued to current directors as follows:

Name	Number
Michael Hackett	2,400,000
Adrian Rowley	2,400,000
Keith Jackson	1,200,000

The remaining 1,200,000 Performance Rights were not to be issued any later than 3 years after securityholder approval.

No Performance Rights have ever been issued to any of the directors.

On 29 July 2016 securityholders approved the replacement of the existing Performance Rights with an equivalent number of Performance Options linked to Total Securityholder Returns.

(iii) Shares granted to directors for unpaid directors' fees

During the 2015 year directors were issued 775,000 stapled securities in lieu of unpaid directors fees for the five years from 1 July 2009 to 30 June 2014. The fair value of those equity instruments, determined by reference to market price, was $155,000. The cost of the share issue was accrued to the statement of profit and loss in the 2014 financial year.

NOTE 27: EVENTS AFTER THE BALANCE DATE

On 29 July 2016 the Group held an Extraordinary General Meeting (EGM) of security holders to vote on seven separate resolutions. The resolutions included the approval of financial assistance for the CDC acquisition (refer note 15(c)), approval of changes to the conversion price of the convertible notes (refer note 15(a)), appointment of Dairy Funds Management Limited as responsible entity of Australian Dairy Farms Trust and approval of changes to terms of securities issued under the ADFG incentive plan to directors and KMP. Results of the EGM were released to ASX following the meeting with six of the seven resolutions passed. Resolution 6 relating to conversion to performance options of performance rights held by Keith Jackson was not approved.

On 19 September 2016 the Group issued 2,000,000 stapled securities in respect of performance rights, which vested on 01 July 2016 in connection with the renewal and extension of employment agreements for Camperdown Dairy Company KMP.

The directors are not aware of any other significant events post 30 June 2016.

NOTE 28: FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments consist mainly of deposits with banks, accounts receivable and payable, bank loans, convertible notes and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Notes	2016 $	2015 $
Financial assets			
Cash and cash equivalents	5	2,472,232	14,871,060
Trade and other receivables	6	3,607,626	770,078
Financial assets	8	-	15,800
Bonds, deposits and GST receivable	9	319,173	93,591
Total financial assets		**6,399,031**	**15,750,529**

NOTE 28: FINANCIAL RISK MANAGEMENT (cont'd)

	Notes	2016 $	2015 $
Financial liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	13	3,896,351	830,734
Borrowings	15	13,113,786	6,757,028
Total financial liabilities		**17,010,137**	**7,587,762**

Financial Risk Management Policies

The main purpose of the financial instruments listed is to raise finance for the Group's operations when the board considers it appropriate. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. Risks arising from the Group's financial instruments include interest rate risk, liquidity risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Treasury Risk Management

The board considers financial risk exposure to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. Risk management policies are reviewed by the board when necessary. These include the use of credit risk policies and future cash flow requirements.

Financial Risk Exposures and Management

(a) Credit risk

The Group trades only with parties that it believes to be creditworthy. Milk from the dairy farms is supplied to Fonterra Milk Australia Pty Ltd and dairy products are supplied predominantly to Aussie Farmers Direct and Woolworths. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets and bonds and deposits, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of those instruments. The Group generally does not require third party collateral.

(b) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- investing surplus cash with appropriately regulated financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 28: FINANCIAL RISK MANAGEMENT (cont'd)

The table below presents maturity of the Group's financial instruments. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates taking into consideration management expectations that Group banking facilities will be extended.

Financial liability and financial asset maturity analysis

	Within 1 year		1 to 5 years		Over 5 years		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	$	$	$	$	$	$	$	$
Financial liabilities due for payment								
Borrowings*	(3,042,294)	(349,086)	(10,380,373)	(6,716,823)	-	-	(13,422,667)	(7,065,909)
Trade & other payables	(3,896,351)	(830,734)	-	-	-	-	(3,896,351)	(830,734)
Total contractual outflows	**(6,938,645)**	**(1,179,820)**	**(10,380,373)**	**(6,716,823)**	**-**	**-**	**(17,319,018)**	**(7,896,643)**
Total expected outflows	**(6,938,645)**	**(1,179,820)**	**(10,380,373)**	**(6,716,823)**	**-**	**-**	**(17,319,018)**	**(7,896,643)**
Financial assets - cash flows realisable								
Cash	2,472,232	14,871,060	-	-	-	-	2,472,232	14,871,060
Trade and other receivables	3,607,626	770,078	-	-	-	-	3,607,626	770,078
Financial assets	-	15,800	-	-	-	-	-	15,800
Bond, deposits and GST receivable	265,481	93,591	53,692	-	-	-	319,173	93,591
Total anticipated inflows	**6,345,339**	**15,750,529**	**53,692**	**-**	**-**	**-**	**6,399,031**	**15,750,529**
Net (outflows) / inflows on financial instruments	**(593,306)**	**14,570,709**	**(10,326,681)**	**(6,716,823)**	**,-**	**-**	**(10,919,987)**	**7,853,886**

* Included above in the within 1 year borrowings is $308,881 that has been classified as equity on the issue of the convertible notes. Refer note 15(a).

(c) Market risk

(i) Interest rate risk

The Group at the date of this report has debt exposure through $592,292 in fixed rate facilities and $12,830,375 in variable rate facilities and convertible notes.

(ii) Other price risk

- *Commodity price risk*

The Group is exposed to financial risks arising from changes in milk prices. Following recent reductions in milk prices, the Group does not anticipate that milk prices will decline significantly in the near future, as indicated by the recent rises in the global dairy trade index published by Fonterra New Zealand. The Group's strategy to manage this financial risk is to actively manage its working capital through effective budgeting processes.

NOTE 28: FINANCIAL RISK MANAGEMENT (cont'd)

Sensitivity Analysis

The Group has performed sensitivity analysis relating to its exposure to interest rate at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

(i) Interest rate sensitivity analysis

At 30 June 2016, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2016	2015
Change in profit	**$**	**$**
- Increase in interest rate by 1%	(101,581)	84,127
- Decrease in interest rate by 1%	101,581	(84,127)
Change in equity		
- Increase in interest rate by 1%	(101,581)	84,127
- Decrease in interest rate by 1%	101,581	(84,127)

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

		Carrying Amount		Fair Value	
	Footnote	**2016**	**2015**	**2016**	**2015**
		$	**$**	**$**	**$**
Financial assets					
Cash and cash equivalents	(i)	2,472,232	14,871,060	2,472,232	14,871,060
Trade and other receivables	(i)	3,607,626	770,078	3,607,626	770,078
Financial assets	(ii)	-	15,800	-	15,800
Bonds, deposits and GST receivable	(i)	319,173	93,591	319,173	93,591
Total financial assets		**6,399,031**	**15,750,529**	**6,399,031**	**15,750,529**
Financial liabilities					
Trade creditors	(i)	3,896,351	830,734	3,896,351	830,734
Borrowings	(iii)	13,113,786	6,757,028	13,113,786	6,757,028
Total financial liabilities		**17,010,137**	**7,587,762**	**17,010,137**	**7,587,762**

The fair values disclosed in the above table have been determined based on the following methodologies:

(i) Cash and cash equivalents, trade and other receivables, bonds, deposits and GST receivable and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.

(ii) For listed financial assets, closing quoted bid prices at the end of the reporting period are used.

(iii) Fair values are determined using a discounted cash flow model incorporating current commercial borrowing rates.

NOTE 29: FAIR VALUE MEASUREMENT

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

- financial assets; and
- biological assets

The Group does not subsequently measure any assets or liabilities at fair value on a non-recurring basis.

(a) Fair Value Hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets that are not traded in an active market are determined using one valuation technique. This valuation technique maximises, to the extent possible, the use of observable market data. All significant inputs required to measure fair value are observable, therefore the asset or is included in Level 2.

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset being measured. The valuation techniques selected by the Group are consistent with the following valuation approach:

- *Market approach:* valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

This valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset including assumptions about risks. When selecting a valuation technique, the group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

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

30 June 2016

	Note	Level 1	Level 2	Level 3	Total
		$	$	$	$
Non-financial assets					
Biological assets	10	-	4,516,400	-	4,516,400
Total non-financial assets recognised at fair value on a recurring basis		**-**	**4,516,400**	**-**	**4,516,400**

NOTE 29: FAIR VALUE MEASUREMENT (cont'd)

30 June 2015

	Note	Level 1	Level 2	Level 3	Total
		$	$	$	$
Financial assets					
Shares in listed companies	8	15,800	-	-	15,800
Total financial assets recognised at fair value on a recurring basis		**15,800**	**-**	**-**	**15,800**
Non-financial assets					
Biological assets	10	-	2,369,500	-	2,369,500
Total non-financial assets recognised at fair value on a recurring basis		**-**	**2,369,500**	**-**	**2,369,500**

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

The following tables provide the fair values of the group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

Description	Fair Value at 30 June 2016 $	Valuation Technique(s)	Input Used
Non-financial assets			
Biological assets	4,516,400	Market approach using recent observable market data for dairy cattle	Breed, weight, condition
	4,516,400		

There were no changes during the period in the valuation techniques used by the group to determine Level 2 fair values.

(c) Disclosed Fair Value Measurements

The following assets and liabilities are not measured at fair value in the statement of financial position, but their fair values equate to their carrying values:

Trade and other receivables;

Inventories;

Other current assets;

Property, plant and equipment;

Trade and other payables;

Provisions; and

Borrowings.

NOTE 30: EARNINGS PER STAPLED SECURITY CALCULATIONS

	2016 cents	2015 cents
Earnings per stapled security:		
Basic loss per stapled security	(2.25)	(3.02)
Diluted loss per stapled security	(2.25)	(3.02)
Reconciliation of earnings to profit or loss:		
Loss attributable to shareholders and unitholders	(3,703,625)	(2,051,668)

	Number of Shares	Number of Shares
Weighted average number of stapled securities outstanding during the year used in calculating basic EPS	164,474,789	67,982,297
Weighted average number of options outstanding	-	-
Weighted average number of stapled securities outstanding during the year used in calculating dilutive EPS	**164,474,789**	**67,982,297**

Convertible notes are considered to be dilutive potential ordinary securities however they are anti-dilutive at 30 June 2016 as the Group is in losses and the ASX market price for AHF stapled securities is on or below the 18.38 cent conversion price of the convertible notes.

NOTE 31: DIVIDENDS

The directors have not recommended or paid a dividend for the year ended 30 June 2016 (2015: $nil) at the date of this report.

Australian Dairy Farms

DIRECTORS' DECLARATION

For the year ended 30 June 2016

In the opinion of the directors of Australian Dairy Farms Group:

(a) the financial statements and notes of the company and of the Group are in accordance with the Corporations *Act 2001*, and:

  (i) give a true and fair view of the company's and Group's financial position as at 30 June 2016 and of their performance for the year ended on that date; and

  (ii) comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the Financial Statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2016.

This declaration is made in accordance with a resolution of the board of directors.

Michael Leslie Hackett
Chairman

Brisbane

30 September 2016

the next solution

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

Report on the Financial Report

We have audited the accompanying financial report of Australian Dairy Farms Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

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Independent member of Nexia International

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Australian Dairy Farms Limited as attached to the directors' report, has not changed as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

a) the financial report of Australian Dairy Farms Limited is in accordance with the *Corporations Act 2001*, including:

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

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

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Australian Dairy Farms Limited for the year ended 30 June 2016 complies with s 300A of the *Corporations Act 2001*.

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Nigel Bamford

N D Bamford
Director

Level 28, 10 Eagle Street,
Brisbane, QLD, 4000

Date: 30 September 2016

SHAREHOLDER INFORMATION

The following information was extracted from Australian Dairy Farms Group's Register of Securityholders on 22 September 2016:

TWENTY LARGEST SECURITYHOLDERS - ORDINARY SECURITIES

		Fully Paid Stapled Securities	
		Securities Held	**% of Issued Capital**
1	Trustees Australia Limited	6,144,330	3.36%
2	HSBC Custody Nominees (Australia) Limited	6,035,141	3.30%
3	Citicorp Nominees Pty Limited	3,438,340	1.88%
4	Miss Ni Liu	2,849,500	1.56%
5	Citicorp Nominees Pty Ltd <DPSL A/c>	2,796,949	1.53%
6	Mr Zhongde Zhao	2,750,000	1.50%
7	Vitamin Warehouse Australia Pty Ltd	2,537,125	1.39%
8	Basapa Pty Ltd	2,325,000	1.27%
9	MAJ Super Fund A/c	1,685,000	0.92%
10	Songs Investments (Aust) Pty Ltd	1,500,000	0.82%
11	Thomas Super Fund A/c	1,500,000	0.82%
12	Mr Xinguang Wang + Ms Jun Yin	1,482,762	0.81%
13	Han Holdings Pty Ltd	1,200,000	0.66%
14	Mrs Wenqing Fan	1,170,500	0.64%
15	Bay Optical Company Pty Ltd	1,140,000	0.62%
16	Skene Family A/c	1,000,000	0.55%
17	Melville Family A/c	1,000,000	0.55%
18	Loiseau Investments Pty Ltd	986,000	0.54%
19	Dynamik Capital Pty Ltd	976,750	0.53%
20	Ms Zhen Chen	900,000	0.49%
	Total of Top Twenty Shareholdings	**43,427,367**	**23.73%**
	Total Shares on issue	**183,005,330**	**100.00%**

DISTRIBUTION OF SECURITYHOLDINGS

Size of Holding	Number of Securityholders	Securities	%
1 - 1000	160	56,180	0.03
1,001 - 5,000	1,127	3,398,801	1.86
5,001 - 10,000	796	6,766,734	3.70
10,001 - 100,000	1,815	63,519,735	34.71
100,001 or greater	311	109,263,880	59.71
	4,209	**183,005,330**	**100.00**

MARKETABLE PARCELS

On 22 September 2016, using the last traded security price of $0.19 per security, there were 676 holdings, which were of less than a marketable parcel ($500).

VOTING RIGHTS

On a show of hands, every member present in person or by proxy or attorney or being a corporation by its authorised representative shall have one vote. On a poll, every member who is present in person or by proxy or attorney, or being a corporation, by its authorised representative, shall have one vote for every stapled security of which he is the holder.

SUBSTANTIAL SECURITYHOLDERS

The are no substantial shareholders listed in the Group's register on 22 September 2016.

UNLISTED OPTIONS OVER ORDINARY SECURITIES

At the date of this report, the unissued ordinary securities of Australian Dairy Farms Limited under option are as follows:

Grant Date	Last Date of Expiry	Exercise Price	Number under Option
1 July 2016	26 May 2019	25 cents - 27 cents	12,180,000
29 July 2016	31 December 2018	23 cents - 29 cents	7,200,000

Option holders do not have any rights to participate in any issues of securities or other interests of the Company or any other entity.

RESTRICTED SECURITIES

There are no restricted securities on issue at the date of this report.

Board of Directors

Michael Hackett
Chairman

Adrian Rowley
Director

Keith Jackson
Director

Peter Skene
Director / Group CEO

Company Secretary

Jerome Jones
Company Secretary

Registered Office

Level 3, 140 Ann Street
Brisbane QLD 4000

Telephone:	(07) 3020 3020
Facsimile:	(07) 3020 3080
Email:	info@adfl.com.au
Web:	www.adfl.com.au

Corporate Office

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Brisbane QLD 4000

GPO Box 6
Brisbane QLD 4001

Telephone:	(07) 3020 3020
Facsimile:	(07) 3020 3080
Email:	info@adfl.com.au
Web:	www.adfl.com.au

Share Register

Link Market Services Limited
Level 15
324 Queens Street
Brisbane QLD 4000

Telephone:	1300 554 474
Facsimile:	(02) 9287 0309
Email:	registrars@linkmarketservices.com.au
Web:	www.linkmarketservices.com.au

Auditor

Nexia Audit Brisbane Pty Ltd
Level 28
10 Eagle Street
Brisbane QLD 4000

Telephone:	(07) 3229 2022
Facsimile:	(07) 3229 3277
Email:	audit@nexiabrisbane.com.au
Web:	www.nexia.com.au

Stock Exchange

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

The ASX Code is “AHF”.