

ALLIED FARMERS

ALLIED FARMERS LIMITED

NOTICE OF ANNUAL MEETING 2015

Notice is hereby given that the Annual Meeting of Shareholders of Allied Farmers Limited (“**the Company**” or “**ALF**”) will be held at the TSB Hub, Camberwell Road, Hawera (entrance from either Waihi Road or Camberwell Road) on Tuesday 24 November 2015 at 11.00am.

Important Notice

Explanatory Note 5 in relation to Resolution 5 below “*Approval of Purchase of Shares in NZ Farmers Livestock Ltd*” refers shareholders to a valuation of NZ Farmers Livestock Limited shares prepared by Campbell MacPherson. The valuation may be viewed on line at www.alliedfarmers.co.nz and www.nzx.com/companies/ALF, or a copy may be requested by emailing the company at headoffice@alliedfarmers.co.nz, writing to PO Box 304, Stratford 4352, or by phoning 06 765 6199.

Items of Business

- a. Chairman’s introduction
- b. Addresses to shareholders
- c. Shareholder discussion
- d. Resolutions.

Resolutions

To consider, and if thought fit, to pass the following ordinary resolutions:

1. **Director re-election:** That Andrew McDouall be re-elected as a Director of the Company.
2. **Director election:** That Mark Benseman be elected as a Director of the Company.
3. **Auditor’s fees:** That the Directors be authorised to fix the auditor’s fees and expenses for the ensuing year.
4. **Issue of shares to satisfy directors’ remuneration:** That remuneration previously authorised by shareholders of the Company:
 - a. to be paid per annum to Non-Executive Directors (in their capacity as Directors); and
 - b. unpaid from previous years and owing to Non- Executive Directors, and to former Non- Executive Director Jeff Keenan, accrued in the manner described in Explanatory Note 4, may be payable either in part or in whole by way of an issue of Equity Securities, as permitted by Rules 3.5.1 and 7.3.8 and as detailed further in Explanatory Note 4.
- 5: **Approval of Purchase of Shares in NZ Farmers Livestock Ltd:** That pursuant to NZX Main Board Listing Rules 7.3.1(a) and 9.2.1, and all relevant provisions of the Company’s constitution, the proposed purchase by Allied Farmers Rural Limited (“**AFRL**”) of 950 shares in NZ Farmers Livestock Limited (“**NZFL**”) from Stockmans Holdings Limited (“**Stockmans**”) in consideration for the issue to Stockmans of fully paid ordinary shares in ALF equivalent in value to \$1 million, and as detailed further in the Explanatory Note 5, is approved.

Ordinary Resolution

The business for the meeting is to pass the ordinary resolutions set out above. An ordinary resolution is a resolution passed by a simple majority of votes of holders of securities which carry votes, entitled to vote, and voting. Persons not entitled to vote on particular resolutions are set out in the Explanatory Notes.

Attendance and Voting

Your rights to vote may be exercised by:

- (a) attending and voting in person; or
- (b) appointing a proxy (or representative) to attend and vote in your place.

The proxy need not be a shareholder of the Company and the form of appointment of a proxy and voting instructions accompanies this Notice of Annual Meeting. The Chairman of the meeting is willing to act as proxy for any shareholder who may wish to appoint him for that purpose and, except in relation to Resolution 4 where he is precluded from exercising a proxy discretion, he intends to vote in favour of all resolutions where he is given a "Proxy Discretion". Shareholders wishing to appoint a proxy (or representative) must complete and send the proxy form so that it is received by Link Market Services no later than 12:00pm on Friday 20 November 2015.

Corporate Representatives

A corporation which is a Shareholder may appoint a person to attend the meeting on its behalf in the same manner as that in which it could appoint a proxy.

By order of the Board of Directors

Garry Bluett
Chairman
9 November 2015

EXPLANATORY NOTES

Resolution 1: Re-election of Andrew McDouall as a Director

Pursuant to NZX Main Board Listing Rule (**Rule**) 3.3.11, one third of the Company's Directors must retire by rotation at each annual meeting. Andrew McDouall retires in accordance with Rule 3.3.11 and offers himself for re-election.

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

Resolution 2: Election of Mark Benseman as a Director

Mark Benseman was appointed by the Board as a non-executive director with effect from 1 October 2015. As he was appointed by the Board, it is a requirement of Rule 3.3.6 that he retire from office at this Annual Meeting and his election be considered by shareholders at this Annual Meeting. Mark Benseman offers himself for election.

Mr. Benseman is an experienced manager and financial analyst, with over 25 years' experience in the investment industry. He combines a strong financial skill set and an appreciation of strategic issues, with

experience of day-to-day business decisions making. He has in the past had a role as a senior analyst with ABN AMRO New Zealand, was Director and Head of Research with CitigroupSmith Barney in New Zealand, and similarly with Merrill Lynch (NZ). The Board of the Company has determined that Mark Benseman is not an Independent Director.

The Board unanimously supports both Andrew's re-election and Mark's election.

Resolution 3: Payment of auditor's fees

PricewaterhouseCoopers are automatically reappointed as auditors under section 207T of the Companies Act 1993. Resolution 3 authorises the Directors to fix the fees and expenses of the auditors for the ensuing year under section 207S of the Companies Act 1993.

Resolution 4: Directors' Remuneration

Due to cash flow constraints and the desire of the Board to prioritise payments to other creditors, over recent years the Directors have voluntarily agreed to the deferral of payment of some directors' fees owing to them until such time as the Company is in a better position to pay them. This has resulted in an accrual of \$327,001 as at 30 June 2015 (see note 26 of the Company's 2015 Financial Statements). The accrual is in relation to directors' remuneration owed to current Non-Executive Directors Garry Bluett, Andrew McDouall and Philip Luscombe, and to former Non-Executive Director Jeff Keenan, who resigned on 30 June 2015.

Resolution 4 **does not** seek an increase in the Directors' fee pool of \$332,000 that was approved at the 2007 Annual Meeting under Rule 3.5.1(a). While it is possible that in the future an additional director will be appointed to the Company's Board, and an independent chairman appointed to the Board of NZFL, the Board of the Company considers there is sufficient headroom in the currently authorised fee pool to accommodate the payment of directors' fees to any additional group directors.

Directors' fees are currently allocated by the Directors per annum as follows:

- Chairman \$50,000; and
- Other Directors:
 - \$21,000 each base fee; plus
 - \$8,000 each for Sub-Committee members, and members of trading subsidiaries (i.e. NZFL); plus
 - \$5,000 each for Audit Committee members.

If Resolution 4 is passed, under Rule 3.5.1 accrued and future Directors' fees may be paid in full or in part by the Company issuing former and current Directors with Equity Securities (i.e. most likely ordinary shares) rather paying them in cash.

The intention is that, initially, the Company will issue Equity Securities to satisfy payment of the \$327,001 accrual to former and current Directors, but the authorisation also provides sufficient flexibility to enable the payment of future directors' fees either partly or wholly by way of the issue of Equity Securities. Rule 7.3.8 requires that where Equity Securities are issued:

- The Equity Securities must be of a class already on issue;
- The issue of Equity Securities must be made after the end of the period or half period to which the remuneration relates; and
- The issue price must be equal to the volume weighted average market price of Equity Securities of that class over the 20 business days before the issue occurs.

The number of new ordinary shares required to be issued by the Company to satisfy payment of all of the \$327,001 accrual to former and current Directors will not be known until the volume weighted average market price of the Company's ordinary shares over the 20 business days before the issue occurs can be calculated. However, for illustrative purposes, based on the volume weighted average price of the Company's ordinary shares on 2 November 2015 of 0.0519, 6,300,597 new shares would be required to be issued, being 4.50 percent of the total number of issued ordinary shares (prior to the issue of any new shares pursuant to Resolution 5). The dilution effect of the issue of new shares

issued pursuant to Resolutions 4 and 5 is explained further under the heading “Dilution effect on current shareholders” below.

Voting Restrictions for Resolution 4

Rule 9.3.1 requires the Company to disregard any votes cast on Resolution 4 by any person intended to receive a payment or benefit, or any Associated Person of that person. The current directors, Garry Bluett, Philip Luscombe, Andrew McDouall and Mark Benseman, and former Director Jeff Keenan, and any Associated Persons of these persons, are each disqualified from voting on Resolution 4 pursuant to Rule 9.3.1. The Company will disregard any votes cast on Resolution 4 by any persons to whom the foregoing applies.

Pursuant to Rule 9.3.3, any discretionary proxies given to persons disqualified from voting under the requirements set out above will not be valid. Proxies that give express voting instructions to such persons will, however, be accepted.

Resolution 5: Purchase by AFRL of NZFL Shares from Stockmans

Requirement for Shareholder Resolution

Rule 9.2.1 prohibits an issuer from entering into a Material Transaction with a Related Party unless it is approved by shareholders.

Rule 9.2.2 deems a transaction to be a Material Transaction if the value of the transaction exceeds 10 percent of the Company’s Average Market Capitalisation (“AMC”). At the date of the Transaction (defined) below, the Company’s AMC was 6.94 million.

The proposed purchase by AFRL of 950 shares in NZ Farmers Livestock Limited (“**NZFL Shares**”) from Stockmans for a purchase price of \$1 million (“**Purchase Price**”), to be satisfied by the issue of new ordinary shares in ALF of an equivalent value to the Purchase Price (“**New Shares**”) (“**Transaction**”), exceeds 10 percent of the AMC, and is therefore a Material Transaction.

Rule 9.2.3 deems a Transaction to be with a Related Party if a party to the Transaction is a Director or executive officer of the Issuer or any of its Subsidiaries. NZFL and Farmers Meat Export Limited (**FMEL**) are both Subsidiaries of ALF. Oliver Carruthers is a director of NZFL, and Bill Sweeney is a director of FMEL. Because both Oliver Carruthers and Bill Sweeney are also the only directors and shareholders of Stockmans, Stockmans is an Associated Person of Oliver Carruthers and Bill Sweeney.

In summary, therefore, Stockmans, Oliver Carruthers and Bill Sweeney are Related Parties of ALF because:

- Oliver Carruthers and Bill Sweeney are Directors of Subsidiaries of ALF; and
- Stockmans is an Associated Person of Oliver Carruthers and Bill Sweeney.

Accordingly, the Transaction is deemed by Rule 9.2.3 to be a Material Transaction with a Related Party requiring approval by shareholders pursuant to Rule 9.2.1.

In addition, Rule 7.3.1(a) requires the issue of the New Shares to be approved by shareholders.

Accordingly, Resolution 5 seeks shareholder approval of the Transaction pursuant to Rules 7.3.1(a) and 9.2.1.

The number of New Shares has yet to be calculated. However, on 30 October 2015, being the date one business day prior to the date the Transaction was entered into, the VWAP was \$0.0519, which means that, unless the VWAP on the date one business day prior to settlement of the Transaction is lower than \$0.0519, the number of New Shares will be 19,267,822, being 12.59 percent of the total number of ordinary shares on issue after the issue of the New Shares. If the VWAP on the date one business day prior to settlement of the Transaction is lower than \$0.0519, a greater number of New Shares will be

issued. The dilution effect of the issue of new shares issued pursuant to Resolutions 4 and 5 is explained further under the heading "Dilution effect on current shareholders" below.

Reason for Transaction

Due to an urgent requirement to raise cash to repay on demand debt to Crown Asset Management Limited, in October 2014 AFRL sold 1026 NZFL shares to Stockmans and Agent Company Limited for \$1 million ("**2014 Sale**"). This was also a Material Transaction with a Related Party. On 31 July 2014 NZX Regulation granted a waiver from the Rule 9.2 requirement for ALF to obtain shareholder approval to the 2014 Sale.

The Share Sale will approximately put AFRL back into a similar ownership position prior to the 2014 Sale, and involves the same total consideration of \$1 million, albeit for fewer NZFL shares (i.e. 950 shares as opposed to 1026 shares in the 2014 Sale) due to the increase in value of NZFL in the intervening period. The Share Sale will increase AFRL's shareholding in NZFL from the current 5846 shares (56.96%) to 6,796 (66.21%).

The Company's Board considers the Transaction to be an attractive investment and in the best interests of the Company because:

- Given that its shares in NZFL are the Company's only meaningful asset and the primary source of income, the Company's future growth is likely to be generating through the growth in value of its investment in NZFL. As the parent company of NZFL and with its long history and experience in the rural sector, the Company provides considerable support and input into the growth of NZFL. The Company considers that by increasing its holding in NZFL it is able to generate optimal return for its efforts;
- The Company and AFRL are cash constrained and are reliant on distributions from NZFL to fund its costs. By issuing shares in the Company as consideration for the purchase of the NZFL Shares there is no cash outlay, but as a result of the increased shareholding in NZFL, AFRL is forecast to receive higher cash distributions than is currently the case. In essence, the Transaction is a form of capital raising by the Company enabling it to acquire a cash generating asset;
- The Company was a reluctant seller of NZFL shares in 2014 and is now wants to approximately re-establish the ownership structure that was established when NZFL was formed in 2012; and
- The Purchase Price is fair, as illustrated by it being within the valuation range referred to below, and the New Shares are being issued at market value, meaning that no non-participating shareholder is negatively impacted by the Share Sale.

It is understood that Stockmans wishes to pursue the Transaction in order to provide more liquidity to it NZFL investment (i.e. the Company's shares are able to be traded on the NZX Main Board, whereas NZFL shares are more difficult to trade and require compliance with a lengthy pre-emptive rights process, and are subject to tag along and drag along restrictions).

If the Transaction does not proceed, the Board believes that it is highly unlikely that in the short to medium term it will be able to find, and complete the purchase of, an alternative cash generating asset that can be funded wholly by way of the issue of new shares. Given this, the Company would likely have to raise additional working capital from alternative, more expensive sources such as issuing debt securities, that continue to put pressure on cash (by payment of interest) and do not provide the upside growth opportunities that the Board believes are possible through an increased percentage ownership of NZFL.

NZX Waiver

Rule 9.2.5(b) requires that the Notice of Meeting for a resolution under Rule 9.2.1 be accompanied by an independent appraisal report. In addition, Rule 6.2.2 (b) requires that the Notice of Meeting for a resolution under Rule 7.3.1 be accompanied by an independent appraisal report.

NZX has granted the Company a waiver from Rules 6.2.2 (b) and 9.2.5(b), to permit the Company to seek approval of shareholders in respect of the Transaction, without having to provide an independent

appraisal report to shareholders with the Notice of Meeting (“**Waiver Decision**”). The Waiver Decision can be viewed at www.nzx.com/companies/ALF and gives the reasons for that decision.

One of condition of granting the waiver is that the Directors of ALF/AFRL provide certification, in a form acceptable to NZX Regulation, that:

- the terms of the Transaction were negotiated on a commercial and arms’ length basis;
- the terms of the Transaction are fair and in the best interests of ALF and ALF’s shareholders;
- AFRL and ALF were not influenced in their decisions to enter into the Transaction by the relationships between ALF, AFRL, and the related parties.

The ALF/AFRL Directors have provided this certification.

Under the Rules an Appraisal Report is prepared for the benefit of shareholders by an independent appropriately qualified person approved by NZX. Such a report is to state whether the consideration and the terms and conditions of the transaction in question are fair (in the opinion of the appraiser) to the shareholders who are not interested in the Transaction. It must also set out the grounds for that opinion. The implication for shareholders is that they do not receive this independent advice as to the fairness of the Transaction intended by Resolution 5 in considering their voting decision.

However, a key reason underpinning the Waiver Decision is that an NZX Regulation approved independent valuer, Campbell MacPherson, has provided the Company with a valuation of NZFL shares. Campbell MacPherson has assessed the current fair market value for 100% of NZFL to be in the range of **\$872 to \$1,137 per share**. AFRL is paying \$1 million for 950 NZFL shares, or \$1053 per share, and accordingly the Purchase Price is within the range of the independent valuation. Further information on the valuation methodologies adopted by Campbell MacPherson can be found on the following pages of its report:

- Discounted Cash Flow pages 18-20
- Capitalisation of Earnings pages 20-22
- Assessed Valuation Range page 22

As noted above, the Purchase Price is to be satisfied by the issue of the New Shares. ALF/AFRL and Stockmans have agreed that the value to be attributed to the New Shares will be calculated at the lower of the 20 Business Day Volume Weighted Average Price of ALF’s shares trading on the NZX Main Board (“**VWAP**”) at the date one business day prior to the date the Transaction is entered into, and the VWAP one business day prior to the date of settlement of the Transaction.

Rule 6.2.1 requires this Notice of Meeting, which sets out the text of a resolution to be put to the meeting for the purposes of Rule 7.3.1, to contain the precise terms and conditions of the specific proposal to issue the shares in question. The Company provides the following information for the purposes of Rule 6.2.1:

- **Number of shares to be issued:** The number of New Shares has yet to be calculated. However, on 30 October 2015, being the date one business day prior to the date the Transaction was entered into, the VWAP was \$0.0519, which means that, unless the VWAP on the date one business day prior to settlement of the Transaction is lower than \$0.0519, the number of New Shares will be 19,267,822, being 12.59 percent of the total number of ordinary shares on issue after the issue of the New Shares. If the VWAP on the date one business day prior to settlement of the Transaction is lower than \$0.0519, a greater number of New Shares will be issued.
- **Purpose of the issue:** The New Shares are to be issued as consideration for the transfer of the NZFL Shares from Stockmans to the Company.
- **Issue price:** The lower of \$0.0519 per share, being the VWAP one business day prior to the date of the Transaction, and the VWAP one business day prior to settlement of the Transaction.
- **Party to whom the shares will be issued:** Stockmans Holdings Limited
- **Consideration for the issue:** As noted above, the New Shares are issued as consideration for the transfer of the NZFL Shares from Stockmans to the Company.

- **Period of time within which the issue will be made:** The shares are intended to be issued on the settlement date of the transaction, being 4 December 2015.
- **Ranking of shares to be issued:** All of the New Shares will be issued on the same terms, and will rank equally with, the Company's existing ordinary shares.

Dilution effect on current shareholders

The following explanation of the dilution effect on current shareholders if resolutions 4 and/or 5 are passed assumes a volume weighted price of the Company's ordinary shares of \$0.0519 (**VWAP**), being the VWAP on 30 October 2015. If, on the date of the issue of any ordinary shares approved by Resolutions 4 and/or 5 the VWAP is greater than \$0.0519, the dilution effect will be less, and, if, on the date of the issue of any ordinary shares approved by Resolutions 4 and/or 5 the VWAP is less than 0.0519 the dilution effect will be more.

- If Resolution 4 is passed and the estimated number of 6,300,597 new ordinary are subsequently issued the total number of ordinary shares of the Company on issue will increase from 133,778,389 to 140,078,986. The issue of 6,300,597 ordinary shares would have the effect of diluting current shareholders' percentage holding in the Company by 4.50%. For example, if a shareholder held ordinary shares equal to 1% of all ordinary shares before the issue of the 6,300,597 ordinary shares, that shareholder's shareholding would equal 0.955% of all ordinary shares after the issue.
- If Resolution 5 is passed and the estimated number of 19,267,822 ordinary shares issued pursuant to Resolution 5 (on the basis that the issue of new shares under Resolution 4 referred to in paragraph (a) does not occur), the total number of ordinary shares of the Company on issue will increase from 133,778,389 to 153,046,211. The issue of 19,267,822 ordinary shares would have the effect of diluting current shareholders' percentage holding in the Company by 12.59%. For example, if a shareholder held ordinary shares equal to 1% of all ordinary shares before the issue of the 19,267,822 ordinary shares, that shareholder's shareholding would equal 0.874% of all ordinary shares after the issue.
- If Resolutions 4 and 5 are both passed and the estimated number of 25,568,419 ordinary shares issued pursuant to both Resolutions 4 and 5 the total number of ordinary shares of the Company on issue will increase from 133,778,389 to 159,346,808. The issue of 25,568,419 ordinary shares would have the effect of diluting current shareholders' percentage holding in the Company by 16.04%. For example, if a shareholder held ordinary shares equal to 1% of all ordinary shares before the issue of the of 25,568,419 ordinary shares, that shareholder's shareholding would equal 0.839% of all ordinary shares after the issue.

Voting Restrictions for Resolution 5

Rule 9.3.1 requires the Company to disregard any votes cast on Resolution 5 by any person who participated in the Transaction or any Associated Person of that person. Stockmans Holdings Limited and its directors Oliver Carruthers and Bill Sweeney, and any Associated Persons of these persons are each disqualified from voting on Resolution 5 pursuant to Rule 9.3.1. The Company will disregard any votes cast on Resolution 5 by any persons to whom the foregoing applies.

Pursuant to Rule 9.3.3 any discretionary proxies given to persons disqualified from voting under the requirements set out above will not be valid. Proxies that give express voting instructions to such persons will, however, be accepted.