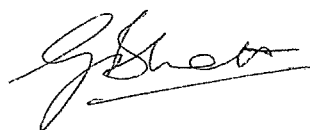


ALLIED FARMERS LIMITED ANNUAL REPORT 2017

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This report is dated 31 August 2017 and is signed on behalf of the Board of Allied Farmers Limited:



Garry Bluett
Chairman



Philip Luscombe
Director

OVERVIEW FROM THE CHAIRMAN

The Directors of Allied Farmers Ltd ("Allied") (ALF:NZX) are pleased to report a 52% increase in audited net profit before tax for the year to 30 June 2017 to \$2.39m (2016 \$1.57m). Allied has had another excellent year with an improved result from the Livestock Division and a further reduction in corporate costs.

The Livestock Division, which includes the operation of 66% owned NZ Farmers Livestock Ltd, reported a 20% increase in net profit before tax of \$2.70m (2016 \$2.26m). Livestock sales performed well with commissions up 25% on the prior year, particularly in the second half due to higher levels of dairy herd sales. However, returns from the meat processing business were lower than the previous year. Although volumes were consistent with the previous year, turnover was 20% lower due to the impact of decreased international selling prices for veal and skins.

During the year, the Livestock Division established a livestock financing subsidiary, initially focussing on financing service bulls then expanding into other livestock financing. Although starting from a low base, this operation is already profitable and supports the growth of the core livestock business.

In recent years NZ Farmers Livestock has been focussed on expanding the livestock team with additional agents being employed throughout the country. The MyLivestock webpage continues to grow with a 53% increase in users for the year, and the launch of the MyLivestock app during the year now enables convenient and immediate client and agent access and action via mobile devices. A trial of livestreaming sales at the Rongotea saleyards was tested, and this is likely to be refined and then expanded to other yards, depending on the demand. In July 2016 NZ Farmers Livestock acquired a further 17% in Redshaws Livestock in the Hawkes Bay. On 1 July 2017 following the year end, the final tranche of Redshaws was acquired taking NZ Farmers Livestock's shareholding to 52%.

The Asset Management Services Division ("AMS") had been wound down as all assets of any significant value have been realised. However AMS reported a small contribution for the year, reflecting some modest recovery on written off assets. The only potentially material outstanding matter relating to AMS is, as previously disclosed, that AMS may receive a substantial amount if the litigation by the Liquidators of Property Ventures Limited, against both its directors and auditors, is successful. The Directors note that while the litigation against the auditors was settled for a confidential amount on 30 August 2017, no payment obligation to Allied has crystallised, and the Liquidators have reiterated their previously disclosed comment highlighting the difficulties of predicting the outcome or the final quantum and the inherently risky nature of litigation.

During the year ALF's corporate costs have been reduced by 46% from \$0.83m to \$0.45m. This is largely as a result of cost savings due to the substantial reduction of shareholder numbers from the Small Shareholder Sale programme completed during the last financial year.

Allied has also reduced its debt costs, replacing \$0.6m of its maturing bonds with a \$0.55m 3-year bond at a substantially reduced interest rate. In addition, the holders of the \$1.0m of bonds maturing in September 2017 have agreed to roll these over for a further 4-year term, also at a reduced interest rate.

The focus for the coming year will be to look for opportunities to grow the Livestock business. NZ Farmers Livestock is seeking to add experienced livestock agents as well as introducing and training younger agents and is actively looking to further expand the livestock financing business. Although the meat processing business can be difficult due to the impact of pricing set by international markets, continued focus will be on opportunities to improve its profitability. Expectations for the current year are for careful growth in the livestock business but tempered with a flat outlook for the meat processing business as overseas prices remain low.

The Directors are pleased with the result for the year, particularly the growth in the core livestock business. The business is well placed to continue its progress, and the company is implementing initiatives to expand and grow from the current strong base. However, the Directors acknowledge the likelihood of more challenging trading conditions in the coming year. The Directors wish to highlight and acknowledge the considerable support and loyalty of all of the wider Allied Farmers stakeholders, particularly the team and our many clients.

Allied Farmers Limited and Subsidiaries
Five Year Financial Summary

	June-17 \$000	June-16 \$000	June-15 \$000	June-14 \$000	June-13 \$000
Profit summary					
Total operating income	17,478	16,040	15,342	16,081	27,099
Depreciation and amortisation	523	532	378	362	498
Interest expense	496	658	875	903	1,216
Other expenses	14,072	13,276	12,974	13,655	29,805
Net surplus (deficit) from continuing operations	2,387	1,574	1,115	1,161	(4,420)
Net deficit from discontinued operations	-	-	-	-	1,750
Net surplus (deficit) before tax	2,387	1,574	1,115	1,161	(2,670)
Tax	158	182	460	0	(1)
Net surplus (deficit) after tax	2,229	1,392	655	1,161	(2,671)
Non controlling interests	677	687	527	133	78
Surplus/(deficit) attributable to owners of the Parent	1,552	705	128	1,028	(2,749)

	June-17 \$000	June-16 \$000	June-15 \$000	June-14 \$000	June-13 \$000
Statement of Financial Position summary					
Shareholders equity	1,820	105	(1,475)	(3,887)	(5,468)
Non current liabilities	2,977	3,782	5,208	4,000	231
Current liabilities	9,719	8,841	8,148	11,525	16,798
Total liabilities	12,696	12,623	13,356	15,525	17,029
Equity and liabilities	14,516	12,728	11,881	11,638	11,561
Current assets	9,748	8,297	7,771	7,813	7,410
Fixed assets	3,539	3,642	3,967	3,624	3,815
Non current assets	667	475	134	190	190
Investments	411	232	-	-	-
Total tangible assets	14,365	12,646	11,872	11,627	11,415
Intangibles	151	82	9	11	146
Total assets	14,516	12,728	11,881	11,638	11,561

	June-17 \$000	June-16 \$000	June-15 \$000	June-14 \$000	June-13 \$000
Cash Flow summary					
Operating cash flow	979	1,518	(929)	248	1,527
Investing cash flow	(485)	(466)	997	326	(319)
Financing cash flow	(1,395)	(859)	(665)	1,062	(1,808)
Net change in cash	(901)	193	(597)	1,636	(600)

The amounts shown in this Five Year Financial Summary have been extracted from the audited financial statements of Allied Farmers Limited and subsidiaries for the respective years.

DIRECTORS

Mr Garry C Bluett - Chairman

Mr Bluett was appointed a Director of Allied Farmers Limited in October 2004. He has been Finance Director of a major New Zealand retail group and has broad experience in the finance company and corporate finance sectors. He currently has an ownership interest in a dairy operation in the Waikato. Mr Bluett is an independent Director of Allied Farmers Limited. He has the following qualifications: BMS, CA.

Mr Philip C Luscombe

Mr Luscombe was appointed a Director of Allied Farmers Limited in December 2005. He is an experienced farmer with interests in dairy farms in Taranaki and Otago, and in farm forestry. He is a Director of PKW Farms GP Limited, as well as a number of private companies. He is a trustee of The Massey-Lincoln and Agricultural Industry Trust and a former trustee of the Massey University Agricultural Research Foundation. He is a former director of Kiwi Cooperative Dairies Limited, Kiwi Milk Products Limited, Dairy InSight and industry research company Dexcel. Mr Luscombe is an independent director of Allied Farmers Limited. He has the following qualification: BAgSci(Hons).

Mr G Andrew McDouall

Mr McDouall was appointed a Director of Allied Farmers Limited in October 1999. He is Managing Director of the stockbroking and investment banking group McDouall Stuart Group Limited, MSL Capital Markets, and a director of a number of private companies. Mr McDouall is an independent director of Allied Farmers Limited. He has the following qualifications: BCA, DipNZSE.

Mr Mark W Benseman

Mr Benseman was appointed a Director of Allied Farmers Limited in October 2015. Mr Benseman is an experienced manager and financial analyst, with over 25 years' experience in the investment industry. Mark is currently the Principal of Fraters Group in New Zealand and in the past had a role as a senior analyst with ABN AMRO New Zealand, was Director and Head of Research with Citigroup Smith Barney in New Zealand, and similarly with Merrill Lynch (NZ). Mr Benseman is not an independent director. He has the following qualifications: BA (Hons in Economics)

DISCLOSURES

Directors disclosed, pursuant to section 140 of the Companies Act 1993, interests in the following entities during FY17 (excluding directorships of wholly owned subsidiaries) in the Interests Register:

DISCLOSURE OF INTEREST

Name	Entity	Relationship
Mark Benseman	Andrea Moore & Co Ltd Roholm Ltd	Director and Indirect Shareholding Indirect Shareholder
Garry Bluett	NZ Farmers Livestock Finance Limited	Director

Except as disclosed above, there were no details included in the Interests Register as at 30 June 2016, or entered during the year ended 30 June 2017, that have been removed during the year ended 30 June 2017.

DIRECTORS' SHARE TRADING AND HOLDINGS

Directors disclosed, pursuant to section 148 of the Companies Act 1993, the following acquisitions and disposals of relevant interests in Allied Farmers Limited shares during FY17:

Name	Date of Acquisition/(disposal)	Consideration Paid/(received)	Number acquired/(disposed)	Class of Financial Product
Garry Bluett	31/08/16	\$0.027 per share on exercise of options	1,450,000	Ordinary Shares
Mark Benseman	18-21/10/16	\$0.056 per share	1,000,000	Ordinary Shares
	5/04/17	\$0.027 per share on exercise of options	870,000	Ordinary Shares
Andrew McDouall	(16/11/16)	(\$0.056 per share)	(500,000)	Ordinary Shares
	(1/03/17)	(\$0.070 per share)	(500,000)	Ordinary Shares

As at 30 June 2017 directors, or entities related to them, held relevant interests (as defined in the Financial Markets Conduct Act 2013) in Allied Farmers Limited Securities as follows:

Name	Number of Shares and percentage of shares on issue
Garry Bluett	4,249,711 (2.63%)
Mark Benseman	20,206,556 (12.51%)
Andrew McDouall	111,290 (0.068%)
Philip Luscombe	1,295,634 (0.80%)

DIRECTORS' REMUNERATION

Director	2017	2016		2015
	Cash**	Shares*	Cash	Cash
Garry Bluett	\$81,458	2,498,677	\$29,166	\$12,935
Philip Luscombe	\$44,667	1,294,037	\$19,833	\$7,250
Andrew McDouall	\$46,760	1,059,393	\$24,833	\$11,833
Jeff Keenan	nil	1,287,032	nil	\$6,708
Mark Benseman	\$31,208	nil	\$9,625	nil
Total	\$204,093	6,139,139	\$83,457	\$38,726

* On 26 November 2015 Allied Farmers Limited issued 6,139,139 fully ordinary shares at \$0.053265 per share to directors Garry Bluett, Philip Luscombe, Andrew McDouall and former director Jeff Keenan in satisfaction of \$327,001 of accrued and unpaid directors' fees owing to them.

** The above table reflects what has been paid out by the Company. The \$204,093 of directors fees actually paid in FY17 included the cash payment of \$55,292 accrued but unpaid from the previous year. Shareholders approved a cap on directors' fees of \$332,000 p.a. at the AGM in 2007. This cap includes all directors fees paid in relation to Group subsidiary companies as well as for the Parent. In addition to the above payments, Oliver Carruthers, a director of NZ Farmers Livestock Limited received total remuneration and benefits from NZ Farmers Livestock Limited of \$198,997.85, and Simon Williams, a director of NZ Farmers Livestock Limited, received total remuneration and benefits from NZ Farmers Livestock Limited of \$93,372. In neither case did this remuneration and benefits include any director's fees.

PARTICULAR DISCLOSURES

Bond and Share Options

010 Bond.

On 13 September 2013 Allied Farmers Rural Limited (**AFRL**) issued 600,000 first ranking Bonds at \$1 each ("**010 Bond**"), of which 200,000 Bonds were issued to Arcos Investments Limited, a related party of Garry Bluett, and 50,000 Bonds were issued to Garry Bluett personally.

The 010 Bond issue included an option to purchase 58 ordinary shares of Allied Farmers Limited for every 10 Bond issued to that Bondholder at an exercise price per ordinary share of \$0.027. Accordingly, Arcos Investments Limited subscribed for 1,160,000 share options, and Mr Bluett subscribed for 290,000 share options. On 31 August 2016 Arcos Investments Limited and Garry Bluett exercised all of their share options and Allied Farmers Limited issued 1,160,000 new ordinary shares to Arcos Investments Limited and 290,000 new ordinary shares to Garry Bluett.

An Associated Person of Mark Benseman, Albany Braithwaite Holdings Limited, was also a holder of 150,000 010 Bonds and 870,000 share options issued on 13 September 2013. On 5 April 2017 Albany Braithwaite Holdings Limited exercised all of its share options, resulting in the issue of 870,000 new ordinary shares to Albany Braithwaite Holdings Limited.

The 010 Bond was fully repaid on the maturity date of 31 August 2016. As a result of the exercise of share options by Arcos Investments Limited, Garry Bluett, and Albany Braithwaite Holdings Limited, there are no remaining share options.

020 Bond

Albany Braithwaite Holdings Limited is currently the holder of 600,000 first ranking bonds issued in a \$1 million bond issue on 9 October 2014 ("**020 Bond**"). The 020 Bond is due to mature on 31 September 2017. The 020 Bondholders, including Albany Braithwaite Holdings Limited, have agreed, among other things, to extend the maturity date to 30 September 2021.

030 Bond

The 010 Bond matured on 31 August 2016 and was fully repaid, partly from the proceeds of 550,000 new second ranking bond at \$1 each issued by AFRL on 31 August 2016 ("**030 Bond**"). Albany Braithwaite Holdings Limited is the holder of 150,000 of the 030 Bonds. The nature of the security granted to the participants in the 030 Bond is substantially similar to that supporting both the 010 Bond and the 020 Bond (except to the extent that the 030 Bond is second ranking to the 020 Bond).

Key terms of the 030 Bond are as follows:

- Coupon/Interest rate: 7.75% per annum.
- Payments: Quarterly on the 30th days of December, March, June and September of each year;
- Maturity date: 30 September 2018 (25 months) with an option for AFRL to redeem in full on 30 September 2017 requiring AFRL to pay an additional 0.25% to the holders;
- Security: second ranking after the 020 Bondholders;
- General security interest over the assets of Allied Farmers Limited and its Group Charging Subsidiaries (**Security Obligors**);
- Guarantee by the Security Obligors in respect of the obligations of AFRL;
- Specific security over the shares issued by NZ Farmers Livestock Limited and held by AFRL;
- Deed of priority between the 020 Bondholders (first-ranking up to \$1,000,000) and the holders of the 030 Bonds (second ranking up to \$550,000) in respect of money owed to them by AFRL; and
- Early redemption: With 5 business days' notice.

General

Except to the extent described above, no Director has entered into any transactions with the Company or its subsidiaries other than in the normal course of business, on the Company's normal terms of trade, and on an arms-length basis.

No Director issued a notice requesting to use Group information received in their capacity as a Director which would not otherwise have been available to them.

During the year the Company paid premiums on contracts insuring directors and officers in respect of liability and costs permitted to be insured against in accordance with Section 162 of the Companies Act 1993 and the Company's constitution.

EMPLOYEE REMUNERATION

The number of employees whose remuneration and benefits were over \$100,000 is within the specified bands as follows:

Remuneration range		2016	2017
100,000	110,000	1	2
110,001	120,000	4	4
120,001	130,000	-	-
130,001	140,000	2	2
140,001	150,000	-	1
150,001	160,000	1	1
160,001	170,000	1	-
170,001	180,000	1	2
180,001	190,000	3	1
190,001	200,000	-	3
200,001	210,000	1	-
210,001	220,000	-	-
220,001	230,000	1	-
230,001	240,000	-	-
240,001	250,000	-	1
250,001	260,000	-	-
260,001	270,000	-	-
270,001	280,000	-	-
280,001	290,000	1	-
290,001	300,000	-	-
300,001	310,000	-	-
310,001	320,000	-	-
320,001	330,000	-	1
Total		16	18

The remuneration figures shown in the above table include all monetary remuneration actually paid, plus the cost of all benefits provided, during the year. The table does not include independent contractors.

ALLIED FARMERS LIMITED ANNUAL REPORT 2017
SUBSTANTIAL SECURITY HOLDERS

The following notices were given under the Financial Markets Conduct Act 2013 up to the date of this Annual Report:

Holder	Relevant Interest	Date
Albany Braithwaite Holdings Limited	20,206,556 (12.48%)	5 April 2017
Deborah Lee Seerup as beneficial owner via ASB Nominees as registered holder.	10,000,005 (6.28%)	31 August 2016
Stockmans Holdings Limited	19,267,822 (12.104%)	4 December 2015

The total number of issued voting securities of Allied Farmers Limited as at 7 August 2017 was 161,505,350 ordinary shares. The ownership percentages referred to above are as disclosed in the relevant notice, and may have changed as a result of the issue of further shares subsequent to the date of the relevant disclosure.

SUBSIDIARY COMPANIES

Directors of subsidiary companies as at 30 June 2017 were as follows:

Subsidiaries of the Parent	Principal Activity	Directors
Allied Farmers Rural Limited	Rural Services	G C Bluett, P C Luscombe, G A McDouall, M W Benseman
ALF Nominees Limited	Nominee company	G C Bluett
Allied Farmers Investments Limited	Asset Management Services	G C Bluett, P C Luscombe, G A McDouall, M W Benseman
Allied Farmers (New Zealand) Limited	Non-trading	G C Bluett
Subsidiaries of Allied Farmers Investments Limited		
Allied Farmers Property Holdings Limited	Non-trading	G C Bluett
QWF Holdings Limited	Non-trading	G C Bluett
Lifestyles of New Zealand Queenstown Limited	Non-trading	G C Bluett
LONZ 2008 Limited	Non-trading	G C Bluett
LONZ 2008 Holdings Limited	Non-trading	G C Bluett
Matarangi Beach Estates Limited (In Liquidation)*	Non-trading	G C Bluett
Clearwater Hotel 2004 Limited	Non-trading	G C Bluett
Subsidiaries of Allied Farmers Property Holdings Limited		
UFL Lakeview Limited	Non-trading	G C Bluett
5M No 2 Limited	Non-trading	G C Bluett
Subsidiaries of Allied Farmers Rural Limited		
NZ Farmers Livestock Limited	Livestock Trading	P C Luscombe, G C Bluett, O J Carruthers, S Williams
Subsidiaries of NZ Farmers Livestock Limited		
Farmers Meat Export Limited	Bobby Calf Exporting	S K W Morrison, W B Sweeney, P C Luscombe
NZ Farmers Livestock Finance Limited	Rural Finance	P C Luscombe, G C Bluett, S Williams

*Removed from Companies Office register on 1 August 2017

DONATIONS

The Company made no donations to any political party during the year.

SHAREHOLDER INFORMATION

The ordinary shares of Allied Farmers Limited are listed on the NZX Main Board. The NZX share code is 'ALF'.

The shareholder information in the following disclosures has been taken from the Company's share register at 7 August 2017.

RIGHTS ATTACHING TO SECURITIES**Ordinary Shares**

The Company's ordinary shares carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person or by proxy, representative, or attorney. Voting may be conducted by voice, show of hands, or poll.

The following new ordinary shares were issued during the financial year:

Date	Purpose	Number of ordinary shares
31 August 2016	Exercise of share options	1,450,000
5 April 2017	Exercise of share options	870,000

The total number of issued ordinary shares on issue is 161,505,350.

Share Options

On 13 September 2013, to support a bond issue by Allied Farmers Rural Limited, Allied Farmers Limited issued non listed options to acquire 3,480,000 ordinary shares for an exercise price of \$0.027.

The share options were required to be exercised within five years from the issue date. If the option is exercised, the exercise price is payable immediately. The issued shares rank pari passu with existing ordinary shares.

The remaining 2,320,000 share options were all exercised during the financial year. Allied Farmers therefore does not currently have any share options on issue.

TWENTY LARGEST REGISTERED SHAREHOLDERS as at 8 August 2017

Rank	Name	Total Shares	% Issued Capital
1	Albany Braithwaite Holdings Limited	20206556	12.51
2	Stockmans Holdings Limited	19267822	11.93
3	ASB Nominees Limited	11350005	7.03
4	Donald Clifton Jacobs	6461963	4
5	Garry Charles Bluett	3089711	1.91
6	Ronald Alfred Brierley	3031591	1.88
7	Stuart David Hynes	2551600	1.58
8	Leh Soon Yong	2472749	1.53
9	Ross Phillip Drew	2450000	1.52
10	Maurice Duncan Priest	2100000	1.3
11	Geochem Services Limited	1765015	1.09
12	Paul Gerard Foley & John William Mccay	1422865	0.88
13	Philip Charles Luscombe & Ainsley Jocelyn Luscombe	1295566	0.8
14	James Field Seerup & Jeanette Elizabeth Seerup	1235750	0.77
15	Omaio Investments Limited	1196550	0.74
16	New Zealand Central Securities Depository Limited	1177436	0.73
17	Arcos Investments Limited	1160000	0.72
18	Probatas Investments Limited	1085937	0.67
19	Lee Athol Wilson & Shirley Ann Wilson	1000000	0.62
19	Colin Stuart Loveday	1000000	0.62
19	Blackomega Limited	1000000	0.62
20	FNZ Custodians Limited	929845	0.58

ANALYSIS OF SHAREHOLDING as at 8 August 2017

Range	Holders	Holders %	Issued Capital	Issued Capital %
1-1000	274	4.89	167215	0.1
1001-5000	4163	74.35	8314668	5.15
5001-10000	328	5.86	2329740	1.44
10001-50000	496	8.86	12981026	8.04
50001-100000	159	2.84	12449338	7.71
Greater than 100000	179	3.2	125263363	77.56

SHAREHOLDER ENQUIRIES

Shareholders should send changes of address, dividend queries, and instructions and shareholding information requests to Link Market Services Limited, which acts as the Company's share registrar. These notifications and requests should be by signed letter.

ANNUAL MEETING OF SHAREHOLDERS

Allied Farmers Limited's Annual Meeting of shareholders is proposed to be held in the TSB Hub, Hawera, on Tuesday 28 November 2017 from 11am. A Notice of Annual Meeting and Proxy Form will be circulated to shareholders prior to the meeting.

REGISTERED OFFICE

The registered office of Allied Farmers Limited is:

201 Broadway
Stratford 4332
PO Box 304
Stratford 4352

DIVIDENDS PAID

No dividends have been paid in the financial year ended 30 June 2017.

NZX REGULATION WAIVERS

The Company has not sought or been granted any waivers in the 12 months preceding 30 June 2017

GOVERNANCE

NZX BEST PRACTICE CODE

The NZX Main Board listing rules require the Company to include in each annual report a statement disclosing the extent to which it has followed the NZX Corporate Governance Best Practice Code for the reporting period. Due to a number of factors, including the Company's small market capitalisation and the fact that its primary operations are undertaken by a joint venture subsidiary with a separate Board, in a number of areas the Code is not complied with. The same comment applies to compliance with the Financial Markets Authority's "Corporate Governance in New Zealand Principles and Guidelines". Accordingly, the Company considers its governance practices have complied with the Code and the Guidelines for the year to 30 June 2017 except to the extent highlighted below.

THE BOARD OF DIRECTORS

Role of the Board and Responsibility

The Board of Directors is elected by shareholders to govern the Company in the interests of shareholders, and to protect and enhance the value of the assets of the Company in the interests of the Company and its shareholders. The Board is the overall and final body responsible for all decision making within the Company. The Board Charter describes the Board's role and responsibilities and regulates internal Board procedure. The Board has also delegated a number of its responsibilities to its committees. The role of the committees is described below.

Board Membership, Size and Composition

The Board currently comprises four Directors – a non-executive Chairman (Garry Bluett), and three non-executive Directors (Andrew McDouall, Philip Luscombe and Mark Benseman). The Board has a broad range of financial, farming, and business skills as well as other relevant experience and expertise required to meet its objectives.

When appropriate, the Board reviews the criteria for the selection of Directors to ensure the Board comprises the right mix of skills and experience to meet the needs of the Company. No review has taken place in the reporting period.

Selection and Role of Chairman

The Chairman is elected by the Board from the non-executive Directors. The Board supports the separation of the role of Chairman and senior management. The Chairman's role is to manage and provide leadership to the Board and to facilitate the Board's interface with senior management.

Director Independence

The Board is committed to having a majority of Directors who are judged by the Board to be independent in terms of the NZX Main Board listing rules.

An Associated Person of Mark Benseman is a Substantial Product Holder of Allied securities, and he therefore does not qualify as an independent director. The Board considers that Garry Bluett, Andrew McDouall, and Philip Luscombe are independent directors.

The Board will review any determination it makes on a Director's independence on a regular basis and on becoming aware of any information that indicates the Director may have a relevant material relationship with the Company. For this purpose, Directors are required to ensure that they immediately advise of any new or changed relationships so the Board can consider and determine how material the relationship is to a Director's independence.

Conflicts of Interest

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to the Company and their own interests. Where conflicts of interest do exist at law then the Director must disclose their interest, excuse themselves from any Board discussions if appropriate, not receive any Board papers in respect of those interests if it would be inappropriate to do so, and in accordance with the relevant stock exchange listing rules not exercise their right to vote in respect of such matters.

Nominations and Appointment of New Directors

Procedures for the appointment and removal of Directors are ultimately governed by the Company's constitution.

Recommendations for nominations of new Directors are made by the Directors individually and considered by the Board as a whole. When recommending candidates to act as a Director, the Board takes into account such factors it deems appropriate. These factors include their background, experience, professional skills and personal qualities, whether their skills and experience will augment the existing Board, and their availability to commit themselves to the role. Due to its size, the Company does not consider having a separate Nomination Committee is necessary. However, if the need arises (for example if there were a conflict of interest) a Nominations Committee will be established for such purposes.

If the Board appoints a new Director during the year, that person will stand for election by shareholders at the next annual meeting. Shareholders are provided with relevant information on the candidates for election.

Director Education

All Directors are encouraged and if requested supported to receive regular updates on relevant industry and Company issues. The Board expects all Directors to undertake continuous education so that they may appropriately and effectively perform their duties.

Board's Performance Review

The Board does not formally review its own performance as a whole against the Board Charter, but will do so if circumstances require. However, the Board regularly discusses governance and performance issues. In particular, the Board has carefully considered the qualifications and skills of appointees to the Board of its subsidiary, NZ Farmers Livestock Limited, given the importance of this subsidiary to the Group.

A Board evaluation survey may be undertaken from time to time to seek Director feedback on a range of matters relating to Board performance including its role and composition, procedures, practices, and administration. Given the small size of the Board and the regular contact between them, the Board has not considered it necessary to undertake a formal evaluation in the period.

Retirement and Re-election of Directors

NZX Main Board listing rule 3.3.11 requires at least one third of the Directors to retire from office at the annual meeting each year, but they are eligible for re-election at that meeting.

Garry Bluett is required to retire and is eligible, if he chooses to do so, to stand for re-election at this year's annual meeting.

Board Access to Information and Advice

All Directors have access to management, to discuss issues or obtain information on specific areas or items to be considered at the Board meeting or other areas they consider appropriate. Further, Directors have unrestricted access to Company records and information.

The Board, the Board committees and each Director have the right, subject to the approval of the Chairman, to seek independent professional advice at the Company's expense to assist them in carrying out their responsibilities. Further, the Board and Board committees have the authority to secure the attendance at meetings of outsiders with relevant experience and expertise.

Directors' Share Ownership

Due to its small market capitalisation, and thin trading, the Company does not operate a performance based equity security compensation plan and does not actively encourage directors to invest a portion of their director's remuneration in shares in the Company. However, all directors do hold shares in the Company and in November 2015 Messrs Bluett, Luscombe and McDouall were issued shares in satisfaction of unpaid directors' fees. In addition, Mr Benseman was already a substantial holder of shares in the Company at the time he was appointed a Director. Directors' disclosures of their shareholdings pursuant to section 148 of the Companies Act 1993 and NZX Main Board listing rule 10.4.5 are shown in the Disclosures section of this annual report.

Directors are required to comply with the Company's Securities Trading Policy and Guidelines in undertaking any trading in Allied Farmers Limited shares.

Indemnities and Insurance

As permitted by the Company's constitution, deeds of indemnity have been given to Directors for potential liabilities and costs they may incur for acts or omissions in their capacity as Directors. In addition, deeds of indemnity have been given to certain senior staff and contractors for potential liabilities and costs they may incur for acts or omissions in their capacities as employees or contractors of the Company or as Directors of Company subsidiaries.

During the year the Directors and Officers liability insurance was renewed to cover risks normally covered by such policies arising out of acts or omissions of Directors and Officers in their capacity as such. Insurance is not provided for dishonest, fraudulent, malicious, or wilful acts or omissions.

Meetings of the Board and Conduct of Meetings

The Board has a minimum of eight scheduled meetings each year. In addition, it meets whenever necessary between the scheduled meetings (such as to discuss key strategic issues or urgent business).

The Chairman establishes meeting agendas to ensure adequate coverage of key issues during the year.

Senior management regularly attend Board meetings and are also available to be contacted by Directors between meetings.

The Board meets occasionally in executive session, without management present. Such sessions deal with performance evaluation issues, and discussions with the Group external auditors to promote a robust independent audit process.

ATTENDANCE AT BOARD MEETINGS FOR THE YEAR 1 JULY 2016 TO 30 JUNE 2017

Board Meetings

The full board held 9 Board meetings during the year ended 30 June 2017. The table below shows Directors' attendance at these Board meetings.

Director	Number of Board meetings
Philip Luscombe	9
Garry Bluett	9
Andrew McDouall	9
Mark Benseman	9

Board Committees

Two Board committees assist in the execution of the Board's responsibilities: the Audit Committee and the Finance Committee. The Audit Committee meets when necessary to discharge its responsibilities. The Finance Committee meets on an as required basis. Other committees may be established to consider matters of special importance or to exercise the delegated authority of the Board, as required. No such committees were established during the year.

Committee Composition

The Board is responsible for appointing committee members according to the skills, experience and other qualities they bring to a committee.

COMMITTEE ROLES AND OPERATIONS

All Directors are entitled to receive all committee papers and can attend all committee meetings. As soon as possible after each committee meeting the Board is given a verbal report by the Chair of the committee on the outcomes of the meeting.

The structure, membership and responsibilities of the Board's committees are summarised below.

Audit Committee

The Audit Committee includes members who have appropriate financial experience and an understanding for the industry in which the Company operates. A majority of the Audit Committee members are independent and all are financially literate. The Chairman of the Audit Committee, Garry Bluett, is a chartered accountant (CA). The Board considers that, whilst Mr Bluett is also Chairman of the Board, he is the most suitably qualified and experienced director to Chair the Audit Committee, and therefore on balance the Board considers this appointment to be in the best interests of the Company.

The industry knowledge and financial experience of other members of the Audit Committee are set out in the biographies of the Directors.

Responsibilities

- Provide an open avenue of communication between the external auditors and the Board.
- Recommend to the Board the nomination, terms of engagement and remuneration of the external auditors.
- Review and participate in the process of appointment, replacement, reassignment, or dismissal of the internal auditor (if any).
- Confirm and assure the independence of the external auditors.

- Inquire of management, and the external auditor about significant risks or exposures to the Company (although due to the size and operations of the Company, a risk register is not maintained).
- Review the audit scope and plan to assure completeness of coverage, reduction of redundant effort, and the effective use of audit resources.
- Consider and review with auditors the adequacy of the Company's internal controls and compliance with the Company's policies and delegated authorities.
- Review at the completion of the annual audit the Company's Financial Statements and Notes, the auditors' report, and any recommendations; and recommend to the full Board that these be accepted.

Members of the Audit Committee are: Garry Bluett (Chair), Andrew McDouall and Philip Luscombe.

Remuneration Committee

The Company does not currently have a Remuneration Committee because of its size and the fact that it has very few employees and contractors, and therefore matters pertaining to the remuneration of employees and contractors can and are dealt with by the full Board. Most employees and contractors are employed by or contracted to NZ Farmers Livestock Limited, which has a separate Board that deals with the remuneration of its employees and contractors.

The Board will establish committee members as appropriate ahead of any need for the Remuneration Committee to meet.

Finance Committee

Responsibilities

- Provide direction to the Board for fiscal responsibility and corporate finance strategies
- Ensure the maintenance of an appropriate capital structure
- Review Treasury function and investment management decisions
- Provide strategic oversight on financial matters

Members of the Finance Committee are: Garry Bluett (Chair) and Andrew McDouall.

CONTROLLING AND MANAGING RISKS

Approach to Risk Management

The Company identifies, assesses and manages risks which affect its business.

Due to its small size and limited operations, risk management is monitored directly by the Board predominantly by reviewing budgets and forecasting.

In managing financial risk around treasury transactions, the Board has approved principles and policies that specify who may authorise transactions under delegated authority and also the segregation of duties of those carrying out such transactions.

External audit reports to the Audit Committee comment on the adequacy and effectiveness of the Company's internal controls. The Audit Committee in turn reports this information to the Board.

ASSURANCE

During the most recent financial year, management has reported to the Board on the effectiveness of the company's management of its material business risks. As part of that report, appropriate assurances were received from management that the system of risk management and internal control is operating effectively in all material respects in relation to financial reporting risks.

EXTERNAL AUDIT INDEPENDENCE

The Audit Committee is responsible for making recommendations to the Board concerning the appointment of the Company's external auditors and their terms of engagement. At the annual meeting in November 2016, directors confirmed the automatic reappointment of PricewaterhouseCoopers as the Company's external auditors pursuant to Section 107T of the Companies Act 1993, and shareholders approved the Board setting the remuneration of the auditors.

The Company is committed to auditor independence. The Audit Committee reviews the independence and objectivity of the external auditors. For this reason the work of PricewaterhouseCoopers is limited to audit, related assurance, and taxation; and the Audit Committee or its Chair is required to pre-approve all audit and related assurance services. The External Audit Independence Policy requires rotation of audit partners every five years.

The external auditors review all Board minutes and attend Audit Committee meetings. The Audit Committee if necessary also meets with the external auditors without management present and if necessary meets with management without the external auditors being present. Committee members may contact the external auditors directly at any time. The breakdown between audit fees and non-audit fees paid to the auditors is set out in the financial statements.

PROMOTING ETHICAL AND RESPONSIBLE BEHAVIOUR

The Company expects all its employees, contractors and Directors to maintain the highest ethical standards. The Company's employees and contractors are expected to conduct their professional lives by facilitating behaviour and decision making that meets the Company's business goals and also is consistent with the values, policies, and legal obligations of the Company.

INTERNAL POLICIES AND PROCEDURES

All staff are responsible for ensuring that the Company carries out its business activities in a way that gives due consideration to all applicable legal requirements, minimises the cost of legal risk, and maximises business opportunities. Managers are responsible for making sure their staff understand what compliance means in their particular areas, by ensuring appropriate training and compliance information is available.

INSIDER TRADING AND TRADING IN COMPANY SHARES

Directors and employees are subject to 'insider trading' restrictions under the law relating to dealing in securities and other related derivatives if they are in possession of inside information. Inside information is information that is not generally available to the public and, if it were generally available, would be expected by a reasonable person to have a material effect on the price or value of those securities.

To ensure compliance with these legal requirements the Company specifies that certain "Restricted Persons" are prohibited from trading in any Restricted Securities during specific "black-out" periods, unless the Board provides a specific exemption. These include 30 days prior to Allied Farmers Limited half-year and year-end balance dates until the first trading day after the results are released to NZX, or 30 days prior to release of a product disclosure statement for a general public offer of the same class of Restricted Securities. In addition, Restricted Persons who hold material information must not trade Restricted Securities at any time - regardless of these periods.

Within the framework of New Zealand's insider trading laws, the Board has resolved that prior consent of such transactions must be granted by the Chairman.

The completion of any such transaction must also be notified to the Chairman.

In addition, as required by Sections 297(2) and 298(2) of the Financial Markets Conduct Act 2013, all trading by Directors and senior management is reported to NZX.

MARKET DISCLOSURE AND SHAREHOLDER COMMUNICATIONS

The Company is committed to providing comprehensive continuous disclosure to shareholders and other stakeholders, and complying with the NZX Main Board listing rules.

The Company requires certain senior management and the Chairman to discuss whether information is material prior to its release.

The Board is responsible for ensuring that all material information is lodged as soon as practicable with NZX and has put in place processes to ensure that such information is published on the Company's website where appropriate, with further dissemination through broadcast emails to news agencies and other market commentators if appropriate.

The Company has appointed the Chairman as authorised spokesperson who is required to ensure that all proposed public comments either contain information already in the public domain or are not material. The Company's website contains information about the Company and/or relevant reference to the NZX website where market disclosures are made.

Full participation of shareholders at the annual meeting is encouraged. Shareholders will have the opportunity to ask questions of the Chairman, management, and Directors at the annual meeting.

DIVERSITY

Allied has not yet adopted a diversity policy, but expects to do so during the 2018 financial year.

GENDER

The gender of composition of directors and officers as at 30 June 2017 was as follows:

	Current Year		Previous Year	
	Male	Female	Male	Female
Number of Directors	4	0	4	0
Percentage of Directors	100%	0%	100%	0%
Number of Officers	1	0	1	0
Percentage of Officers	100%	0%	100%	0%

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ALLIED FARMERS LIMITED

FINANCIAL REPORT

For the year ended 30 June 2017

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Statement of Profit or Loss and Other Comprehensive Income

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2017

	Note	June 2017 \$000	June 2016 \$000
Revenue			
Sale of goods		4,765	5,948
Interest income		240	175
Commission Income		12,246	9,755
		<u>17,251</u>	<u>15,878</u>
Other income		227	162
		<u>227</u>	<u>162</u>
Total income		<u>17,478</u>	<u>16,040</u>
Expenses			
Cost of inventory sold		4,090	4,642
Interest and funding expense	2	496	658
Rental and operating leases		126	107
Employee benefit expense		7,129	5,740
Depreciation and amortisation	11/12	523	532
Other operating expenses	3	2,727	2,787
Total expenses		<u>15,091</u>	<u>14,466</u>
Profit before income tax		<u>2,387</u>	<u>1,574</u>
Income tax expense	5	158	182
Profit for the year		<u>2,229</u>	<u>1,392</u>
Total comprehensive income		<u>2,229</u>	<u>1,392</u>
Profit Attributable to:			
Owners of the Parent		1,552	705
Non-Controlling Interests		677	687
Total earnings per share attributable to the equity holders of the Parent Company:			
Basic (cents per share)	4	0.97	0.48
Diluted (cents per share)	4	0.97	0.47

The notes on pages 28 to 53 are an integral part of these financial statements.

Statement of Changes in Equity

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2017

	Note	Share Capital \$000	Accumulated losses \$000	Non Controlling Interests \$000	Total Equity \$000
Closing balance as at 30 June 2015		150,247	(152,217)	495	(1,475)
Comprehensive income					
Net profit for the year ended 30 June 2016		-	705	687	1,392
Total comprehensive income		-	705	687	1,392
Transactions with owners					
Dividends paid to Non Controlling Interests		-	-	(344)	(344)
Purchase of shares in N Z Farmers Livestock Ltd	8	1,000	(816)	(184)	-
Share capital issued	6	532	-	-	532
Total transactions with owners		1,532	(816)	(528)	188
Closing balance as at 30 June 2016		151,779	(152,328)	654	105
Comprehensive income					
Net profit for the year ended 30 June 2017		-	1,552	677	2,229
Total comprehensive income		-	1,552	677	2,229
Transactions with owners					
Purchase of shares in N Z Farmers Livestock Limited	8	-	20	(20)	-
Dividends paid to Non Controlling Interests		-	-	(514)	(514)
Total transactions with owners		-	20	(534)	(514)
Closing balance as at 30 June 2017		151,779	(150,756)	797	1,820

The notes on pages 28 to 53 are an integral part of these financial statements.

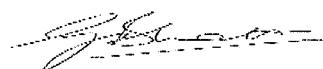
Balance Sheet

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2017

	Note	June 2017 \$000	June 2016 \$000
Equity			
Share capital		151,779	151,779
Reserves	7	(150,756)	(152,328)
		1,023	(549)
Non Controlling Interests	8	797	654
Total equity		1,820	105
Liabilities			
Current liabilities			
Trade and other payables	10	7,744	7,144
Borrowings	9	1,835	1,546
Taxation	5	140	151
Total current liabilities		9,719	8,841
Non-current liabilities			
Borrowings	9	2,977	3,782
Total non-current liabilities		2,977	3,782
Total liabilities		12,696	12,623
Total liabilities and shareholders equity		14,516	12,728
Assets			
Current assets			
Cash and cash equivalents	18.1	1,577	2,478
Trade and other receivables	16	8,058	5,510
Prepayments	16	95	308
Inventory		18	1
Total current assets		9,748	8,297
Non-current assets			
Deferred tax asset	5	531	407
Investment	15	411	232
Advances	15	136	68
Property, plant and equipment	11	3,539	3,642
Intangible assets	12	151	82
Total non-current assets		4,768	4,431
Total assets		14,516	12,728

The notes on pages 28 to 53 are an integral part of these financial statements.

The Board of Directors of Allied Farmers Limited authorised these financial statements for issue on 31 August 2017.



.....Director



.....Director

Statement of Cash Flows

Allied Farmers Limited and Subsidiaries

For the year ended 30 June 2017

	Note	June 2017 \$000	June 2016 \$000
Cash Flows from Operating Activities			
Cash was provided from:			
Receipts from customers		16,739	15,256
Interest received		202	175
		<u>16,941</u>	<u>15,431</u>
Cash was applied to:			
Payments to suppliers and employees		(13,191)	(13,121)
Interest paid		(496)	(658)
Taxation paid		(293)	(134)
		<u>(13,980)</u>	<u>(13,913)</u>
Changes in operating assets and liabilities arising from cash flow movements			
Cash was provided/(applied) from			
Receipts from repayment of loans and advances		3,483	-
Payments for loans made		(5,465)	-
Net cash flows from operating activities		<u>979</u>	<u>1,518</u>
Cash Flows from Investing Activities			
Cash was provided from:			
Realisation of Investment		77	90
Dividend received		-	25
		<u>77</u>	<u>115</u>
Cash was applied to:			
Investing in associate company	15	(212)	(232)
Purchase of shares in New Zealand Farmers Livestock Limited		(20)	-
Loan to associate company		(68)	(68)
Purchase of subsidiaries	13	(100)	-
Purchase of property, plant and equipment, and intangibles	11/12	(162)	(281)
		<u>(562)</u>	<u>(581)</u>
Net cash flows (used in) investing activities		<u>(485)</u>	<u>(466)</u>
Cash Flows from Financing Activities			
Cash was provided from:			
Borrowings		550	775
		<u>550</u>	<u>775</u>
Cash was applied to:			
Borrowings	9	(600)	(1,290)
Payment of finance principal		(831)	-
Dividends paid to non controlling interests		(514)	(344)
		<u>(1,945)</u>	<u>(1,634)</u>
Net cash flows (used in) financing activities		<u>(1,395)</u>	<u>(859)</u>
Net (decrease)/ increase in cash and cash equivalents		(901)	193
Cash and cash equivalents at beginning of year		2,478	2,285
Cash and cash equivalents at end of year		<u>1,577</u>	<u>2,478</u>

The notes on pages 28 to 53 are an integral part of these financial statements.

Statement of Cash Flows (continued)

Allied Farmers Limited and Subsidiaries

For the year ended 30 June 2017

Reconciliation of net profit after tax for the year with cash flow from operating activities:

	Note	June 2017 \$000	June 2016 \$000
Net profit after tax for the period		<u>2,229</u>	<u>1,392</u>
Adjustments for:			
Gain on settlement of liability		(223)	-
Share of profit equity accounted		(10)	18
Impairment of associate		-	26
Impairment debtors		22	-
Depreciation and amortisation expense	11/12	523	532
Movement in impairment provisions on trade receivables		-	17
Movement in deferred tax assets	5	(124)	(273)
Loss on sale of property, plant and equipment		53	-
		<u>241</u>	<u>320</u>
Movement in working capital:			
(Increase) in trade and other receivables		(2,267)	(404)
Increase in payables and provisions	10	804	164
(Increase)/Decrease in inventory		(17)	46
(Increase) in tax payable		(11)	-
		<u>(1,491)</u>	<u>(194)</u>
Net cash (outflows)/inflows from operating activities		<u>979</u>	<u>1,518</u>

The notes on pages 28 to 53 are an integral part of these financial statements

Statement of Accounting Policies

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2017

GENERAL INFORMATION

These financial statements have been approved for issue by the Board of Directors on 31 August 2017. The Board of Directors do not have the power to amend the financial statements after they have been issued.

Allied Farmers Limited and Subsidiaries (together "the Group") are a "for profit" rural services group, with its predominant activities comprising the sale of livestock agency services, the procurement and processing of calves, the provision of livestock financing, and the provision of asset management services.

Allied Farmers Limited ("the Parent Company") is a limited liability company, incorporated and domiciled in New Zealand. The Parent Company's registered address is:

201 Broadway
Stratford
New Zealand

Allied Farmers Limited is a public company listed on the New Zealand Stock Exchange Main Board (NZX code: ALF).

BASIS OF PREPARATION

The Group's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards (IFRS).

Allied Farmers Limited is a company registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

The financial statements have been presented on the basis of historical cost.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

These financial statements are presented in New Zealand dollars (\$), which is the Group's functional currency. Amounts have been rounded to the nearest thousand.

These financial statements are prepared on a going concern basis.

Changes in accounting policy and disclosures

(a) There have been no changes in accounting policies.

(b) New standards and interpretations not yet adopted by the Group.

Certain new standards, amendments and interpretations to existing standards have been published by the External Reporting Board (XRB) that are mandatory for future periods and which the Group will adopt when they become mandatory.

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 on its effective date. The Group has initially established that given the nature of the Group's business and the instruments currently utilised by the Group the impact of this standard will not have any material effect on the financial statements.

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact on the Group's revenue streams. Initial assessment suggests that there will not be any material impact on the Group's financial statements.

NZ IFRS 16, 'Leases', which replaces the current guidance in NZ IAS 17, was published by the International Accounting Standards Board (IASB) in January 2016. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee, was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use-asset' for virtually all lease assets. The IASB has included an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'. The Group intend to adopt NZ IFRS 16 for the first period beginning after its effective date. The Group's initial assessment has determined that there will be a significant increase in both Total Assets and Total Liabilities as well as significant increases in interest and amortisation together with a significant decrease in rental expenses however these are yet to be quantified. Consideration of which transition option to utilise is to be considered.

There are no other NZ IFRSs or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

BASIS OF CONSOLIDATION

The financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at balance date and the results of all subsidiaries for the year then ended.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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 over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains.

Joint arrangements

The Group applies NZ IFRS 11 to all joint arrangements. Under NZ IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint operations. As joint operations, the Group accounts for its share of the revenue, expenses, assets and liabilities.

Associates

Associates are entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting. Under the equity method the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investors share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

OPERATING REVENUE AND EXPENSES

Sales of goods

Revenue from the sale of goods (primarily the sale of calf meat and skins) is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised within "Interest income" and "Interest and funding expense" in the statement of profit or loss and other comprehensive income using the effective interest method.

Commission income

Commission income includes commission and other fees charged on livestock sales transactions. Commission income is recognised on a net basis as the Group acts as an agent to the customer in facilitating the livestock sales. Judgement has been exercised in determining that the Group are an agent as opposed to a principal in these transactions.

Commission income which are non-yield related are recognised on an accrual basis once the underlying service has been provided. All fees and commission income are recognised within "Commission Income".

In some circumstances the Group acts as an agent in conjunction with another agent company. In these circumstances the commission earned is shared. The cost paid to the sharing agent company has been netted off the commission received.

Other Income

Facility fees are recognised within "Other Income" in the statement of profit or loss and other comprehensive income. These fees are an integral part of generating an involvement with the resulting financial instrument and are deferred and recognised as an adjustment to the effective interest rate.

TAXATION

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the tax rate 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 or liabilities are determined using tax rates that have been enacted or substantially enacted by the balance date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Any current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

FOREIGN CURRENCY TRANSLATION

The functional currency utilised in the preparation of these financial statements is the New Zealand dollar. Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement. At balance date, foreign denominated monetary assets and liabilities are translated at the closing exchange rate, with exchange variations arising from these translations being recognised in the statement of profit or loss and other comprehensive income.

FINANCIAL ASSETS

Purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset.

The Group classifies their financial assets as loans and receivables.

The Group does not engage in any speculative transactions or hold derivative financial instruments for trading purposes.

Derecognition

Financial assets are derecognised when the rights to the cash flows of the assets have expired or the rights to receive the cash flows of the assets and substantially all the risks and rewards of the assets have been transferred.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Receivables are impaired if the management considers that all practical recovery action will result in less than the full amount receivable being recovered.

LEASES

Operating lease assets

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee. Items of equipment leased to clients under operating leases are included as fixed assets in the balance sheet.

Finance leases

The Group leases certain assets where the Group has substantially all the risks and rewards of ownership. These are classified as finance leases. Finance leases are capitalised at the leases commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in Borrowings. The interest element of the finance cost is charged to the profit or loss statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over the shorter of the useful life of the leased asset and the lease term.

TESTING FOR IMPAIRMENT OF NON FINANCIAL ASSETS

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the case of goodwill, this is also impairment tested at least annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Impairment losses recognised in prior periods, other than those related to goodwill, are assessed at each reporting date for any indications that the loss has decreased or no longer exists, and where the impairment loss may be reversed.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at historical or deemed cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated.

All other property, plant and equipment are depreciated on a straight line basis at rates over their estimated useful lives, as follows:

Asset class	Estimated Useful Life
Buildings	14 - 30 years
Plant and Equipment	1 - 30 years
Motor Vehicles	3 - 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

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

INTANGIBLE ASSETS

Goodwill

Goodwill on acquisitions of subsidiaries is included in "Intangible Assets". Goodwill on acquisitions of associates is included in "Investments in associates" and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those generating units or groups of cash-generating units that are expected to benefit from the business combination on which the goodwill arose.

Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives, which is estimated to be between one and six years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products and websites controlled by the Group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised on a straight line basis over their estimated useful lives (not exceeding three years).

TRADE AND OTHER PAYABLES

Trade and other payables are substantially the liability that exists to the vendor of livestock as a result of livestock sales on the vendors behalf. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

EMPLOYEE BENEFITS

Liabilities for wages and salaries, annual leave, long service leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

BORROWINGS AND BORROWING COSTS

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest rate method.

Borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they were incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

GOODS AND SERVICES TAX (GST)

The operations of the Group comprise taxable and exempt supplies. All balances in the balance sheet are stated net of GST with the exception of trade receivables and payables which are shown inclusive of GST, and fixed assets which may be shown inclusive or exclusive of GST depending on whether or not the GST was recoverable at time of purchase.

Where goods and services are purchased that relate to exempt supplies, the amounts recognised are inclusive of non-recoverable GST.

DIVIDENDS

Dividends are recognised as a liability in the period in which they are approved by the Board. Dividends that are approved after balance date but prior to the financial statements being authorised for issue are disclosed as a subsequent event.

EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares being share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Parent's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions about the future in preparing their financial statements that effect the reported amounts of assets and liabilities. The actual results in the future will often differ from the estimates made. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the Financial Statements

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2017

1. Financial information on segments of the business

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors. The Board of Directors considers the livestock operations nationally as a distinctly separate activity from other operations including the recently ceased Asset Management Services and the activity associated with being a listed entity and some Group funding which is regarded as Corporate Services.

The Asset Management Services segment manages the assets previously acquired from Hanover Finance Limited, United Finance Limited and their subsidiary companies. The Asset Management Services activities are carried out by Allied Farmers Investments Limited and subsidiary companies. The Asset Management Services activities were completed during the year with the realisation of the remaining assets.

The Livestock Services segment predominantly relates to sale yard activities and calf procurement, processing and sales carried out nationally. The Livestock activities are influenced by seasonality. Livestock Sales are normally stronger in the Autumn season and calf sales traditionally occur mainly in the first half of the financial year.

Corporate activities comprise the corporate activities of the Group including the remaining activities of the holding company Allied Farmers Rural Limited.

The segment results for the year ended 30 June 2017 are as follows:

	Asset Management Services \$000	Livestock Services \$000	Corporate \$000	Total \$000
Sales of goods	-	4,765	-	4,765
Commission Income	-	12,246	-	12,246
Interest Income	-	240	-	240
Other Income	32	91	104	227
Total income	32	17,342	104	17,478
Cost of Inventory sold	-	(4,090)	-	(4,090)
Depreciation and amortisation	-	(523)	-	(523)
Interest and funding expense	-	(359)	(137)	(496)
Rental and operating leases	-	(124)	(2)	(126)
Employee benefit expense	-	(7,090)	(39)	(7,129)
Other operating expenses	(2)	(2,455)	(270)	(2,727)
Profit / (loss) before income tax	30	2,701	(344)	2,387
Inter-segmental transfers	-	(1,816)	1,816	-
Income tax	-	(158)	-	(158)
Profit after income tax	30	727	1,472	2,229

The segment assets and liabilities as at 30 June 2017 are as follows:

	Asset Management Services \$000	Livestock Services \$000	Corporate \$000	Total \$000
Current Assets	32	8,841	875	9,748
Non Current Assets	-	4,768	-	4,768
Assets	32	13,609	875	14,516
Current Liabilities	-	(8,119)	(1,600)	(9,719)
Non Current Liabilities	-	(2,427)	(550)	(2,977)
Liabilities	-	(10,546)	(2,150)	(12,696)

The segment results for the year ended 30 June 2016 are as follows:

	Asset Management Services \$000	Livestock Services \$000	Corporate \$000	Total \$000
Sales of goods	-	5,948	-	5,948
Commission Income	-	9,755	-	9,755
Interest Income	-	142	33	175
Other Income	137	25	-	162
Total income	137	15,870	33	16,040
Cost of Inventory sold	-	(4,642)	-	(4,642)
Depreciation and amortisation	-	(532)	-	(532)
Interest and funding expense	-	(492)	(166)	(658)
Rental and operating leases	-	(107)	-	(107)
Employee benefit expense	(17)	(5,664)	(59)	(5,740)
Other operating expenses	(5)	(2,178)	(604)	(2,787)
Profit / (loss) before income tax	115	2,255	(796)	1,574
Inter-segmental transfers	-	(929)	929	-
Income tax	-	(182)	-	(182)
Profit / (loss) after income tax	115	1,144	133	1,392

The segment assets and liabilities as at 30 June 2016 are as follows:

	Asset Management Services \$000	Livestock Services \$000	Corporate \$000	Total \$000
Current Assets	9	7,615	673	8,297
Non Current Assets	-	4,158	273	4,431
Assets	9	11,772	946	12,728
Current Liabilities	-	(7,193)	(1,648)	(8,841)
Non Current Liabilities	-	(2,782)	(1,000)	(3,782)
Liabilities	-	(9,975)	(2,648)	(12,623)
Capital expenditure	-	290	-	290

Segment assets and liabilities are disclosed net of intercompany balances.

Income received by one member of the Group from another member of the Group is accounted as income in the recipient company for the purposes of reporting the segment results. That income and expense is eliminated on consolidation.

There are no major customers as defined in NZIFRS 8, being customers that contribute to 10% or more of commission income.

	Group June 2017 \$000	Group June 2016 \$000
2 Interest and funding expense		
Borrowings - Bank and other borrowings	243	215
Borrowings - Finance lease	116	129
Borrowings - Bonds	137	164
Other	-	150
	496	658

3 Other operating expenses

Included in other operating expenses are:

PricewaterhouseCoopers - audit fees	130	122
PricewaterhouseCoopers - accounting advice	-	3
PricewaterhouseCoopers - taxation advice	-	10
Directors' fees	138	137
Contractors and consultants	289	317
Information systems expenses	54	11
Compliance Costs	96	216
Loss on sale of fixed assets	63	26
Insurance	114	125
Software and hardware maintenance	58	101
Storage	136	123
Marketing and advertising	354	283
Telecommunications	219	214
Vehicle Expenses	541	480
Other expenses	535	620
	2,727	2,787

4 Earnings per share

June
2017 June
2016

(a) Basic earnings per share

The calculation of basic earnings per share at 30 June 2017 for total, continuing operations was based on the following profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

Profit attributable to owners of the parent from continuing operations (\$000)	1,552	705
Weighted average number of ordinary shares on issue (thousands)	160,594	147,441
Basic earnings per share (cents)	0.97	0.48

(b) Diluted Earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all dilutive potential ordinary shares at the date of issue (2,320,000 dilutive share options as at 30 June 2016). The Group issued options attached to the issue of the Bonds by Allied Farmers Rural Ltd in financial year 2014. This has created a category of diluted potential ordinary shares at 30 August 2013. The share options expire 5 years from the date of issue. All the options were exercised during the year. Profit attributable to the owners of the parent from continuing operations (\$000)

Profit attributable to the owners of the parent from continuing operations (\$000)	1,552	705
Weighted average number of ordinary shares on issue (thousands)	160,594	149,761
Diluted earnings per share (cents)	0.97	0.47

5 Taxation

	June 2017 \$000	June 2016 \$000
Current tax:		
Current tax on profits for the year	282	455
Deferred tax:		
Recognition of deferred tax asset	(124)	(273)
Income tax expense	158	182
Profit from continuing operations before income tax	2,387	1,573
Prima facie income tax expense at 28%	668	440
Plus/(less) tax effect of permanent and temporary differences:		
Non-deductible expenditure	16	5
Timing differences	8	27
Recognition of deferred tax asset	(124)	(273)
Use of Group tax losses	(411)	-
Effect of current year tax loss not available for off-set against Group companies	-	(17)
Income tax expense	158	182

5 Taxation (continued)

	2017 \$000	2016 \$000
Current tax receivable/(payable):		
Opening balance	(151)	169
Current tax overpayment/(underpayment)	11	(320)
Closing balance receivable/(payable)	(140)	(151)
Deferred tax balances:		
Opening balance	407	134
Recognition of tax losses not previously recognised		
Deferred tax impact of employee provisions	-	20
Recognition of tax losses	124	253
Closing balance	531	407
Deferred tax is made up of the following temporary differences:		
Deferred tax assets:		
Employee provisions recovered	134	134
Tax losses expected to be recovered in future periods	397	273
	531	407

Group unrecognised deferred tax assets comprised of unused tax losses as at 30 June 2017 total \$47,072,778 gross (June 2016: \$48,575,000).

Deferred income tax assets are recognised for tax losses to the extent that the realisation of the related tax benefit through future taxable profits is probable. The tax losses are available to be offset against the future taxable profits of the Group, subject to the shareholder continuity requirements of the tax legislation being met.

As at 30 June 2017 the balance of imputation credits available to the shareholders of the Parent Company were \$226,610 (June 2016: \$156,690).

6 Share capital

	Group 2017 \$000	Group 2016 \$000
Ordinary shares (fully paid)		
Balance at beginning of year	151,740	150,208
Issue of ordinary shares	-	1,532
Transfer due to exercise of options	39	-
Balance at end of year	151,779	151,740
Share options		
Balance at beginning of year	39	39
Transfer due to exercise of options	(39)	-
Balance at end of year	-	39
Total	151,779	151,779
Number of shares issued and fully paid	000's	000's
Balance at beginning of year	159,185	129,831
Issue of ordinary shares	2,320	29,354
Balance at end of year	161,505	159,185

The total number of shares on issue as at 30 June 2017 is 161,505,350 (June 2016: 159,185,350).

Ordinary shares in the Parent do not have a par value. All ordinary shares rank equally as to voting, dividends and distribution of capital on liquidation.

Share options

Allied Farmers Rural Ltd issued \$600,000 of Bonds on 13 September 2013. The Bonds contain a provision that for every 10 Bonds the Bondholders have the option to purchase 58 ordinary shares in Allied Farmers Ltd. These options have been fully exercised.

2,320,000 shares were issued during the 2017 year upon the exercise of 2,320,000 options issued pursuant to the terms and conditions of Allied Farmers Rural Limited's issue of Bonds on 13 September 2013 (010 Bonds). The options were exercised on 5 April 2017 and 31 August 2016. The exercise price was \$0.027 per option, resulting in the receipt of \$62,640 in cash. This completed the exercise of all of the remaining options.

7 Reserves

	2017 \$000	2016 \$000
Accumulated losses		
Balance at beginning of year	(152,328)	(152,217)
Net profit for the year	1,552	705
(Purchase)/Sale of shares in subsidiary New Zealand Farmers Livestock Ltd	20	(816)
Balance at end of year	<u>(150,756)</u>	<u>(152,328)</u>

8 Non Controlling Interest

	2017 \$000	2016 \$000
New Zealand Farmers Livestock Ltd		
Balance at beginning of year	654	495
Current year profit attributable to non controlling interests	677	687
Purchase of shares in NZ Farmers Livestock Ltd	(20)	(184)
Dividend paid to Non Controlling Interests	(514)	(344)
Balance at end of year	<u>797</u>	<u>654</u>

The summarised financial information for the subsidiaries that have Non Controlling Interests that are material to the Group is found in Note 1 to these financial statements and is shown as the Livestock Services segment, with the exception of summarised cash flows which are shown below.

The summarised financial information in Note 1 is disclosed net of intercompany balances. The intercompany balances within the Livestock Services segment that have been eliminated are an intercompany current account balance of \$1,430,684 from the Current Assets (2016: \$338,973) and \$374,000 from the Current Liabilities (2016: Nil).

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

	Livestock Services	
	2017 \$000	2016 \$000
Cash flows generated from operating activities		
Cash generated from operations	2,433	3,214
Interest paid	(359)	(492)
Income tax paid	(293)	(144)
Net cash generated from operating activities	<u>1,781</u>	<u>2,578</u>
Net cash (used in) investing activities	<u>(1,460)</u>	<u>(489)</u>
Net cash (used in) generated from financing activities	<u>(1,345)</u>	<u>(1,586)</u>
Net (decrease) / increase in cash and cash equivalents	(1,024)	503
Cash and cash equivalents at beginning of year	2,111	1,608
Cash and cash equivalents at end of year	<u>1,087</u>	<u>2,111</u>

9 Borrowings

	Group 2017 \$000	Group 2016 \$000
Current		
Bank borrowings (secured)	517	517
Bonds (secured)	1,000	600
Finance leases	318	429
	<u>1,835</u>	<u>1,546</u>
Non Current		
Bank borrowings (secured)	2,199	2,535
Bonds (secured)	550	1,000
Finance Leases	228	247
	<u>2,977</u>	<u>3,782</u>

Bank borrowings

New Zealand Farmers Livestock Limited borrowed \$3,050,000 on 3 September 2013 from the ANZ Bank New Zealand Limited to part finance the acquisition of the sale yards purchased from Allied Farmers Limited. The loan was secured by way of a first mortgage charge over the sale yards. On 27 June 2016 the ANZ Bank New Zealand Limited reset the loan terms in the amount of \$3,052,607 with the current interest rate on the loan as at 30 June 2017 being 6.21% p.a. Repayment of the loan is over 39 months. The loan is repayable monthly at \$43,109 per month. The balance owing at 30 June 2017 is \$2,716,277 (30 June 2016: \$3,052,607) see note 18.2.

Overdraft Facilities

NZ Farmers Livestock Limited has an overdraft facility of \$1,000,000 which has not been drawn down as at 30 June 2017 (June 2016: Overdrawn \$Nil). This facility has an interest rate of 7.1% p.a. and is secured over the assets of NZ Farmers Livestock Limited excluding its subsidiary Farmers Meat Export Limited. A further loan facility of \$750,000 has been established to assist with vehicle acquisitions.

A subsidiary, Farmers Meat Export Limited has, from 1 July 2015, an undrawn seasonal overdraft facility of \$1,500,000 which is on demand. This facility has an interest rate of 6.9% p.a. and is secured over the assets of Farmers Meat Export Limited.

The creation of the Farmers Meat Export Limited facility has created the following additional securities granted in favour of the ANZ Bank New Zealand Limited - A cross guarantee between New Zealand Farmers Livestock Limited and Farmers Meat Export Limited, a first ranking General Security Agreement over all the assets of Farmers Meat Export Limited, and a first ranking General Security Agreement of all the assets of New Zealand Farmers Livestock Limited.

A subsidiary New Zealand Farmers Livestock Finance Limited has two on demand facilities of \$3,000,000 (Bull Facility) and \$3,500,000 (Livestock Facility) neither of which has been drawn down as at 30 June 2017. The facilities have an interest rate of 7.1% p.a. If either of the facilities have a balance of \$1,500,000 or more New Zealand Farmers Livestock Finance Limited will supply to the bank a schedule of details of the individual bull loans or livestock loans outstanding as at that date.

Bonds

Allied Farmers Rural Limited issued \$550,000 of Bonds on 29 August 2016. The Bonds are secured by way of a second charge General Security Agreement over all of the assets and undertakings of Allied Farmers Limited and subsidiaries excluding New Zealand Farmers Livestock Limited and subsidiaries and a specific security over the shares held by Allied Farmers Rural Limited in New Zealand Farmers Livestock Limited plus a guarantee from Allied Farmers Limited and subsidiaries. The bonds have an interest rate of 7.75% and mature on 30 September 2018. There are no specific financial covenants.

Allied Farmers Rural Limited also issued \$1,000,000 of Bonds on 30 September 2014. The Bonds are secured by way of a first charge General Security Agreement over all of the assets and undertakings of Allied Farmers Limited and subsidiaries excluding New Zealand Farmers Livestock Limited and subsidiaries and a specific security over the shares held by Allied Farmers Rural Ltd in New Zealand Farmers Livestock Limited plus a guarantee from Allied Farmers Limited and subsidiaries. The Bonds repayment date is 30 September 2017 and have an interest rate of the one year interest rate swap mid rate per annum determined by Westpac Bank New Zealand on 30 September each year plus a margin of 6 percentage points. At the 30 June 2017 the interest rate on the Bonds was 8.07% p.a. There are no specific financial covenants. This bond has been extended (see note 22).

Borrowing Covenants

ANZ Bank New Zealand Limited

The bank applies a financial covenant annually that the New Zealand Farmers Livestock Limited EBITDA (earnings before interest, taxation, depreciation and amortisation) must be at least 3 times the interest cost expense. The company has complied with this covenant throughout the year. In addition the Group must provide annual financial statements within 5 months after balance date.

Finance Leases

	2017 \$000	2016 \$000
Finance Lease Liabilities		
Lease liabilities are effectively secured as the right to the leased asset revert to the lessor in the event of default		
Gross Finance Lease Liabilities - minimum lease payments		
No later than 1 year	347	467
Later than 1 year and no later than 5 years	243	245
	<u>590</u>	<u>712</u>
Future Finance Charges of Finance Lease Liabilities	(44)	(36)
Present Value of Finance Lease Liabilities	<u>546</u>	<u>676</u>
 The present value of finance lease liabilities is as follows:		
No later than 1 year	318	429
Later than 1 year and no later than 5 years	228	247
	<u>546</u>	<u>676</u>

Finance Lease liabilities have arisen on the financing of the acquisition of motor vehicles. The Finance Leases provide for the ownership of the vehicle to remain with the Lessor and New Zealand Farmers Livestock Limited (the Lessee) has a commitment to pay monthly installments. The security for the Finance Leases is the motor vehicle. The lessee has also committed to meet further obligations relating to distance covered and condition of the vehicle on the expiry of the Finance Lease. Under the terms of the finance lease New Zealand Farmers Livestock Limited has the option to purchase in respect of motor vehicles held under finance leases.

10 Trade and other payables

	2017 \$000	2016 \$000
Trade creditors	6,134	5,099
Employee benefits, profit share and commissions	1,412	932
Other creditors and payables	198	1,113
	<u>7,744</u>	<u>7,144</u>

In the event of liquidation of the Parent, unless statutorily required otherwise, all creditors within this class will rank in priority ahead of shareholders.

Employee benefits

Employee benefit entitlements consist of holiday pay provisions and provisions for staff bonus payments. Holiday pay is provided for at contractual pay rates and is paid to staff in accordance with statutory terms as and when annual leave is taken during the financial period. Bonus payments are based on staff performance against key indicators and are paid within three months following the end of the Group's financial year.

11 Property, plant and equipment

	2017 \$000	2016 \$000
Freehold land		
Cost at beginning of year	2,019	2,019
Additions	-	-
Disposals	-	-
Cost at end of year	2,019	2,019
Buildings		
Cost at beginning of year	1,003	1,003
Purchases	27	-
Cost at end of year	1,030	1,003
Accumulated depreciation at beginning of year	(176)	(115)
Depreciation charged to profit or loss statement	(61)	(61)
Accumulated depreciation at end of year	(237)	(176)
Buildings net book value	793	827
Motor vehicles		
Cost at beginning of year	1,289	1,241
Additions	435	186
Reclassification	14	-
Disposals	(326)	(138)
Cost at end of year	1,412	1,289
Accumulated depreciation at beginning of year	(624)	(334)
Depreciation charged to profit or loss statement	(394)	(420)
Disposals	183	130
Accumulated depreciation at end of year	(835)	(624)
Motor vehicles net book value	577	665
Plant and equipment		
Cost at beginning of year	266	269
Additions	45	13
Disposals	(6)	(6)
Reclassification	-	(10)
Cost at end of year	305	266
Accumulated depreciation at beginning of year	(135)	(116)
Depreciation charged to profit or loss statement	(20)	(25)
Disposals	-	6
Accumulated depreciation at end of year	(155)	(135)
Plant and equipment net book value	150	131
Property, plant and equipment cost at end of year	4,766	4,577
Property, plant and equipment accumulated depreciation at end of year	(1,227)	(935)
Total property, plant and equipment net book value	3,539	3,642
Vehicles include the following amounts where the Group is a lessee under a Capitalised Finance Lease:		
Cost Capitalised Finance Lease	1,412	1,289
Accumulated Depreciation	(835)	(624)
Net Book Amount	577	665

12 Intangible assets

	2017 \$000	2016 \$000
Computer software		
Cost at beginning of year	218	127
Additions	7	99
Disposals	-	(8)
Cost at end of year	225	218
Accumulated amortisation at beginning of year	(136)	(118)
Amortisation charged to profit or loss statement	(47)	(26)
Disposals	9	8
Accumulated amortisation at end of year	(174)	(136)
Computer software net book value	51	82
Goodwill		
Cost at beginning of year	-	-
Additions	100	-
Cost at end of year	100	-
Total Intangible Assets	151	82

13 Investment in subsidiaries

		2017	2016
Subsidiaries of the Parent	Principal Activity		
Allied Farmers Investments Limited	Asset Management Services	100%	100%
Allied Farmers Rural Limited	Corporate Services	100%	100%
ALF Nominees Limited	Non-Trading	100%	100%
Allied Farmers (New Zealand) Ltd	Non-Trading	100%	100%
Subsidiaries of Allied Farmers Rural Limited			
NZ Farmers Livestock Limited	Livestock Services	66%	66%
Subsidiary of NZ Farmers Livestock Limited			
Farmers Meat Exports Limited	Sale of livestock	100%	100%
NZ Farmers Livestock Finance Ltd	Livestock Finance	100%	100%
Subsidiaries of Allied Farmers Investments Limited			
Allied Farmers Property Holdings Limited	Holding Company	100%	100%
QWF Holdings Limited	Non trading	100%	100%
Clearwater Hotel 2004 Limited	Non trading	100%	100%
Lifestyles of New Zealand Queenstown Limited	Non trading	100%	100%
LONZ 2008 Limited	Non trading	100%	100%
LONZ 2008 Holdings Limited	Non trading	100%	100%
Subsidiaries of Allied Farmers Property Holdings Limited			
UFL Lakeview Limited	Non trading	100%	100%
5M No. 2 Limited	Non trading	100%	100%

All companies within the Group are incorporated in and have their principal place of business in New Zealand, and have a balance date of 30 June.

Wholly owned companies of Allied Farmers Limited and that are in receivership or liquidation.

	Date of Receivership/ Liquidation	Principal activity	Interest held by Group	
			2017	2016
Matarangi Beach Estates Limited (in Liquidation)	18 November 2010	Property development and investment	100%	100%

Subsequent to the date of the liquidation this company has not been consolidated as the Group no longer has direct control over the company's affairs.

Business combination

On the 6th September 2016 New Zealand Farmers Livestock Finance Limited acquired the finance business of Stock Plan Limited (a related party see note 17) for a consideration of \$100,000. This acquisition enhanced the finance company's business due to Stock Plan Limited previously supplying finance to a number of New Zealand Farmers Livestock Limited customers. Details of the purchase consideration are as follows:

Purchase consideration

Cash	100,000
Total consideration	<u>100,000</u>

The assets and liabilities recognised as a result of the acquisition are as follows:

Goodwill	100,000
Net assets acquired	<u>100,000</u>

The goodwill is attributable to the profitability of the finance business including the intellectual property, and the trading reputation.

The goodwill is not tax deductible.

Total revenue generated since the date of acquisition included in the statement of comprehensive income.	111
Total profit generated since the date of acquisition included in the statement of comprehensive income	17
Total revenue as though the acquisition had occurred throughout the full year	139
Total profit as though the acquisition had occurred throughout the full year	21

14 Joint Arrangements

The Group's subsidiary New Zealand Farmers Livestock Limited owns a proportion of various sale yard tangible assets and has joint arrangements in relation to the operation of these sale yards (referred to as 'Associated Auctioneers').

These joint operations are in place over 5 different locations. These joint operations are charged with the operating activities of the sale yards including conducting sales of livestock via the auction process, maintaining the sale yards, collecting levies on livestock sales and meeting operating costs of the yards. If there is a shortfall in the income to meet the operating costs in any one year then the joint operation's parties are required to contribute to the shortfall in the proportion of their ownership of the sale yards.

The various joint operations are:

	Share of Joint Operation	Location	2017	2016
- Associated Auctioneers 33% Te Kuiti				
Summarised Balance Sheet				
Current Assets			107	74
Current Liabilities			55	38
Net Assets			52	36
Summarised statement of profit or loss				
Income			291	232
Expenses			275	254
Profit			16	(22)
- Associated Auctioneers 50% Stratford				
Summarised Balance Sheet				
Current Assets			121	81
Current Liabilities			11	9
Non current assets			18	19
Net assets			128	91
Summarised statement of profit or loss				
Income			273	285
Expenses			236	212
Profit			37	73
- Associated Auctioneers 50% Frankton				
Summarised Balance Sheet				
Current Assets			123	177
Current Liabilities			27	11
Non current assets			96	103
Net assets			192	269
Summarised statement of profit or loss				
Income			524	463
Expenses			382	351
Profit			142	112
- Associated Auctioneers 50% Taumaranui				
Summarised Balance Sheet				
Current Assets			7	11
Current Liabilities			3	5
Net assets			4	6
Summarised statement of profit or loss				
Income			-	8
Expenses			1	9
Profit			(1)	(1)

- Associated Auctioneers 25% Morrinsville

Summarised Balance Sheet

Current Assets	111	146
Current Liabilities	20	23
Non current assets	251	242
Net assets	342	365

Summarised statement of profit or loss

Income	361	366
Expenses	308	278
Profit	53	88

There are various contractual restrictions in relation to the assets and liabilities of these joint operations, such as requiring unanimous agreement in relation to accessing the bank accounts.

The joint operation of the sale yards is strategically vital to the interests of New Zealand Farmers Livestock Limited as the sale yards activity provide significant income to New Zealand Farmers Livestock Limited via commission on the sale of livestock handled through the sale yards.

15 Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows;

	2017 \$000	2016 \$000
Redshaw Livestock Ltd original cost including legal expenses	232	214
Additional cost of further 17% shareholding	212	-
Fair value adjustment recognised in Other operating expense in Statement of profit or loss and other comprehensive income	(38)	-
Share of profit for year (net of dividend)	5	18
Total	411	232

Working capital loan

136 68

The amounts recognised in the profit or loss are as follows;

Redshaw Livestock Ltd	5	18
-----------------------	---	----

The associate listed below has share capital consisting solely of ordinary shares, which are held directly by the group; the country of incorporation is also the place of business

Name of entity	Place of incorporation/ place of business	New Zealand Farmers Livestock Limited % of ownership interest	Nature of relationship	Measurement method
Redshaw Livestock Ltd	New Zealand	34%	Livestock Trading	Equity

	2017	2016
Summarised Balance Sheet		
Current Assets	2,057	2,263
Current Liabilities	2,042	2,189
Non current assets	1,266	1,274
Net assets	1,281	1,348

Summarised statement of profit or loss

Income	488	639
Expenses	286	381
Profit	202	258

Reconciliation of summarised financial information

Opening net assets at 1 July 2016	1,348	1,250
Profit for period after tax	145	258
Tax on previous year	(72)	-
Dividend	(140)	(160)
Closing net assets	1,281	1,348
Interest in associate at 34%	435	232

16 Trade and other receivables

	2017 \$000	2016 \$000
Trade receivables livestock (gross)	5,986	5,534
Trade receivables finance (gross)	2,074	-
Provision for impaired assets	(2)	(24)
Trade receivables (net of provision)	8,058	5,510
Prepayments	95	308
	8,153	5,818
Aging of Past Due Receivables that are not impaired		
1-30 days	301	304
31-60 days	93	89
61-90 days	104	65
Total Past Due Receivables	498	458

It is expected that all trade receivables will be collected within 12 months of the balance date.

17 Related party transactions

Overview of related party transactions

All transactions with related parties are entered into in the ordinary course of business.

Categories of related party relationships

Related party transactions are detailed by reference to the following categories:

- (a) Key management personnel: those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all directors.
- (b) Other related parties: Other related parties including entities that may have directors who are also directors of the Company.

(a) Key management personnel

	2017 \$000	2016 \$000
Salaries and other short term benefits	309	271
Directors fees	138	137
Total key management personnel compensation	447	408
Directors long service leave entitlement	211	197

There are no directors fees unpaid as at 30 June 2017 (2016: \$55,292).

Certain directors and key management of the Allied Farmers Limited Group of companies have completed livestock trading transactions with the Group's subsidiary, New Zealand Farmers Livestock Limited, which over the year that totalled \$504,534 in sales, \$314,757 in purchases, and \$33,829 in commission, resulting in gross transactions of \$853,120 (2016: \$1,020,386).

As at 30 June 2017 those directors and key management owed the group \$10,482 (2016: \$3,778) and the group owed those parties \$ nil (2016: \$110,029). There have been no bad debts written off any of these amounts.

(b) Other related parties

Allied Farmers Rural Limited has bonds on issue. Mark Bensemen is the holder of \$750,000 in bonds through his company Albany Braithwaite Holdings Ltd.

At year end the Group had a receivable of \$136,000 from Redshaws Livestock Limited (2016: \$68,000).

Purchase of financing business from Stock Plan Limited

On the 12th September 2016 New Zealand Farmers Livestock Finance Limited acquired the finance business of Stock Plan Limited (a related party see note 13) for a consideration of \$100,000. This acquisition enhanced the finance company's business due to Stock Plan Limited previously supplying finance to a number of New Zealand Farmers Livestock Limited customers. Two current management personnel are indirectly shareholders of Stock Plan Limited

18 Financial risk management

18.1 Credit risk

Credit risk is the risk that a counterparty to a transaction with the Group will fail to discharge its obligations, causing the Group to incur a financial loss. Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, and trade and other receivables.

Credit risk is actively managed by the Group to ensure individual counterparty as well as industry exposures are monitored. Risk is measured by continual evaluation of counterparty exposures with regard to changes in the economic circumstances of the counterparty, the counterparty's industry, and wider macro-economic influences.

Risk exposures by class of financial instrument

The Group's financial assets are categorised into cash and cash equivalents, trade and other receivables, and advances.

Cash and cash equivalents

The Group are exposed to the risk of default by placing cash deposits with banks. The maximum credit risk is the face value of its cash deposits, which is disclosed in note 18.5. The Group's exposure to banks is unsecured. To manage this risk, the Group only deposits cash with New Zealand registered banks.

Trade and other receivables

For all trade and other receivables, there is the risk that the counterparty to the receivables may not settle its obligations when they fall due. The maximum credit risk is the face value of the trade and other receivables. The exposures are largely unsecured except for receivables for livestock finance which are secured over the livestock. Risk exposures in trade and other receivables are managed on a case-by-case basis depending on the materiality of the exposure.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

	2017 \$000	2016 \$000
Credit quality of financial assets		
Cash at bank		
ANZ Bank New Zealand Ltd	1,452	2,149
Westpac Banking Corporation Ltd	33	266
Bank of New Zealand Ltd	39	30
TSB Bank Ltd	53	33
	<u>1,577</u>	<u>2,478</u>

All banks have a minimum rating of A- or higher.

	2017 \$000	2016 \$000
Trade Receivables		
Counterparties without external credit rating		
Group 1	2,065	234
Group 2	5,993	5,276
	<u>8,058</u>	<u>5,510</u>
Trade Receivables written off at year end	<u>30</u>	<u>39</u>

Group 1 - new customers less than six months

Group 2 - existing customers more than six months with no defaults in the past

The Group has no credit rating for Trade Receivables. The Group continually assesses the Trade Receivables credit risk and measures the risk against receipts that may not have been paid on time. The Group believes that the rate of default by Trade Receivables is minimal. At the time of authorising these financial statements the majority of receivables had been collected.

It is Company Procedure that an Account Application must be opened before the purchase of livestock.

If livestock are sold to a non account holder, then a "Vendor Only" account will be opened in order for the transaction to be processed, the account remains as a "Vendor Only" until a completed account application is returned to NZFLL.

Once the account application is received credit checks are completed and if there is nothing untoward the account is opened and then PPSR lodged.

18 Financial risk management (continued)

18.2 Liquidity risk

Liquidity risk is reviewed on an ongoing basis and managed to meet requirements. Cash flow forecasting is performed in the operating entities of the Group and aggregated at Group level. The Group monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 9) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

The amounts disclosed in the tables below show the contractual undiscounted cash flows due on financial liabilities. The amounts below also reflect the contractual repricing timing on financial liabilities, if applicable.

30 June 2017		Under 6	6-12	1-2	2-5	Over 5
	Total	Months	Months	Years	Years	Years
\$000						
Financial liabilities						
Trade and other payables	7,744	7,744	-	-	-	-
Borrowings - ANZ Bank New Zealand Ltd	2,715	259	259	518	1,680	-
Borrowings - Finance Leases	546	159	159	228	-	-
Borrowings - Bonds	1,550	1,000	-	550	-	-
Gross payable on financial liabilities	12,555	9,162	418	1,296	1,680	-
<hr/>						
30 June 2016		Under 6	6-12	1-2	2-5	Over 5
	Total	Months	Months	Years	Years	Years
\$000						
Financial liabilities						
Trade and other payables	7,144	7,144	-	-	-	-
Borrowings - ANZ Bank New Zealand Ltd	3,053	259	259	517	2,018	-
Borrowings - Finance Leases	712	233	234	245	-	-
Borrowings - Bonds	1,600	600	-	-	1,000	-
Gross payable on financial liabilities	12,509	8,236	493	762	3,018	-

18.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk. The Group is not exposed to other price risk or currency risk.

Market risk sensitivity analysis

If market interest rates for borrowings - other assets (secured) were to increase or decrease by 50 basis points (bps) the affect on net profit after tax, and equity, for the year as applied to year end balances would be as follows:

	2017 \$000	2016 \$000
Borrowings - ANZ Bank New Zealand Ltd and bonds (secured)		
If interest rates for the year were 50 bps higher		
Effect on net profit for the year / equity	(21)	(20)
If interest rates for the year were 50 bps lower		
Effect on net profit for the year / equity	21	20

18.4 Capital management

The Group's capital is its equity on the balance sheet, including its share capital and accumulated losses.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares, sell assets, seek new debt funding, or adjust the amount of dividends paid to shareholders. In addition the Group will monitor:

18.5 Offsetting financial assets and liabilities

The ANZ Bank New Zealand Limited in accordance with the mortgage over the New Zealand Farmers Livestock Limited sale yards assets may (but is not obliged to) debit any of the Borrower's other bank accounts with the ANZ Bank New Zealand Limited with any amount payable by the Borrower under that mortgage agreement.

The result of this arrangement is that the ANZ Borrowings of \$2,716,277 could be settled net with \$1,087,239 cash recognised in these financial statements.

19 Contingent assets and liabilities

There were no material contingent assets or liabilities outstanding as at 30 June 2017 for the Group (2016: nil).

20 Commitments

The following amounts have been committed by the Group but not recognised in the financial statements:

	2017 \$000	2016 \$000
Operating lease commitments		
Lease commitments under non-cancellable operating		
Not later than one year	93	104
Later than one year and not later than five years	6	72
Later than five years	-	-
	<u>99</u>	<u>176</u>

The Group leases premises, plant and equipment and motor vehicles. Operating leases held over properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor. There are no renewal options or options to purchase in respect of plant and equipment held under operating leases. There are options to purchase in respect of motor vehicles held under finance leases (refer note 9). There are also options to purchase Land and Buildings currently leased if certain criteria are met.

21 Financial assets and liabilities

The table below sets out the Group's classification of each class of financial asset and liability.

The fair value of the financial assets and liabilities approximates their carrying value.

	Loans and receivables	Other amortised cost	Total
	\$000	\$000	\$000
30 June 2017			
Assets per balance sheet			
Cash and cash equivalents	1,577	-	1,577
Trade and other receivables	8,058	-	8,058
	<u>9,634</u>	<u>-</u>	<u>9,634</u>
Liabilities per balance sheet			
Trade and other payables	-	7,744	7,744
Borrowings - Bank	-	2,716	2,716
Borrowings - Bonds	-	1,550	1,550
Borrowings - Finance Leases	-	546	546
	<u>-</u>	<u>12,557</u>	<u>12,557</u>
30 June 2016			
Assets per balance sheet			
Cash and cash equivalents	2,478	-	2,478
Trade and other receivables	5,510	-	5,510
	<u>7,988</u>	<u>-</u>	<u>7,988</u>
Liabilities per balance sheet			
Trade and other payables	-	7,144	7,144
Borrowings - Bank	-	3,053	3,053
Borrowings - Bonds	-	1,600	1,600
Borrowings - Finance Leases	-	676	676
	<u>-</u>	<u>12,473</u>	<u>12,473</u>
Financial Assets pledged as collateral for bank facilities			
		2017	2016
		\$000	\$000
Cash and cash equivalents		1,465	2,111
Trade and other receivables		8,058	5,818
		<u>9,523</u>	<u>7,929</u>

The pledged assets are secured to ANZ Bank New Zealand Ltd under the following securities;

- Cross guarantee and indemnity between NZ Farmers Livestock Limited, Farmers Meat Export Limited,
- Registered first ranking general security agreement over the present and after acquired property of Farmers Meat Export Limited,
- Registered first ranking general security agreement over the present and after acquired property of NZ Farmers Livestock Limited.

22 Subsequent Events

Variation to bond terms

The one million first ranking \$1 bonds issued by Allied Farmers Rural Limited on 9 October 2014 are due to mature on 30 September 2017. Allied Farmers Rural Limited and all of the holders of these bonds have agreed, among other things, to:

- extend the maturity date of the bonds to 30 September 2021; and
- amend the interest rate of the bonds from the equivalent to the 1 year interest rate swap mid-rate per annum determined by Westpac New Zealand Limited on 30 September of each year plus a margin of 6 percentage points, to an interest rate of 450 basis point margin over the 4 year swap rate as at 30 September 2017 as advised in writing to the Company by the ANZ Banking Group Limited, but not less than 6.50% per annum and not more than 7.50% per annum.

Business combinations

Redshaw Livestock Limited

On 1 July 2017 New Zealand Farmers Livestock Limited settled its obligation to purchase the third tranche of shares in Redshaw Livestock Ltd. From that date NZ Farmers Livestock Ltd will own 52% of the shares on issue of Redshaw Livestock Ltd. For the years 2016 and 2017 the investment in Redshaws Livestock Ltd has been accounted for using the equity accounting process. For the year 2018 Redshaws Livestock Ltd will be consolidated into the Group accounts.

Purchase consideration	
Fair Value as at 1 July 2017 of the 34% already acquired	435,540
Cash paid for 18% on 1 July 2017	225,000
	660,540

The provisionally determined values of the fair value of assets and liabilities of Redshaw Livestock Ltd as at the date of acquisition are as follows:

Cash and cash equivalents	80,000
Receivables	1,927,321
Tax	(6,812)
Property, plant and equipment	20,762
Payables	(1,455,771)
Borrowings	(530,278)
	35,222
Less non-controlling interests	(16,906)
Add: Goodwill	642,225
Net assets acquired	660,540

The goodwill is attributable to Redshaw Livestock Ltd's strong position and profitability in trading in the livestock market and synergies expected to arise after the company's acquisition of the new subsidiary. None of the goodwill is expected to be deductible for tax purposes.

Acquisition-related costs of \$2,000 will be included in other expenses in profit or loss in the reporting period ending 30 June 2018.

The Group has determined that the fair value if the investment is \$650,000. This represents no change of value of the investment.

The primary reasons for the business combination to expand our livestock agency network.

At the time the financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition of Redshaw Livestock Limited. In particular, the fair values of the assets and liabilities disclosed above have only been determined provisionally as formal valuations have not been finalised.

Property Ventures Limited (in liquidation).

On 30 August 2017 the liquidators of Property Ventures Limited ("PVL") advised that they have achieved a partial settlement and settled the litigation against PVL's auditors for a confidential amount. Allied is entitled under the terms of a Deed of Assignment to a proportion of any net proceeds of both that litigation and the ongoing litigation against the PVL Directors. At this time no obligation to pay Allied has crystallised because the net proceeds, if any (and notwithstanding the partial settlement), will not be known until completion of the liquidators' proceeding against PVL's directors. By way of example, if the liquidators' costs incurred in the litigation against the directors was to exceed the amount of the Settlement, and that litigation was not successful, there would be no net proceeds and no payment to Allied.



Independent auditor's report

To the shareholders of Allied Farmers Limited

The financial statements comprise:

- the balance sheet as at 30 June 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- statement of accounting policies; and
- notes to the financial statements.

Our opinion

In our opinion, the financial statements of Allied Farmers Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group



Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: \$110,700, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We have one key audit matter relating to the recognition of commission income.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<i>Revenue recognition - Commission income</i> <p>The Group's revenue includes commission income of \$12.2 million. This represents 70% of the Group's total income.</p> <p>The Group records commission on an accrual basis. Commission is generally charged at a set percentage of the livestock sales value or price per head of stock at rates the Group have agreed with individual agents.</p> <p>There are complexities related to revenue recognition, including:</p> <ul style="list-style-type: none">Assessing whether livestock sale transactions are agency or principal transactions under accounting standards. Management have concluded that the Group is an agent; andCommission rates charged by livestock agents to customers are variable and are often 'non-standard'. <p>Due to the complexities noted above, there is a heightened risk of error when recognising commission income, and we therefore applied significant audit focus to this area.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none">Evaluating the processes and controls in place over the recording of commission income;Reviewing the relevant contractual terms of livestock sales contracts and assessing the appropriateness of recognising revenue as an agent;Testing on a sample basis the commission rates applied by:<ul style="list-style-type: none">Checking that commission rates charged were within a reasonable range based on the Group standard rate cards;Agreeing rates charged outside the defined reasonable range to the approved daily auction sale sheets; andAgreeing settled transactions to cash received. <p>The procedures performed responded to the heightened risk and no exceptions were identified.</p>

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Chris Ussher.

For and on behalf of:

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
31 August 2017

Wellington

COMPANY DIRECTORY

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