

**ALLIED FARMERS LIMITED
ANNUAL REPORT 2016**

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This report is dated 29 August 2016 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) report that Allied has reported a 41% increase in audited net profit before tax for the year to June 2016 of \$1.57m (2015 \$1.11m).

Allied has had an excellent year with an improved result from the Livestock Division, and the winding down of the Asset Management Services Division. The result is particularly pleasing as the current year performance reflects a full year's trading result and is not impacted by the one off \$0.6m gains that significantly bolstered the 2015 result.

The Livestock Division, which includes the operation of NZ Farmers Livestock Ltd, owned 66% by Allied as at 30 June 2016 (2015: 57%), reported a 52% increase in pre-tax profit of \$2.26m (2015 \$1.48m) on income that was 8% ahead of the prior year. Livestock sales performed well in the second half as there was a higher turnover particularly due to dairy farmers reducing overall herd numbers. Returns from its meat processing business were also higher than the previous year, and as costs and headages were relatively constant, the flow on impact of higher selling prices and the lower exchange rates were reflected in the bottom line.

The Asset Management Services Division ("AMS"), was wound down during the year as all assets of any significant value were realised. AMS reported a small profit of \$0.12m for the year, (2015 \$0.23m) reflecting some small over-recovery on the disposal of assets.

As the legacy of Allied's on-demand secured debt was extinguished, the Group was able to focus on growth opportunities during the year. A 17% stake in Redshaws Livestock in the Hawkes Bay was acquired by NZ Farmers Livestock in July 2015 with the stake growing to 52% over the next two years. The performance of this investment was in line with expectations as the synergies of the two businesses working together began to be realised.

In December Allied acquired back 9% of the shares in NZ Farmers Livestock that it sold in the previous year in order to repay on-demand secured debt. This has increased Allied's proportion of distributions from NZFL from December 2015, and will be fully reflected for the 2017 financial year.

During the year ALF's corporate costs have been reduced as a result of a wind down of the AMS Division, the substantial reduction of shareholder numbers from the Small Shareholder Sale programme, lower audit and insurance costs reflecting ongoing simplification and risk reduction, and a lower weighted average interest rate on Allied's secured debt. These savings will be fully reflected for the 2017 financial year.

The focus for the coming year will be to continue to look for opportunities to grow the Livestock business. To this end, since 30 June NZ Farmers Livestock has added several experienced livestock agents, operating out of Northland and in the South Island, and are actively looking to further expand the livestock business. A Finance subsidiary has been established which will commence livestock financing particularly for dairy bulls. MyLivestock, the online listing platform, is finalising an app which will make access to livestock listings simpler and easier.

The year has been one of taking first steps to grow the business now that the secured debt restructuring has been completed. The Directors wish to highlight the considerable support and loyalty of all of the team of the wider Allied Farmers group, and the support of its many clients and stakeholders.

Allied Farmers Limited and Subsidiaries
Five Year Financial Summary

	June-16 \$000	June-15 \$000	June-14 \$000	June-13 \$000	June-12 \$000
Profit summary					
Total operating income	16,040	15,342	16,081	27,099	21,452
Depreciation and amortisation	532	378	362	498	350
Interest expense	658	875	903	1,216	4,192
Other expenses	13,276	12,974	13,655	29,805	30,221
Net surplus (deficit) from continuing operations	1,574	1,115	1,161	(4,420)	(13,311)
Net deficit from discontinued operations	-	-	-	1,750	(550)
Net surplus (deficit) before tax	1,574	1,115	1,161	(2,670)	(13,861)
Tax	182	460	0	(1)	-
Net surplus (deficit) after tax	1,392	655	1,161	(2,671)	(13,861)
Non controlling interests	687	527	133	78	(232)
Surplus/(deficit) attributable to owners of the Parent	705	128	1,028	(2,749)	(14,093)

	June-16 \$000	June-15 \$000	June-14 \$000	June-13 \$000	June-12 \$000
Statement of Financial Position summary					
Shareholders equity	105	(1,475)	(3,887)	(5,468)	(2,701)
Non current liabilities	3,782	5,208	4,000	231	2,382
Current liabilities	8,841	8,148	11,525	16,798	34,170
Total liabilities	12,623	13,356	15,525	17,029	36,552
Equity and liabilities	12,728	11,881	11,638	11,561	33,851
Current assets	8,297	7,771	7,813	7,410	21,183
Fixed assets	3,642	3,967	3,624	3,815	4,372
Non current assets	475	134	190	190	8,100
Investments	232	-	-	-	196
Total tangible assets	12,646	11,872	11,627	11,415	33,851
Intangibles	82	9	11	146	-
Total assets	12,728	11,881	11,638	11,561	33,851

	June-16 \$000	June-15 \$000	June-14 \$000	June-13 \$000	June-12 \$000
Cash Flow summary					
Operating cash flow	1,518	(929)	248	1,527	(2,905)
Investing cash flow	(466)	997	326	(319)	7,319
Financing cash flow	(859)	(665)	1,062	(1,808)	(2,705)
Net change in cash	192	(597)	1,636	(600)	1,709

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 large 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 on 1 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 CitigroupSmith 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 FY16 (excluding directorships of wholly owned subsidiaries) in the Interests Register:

DISCLOSURE OF INTEREST

Name	Entity	Relationship
Mark Benseman	Albany Braithwaite Holding Ltd Fraters Group Ltd Shareclarity Ltd	Director and Shareholder Director and Shareholder Director and Shareholder
Philip Luscombe	NZ Farmers Livestock Finance Limited	Director appted 29/6/16
William Sweeney*	Prestige Livestock Ltd Redshaw Livestock Ltd Agent Company Limited	S/holder ceased 12/2/16 Director appted 1/7/15 Director and Shareholder
Steve Morrison*	NZ Farmers Livestock Limited	Lender (repaid 20/1/16) Associated Person of Shareholder
Oliver Carruthers**	Prestige Livestock Ltd	S/holder ceased 12/2/16
Simon Williams***	NZ Farmers Livestock Finance Ltd	Director appted 29/6/16

Except as disclosed above, there were no details included in the Interests Register as at 30 June 2015, or entered during the year ended 30 June 2016, that have been removed during the year ended 30 June 2016.

*William Sweeney and Steve Morrison are Directors of Allied Farmers Limited's subsidiary, Farmers Meat Export Limited

** Oliver Carruthers is a Director of Allied Farmers Limited's subsidiary, NZ Farmers Livestock Limited.

*** Simon Williams is a Director of Allied Farmers Limited's subsidiaries, NZ Farmers Livestock Limited and NZ Farmers Livestock Finance Limited

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 FY16:

Name	Date of Acquisition/disposal	Consideration Paid/received	Number acquired/disposed	Class of Financial Product
Garry Bluett	26/11/15	\$0.053265 per share	2,498,677	Ordinary Shares
Mark Benseman	25-27/11/15	\$62,193.15	1,119,376	Ordinary Shares
	15/4/16	\$220,862.74	4,379,540	Ordinary Shares
	24-30/5/16	\$14,774.90	300,000	Ordinary Shares
Andrew McDouall	26/11/15	\$0.053265 per share	1,059,393	Ordinary Shares
Philip Luscombe	26/11/15	\$0.053265 per share	1,294,037	Ordinary Shares

As at 30 June 2016 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	Number of Share Options*
Garry Bluett	2,799,711 (1.76%)	1,450,000
Mark Benseman	18,336,556 (11.52%)	870,000
Andrew McDouall	1,111,290 (0.70%)	Nil
Philip Luscombe	1,295,634 (0.81%)	Nil

**The terms of the Share Options are set out below under the heading "Particular Disclosures – Bond and Share Option Issues"*

DIRECTORS' REMUNERATION

Director	2016		2015	2014
	Shares*	Cash**		
Garry Bluett	2,498,677	\$29,166	\$12,935	\$6,250
Philip Luscombe	1,294,037	\$19,833	\$7,250	\$5,833
Andrew McDouall	1,059,393	\$24,833	\$11,833	\$13,000
Jeff Keenan	1,287,032	nil	\$6,708	\$4,667
Mark Benseman	nil	\$9,625	nil	nil
Total	6,139,139	\$83,457	\$38,726	\$29,750

* 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. As per note 18 of the financial statements a total of \$55,292 has been accrued for Directors fees for this year for payment in the financial 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 \$189,351, and Simon Williams, a director of NZ Farmers Livestock Limited, received total remuneration and benefits from NZ Farmers Livestock Limited of \$89,741. In neither case did this remuneration and benefits include any director's fees.

PARTICULAR DISCLOSURES**Bond and Share Option Issues**

On 13 September 2013 Allied Farmers Rural Limited issued 200,000 Bonds to Arcos Investments Limited, a related party of Garry Bluett, and issued 50,000 Bonds to Garry Bluett personally. The subscription price for the Bonds was \$1 per Bond, plus 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, being the volume weighted average market price of Allied Farmers Limited ordinary shares, as quoted by NZX Limited, over the 20 Business Days prior to the earlier of the date the issue of the options was made or publicly announced.

The key terms of the Bonds are as follows:

- secured by way of a second ranking charge over the shares Allied Farmers Rural Limited holds in NZ Farmers Livestock Limited;
- a guarantee of the Bonds from Allied Farmers Limited;
- the obligations of Allied Farmers Limited and Allied Farmers Rural Limited are secured by way of a general security over all of the assets of Allied Farmers Limited and Allied Farmers Rural

Limited, fully subordinated to the rights of the holders of \$1 million of bonds issued by Allied Farmers Rural Limited in September 2014;

- interest of 12% per annum, payable quarterly in arrears; and
- maturity date of 31 August 2014 (subsequently extended to 31 August 2015 and then to 31 August 2016 on the same terms) .

In accordance with the terms of the Bond issue, Arcos Investments Limited subscribed for and currently holds 1,160,000 share options, and Mr Bluett subscribed for and currently holds 290,000 share options. As at the date of this Annual Report neither Arcos Investments Limited nor Garry Bluett has exercised any of their share options. The share options have a five year term from the date of issue and are exercisable in whole no later than the expiry date of the share options.

An Associated Person of Mark Benseman, Albany Braithwaite Holdings Limited, is also a holder of 150,000 bonds and 870,000 share options issued on 13 September 2013, and 600,000 first ranking bonds issued in a subsequent bond issue on 30 September 2014. No disclosure of interest was required in relation to these bond issues because Mr Benseman was not a director of the Company at the date of those issues. The bonds and share options issued to Albany Braithwaite Holdings Limited were issued on the same terms as those issued to other participants in the bond issues, included participants not related to Allied Farmers Limited. As at the date of this Annual Report Albany Braithwaite Holdings Limited has not exercised any of its share options.

Purchase of NZ Farmers Livestock Shares

On 4 December 2015 Allied Farmers Rural Limited purchased 950 New Zealand Farmers Livestock Ltd shares for \$1,000,000 from Stockmans Holdings Limited. 950 shares represents 9.26 percent of the total New Zealand Farmers Livestock Ltd shares on issue. The purchase price was satisfied by the issue of 19,267,822 Allied Farmers Limited new ordinary shares at \$0.0519 per share to Stockmans Holdings Limited, being the 20 day volume weighted average price of Allied Farmers Limited's shares one business day prior to 2 November 2015. Stockmans Holdings Limited is a related party of Allied Farmers Limited because Oliver Carruthers, a director and shareholder of Stockmans Holdings Limited, is also a director of New Zealand Farmers Livestock Limited, and Bill Sweeney, a director and shareholder of Stockmans Holdings Limited, is a director of New Zealand Farmers Livestock Limited subsidiary Farmers Meat Export Limited. Shareholder approval of the purchase of the New Zealand Farmers Livestock Limited shares and the issue of the Allied Farmers Limited shares was given at the Annual Meeting held on 24 November 2015.

Issue of Shares to Directors in satisfaction of Unpaid Fees

On 26 November 2015 Allied Farmers Limited issued 6,139,139 fully paid new 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 shares represented 4.388 percent of the total shares on issue at the time, and the issue price was equal to the volume weighted average market price of Allied Farmers Limited's ordinary shares over the 20 business days before the issue. Shareholder approval to the issue of the Allied Farmers Limited shares was given at the Annual Meeting held on 24 November 2015.

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		2015	2016
100,000	110,000	2	1
110,001	120,000	1	4
120,001	130,000	4	-
130,001	140,000	1	2
140,001	150,000	-	-
150,001	160,000	2	1
160,001	170,000	1	1
170,001	180,000	-	1
180,001	190,000	1	3
190,001	200,000	3	-
200,001	210,000	2	1
210,001	220,000	-	-
220,001	230,000	-	1
230,001	240,000	1	-
240,001	250,000	-	-
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	1	-
Total		19	16

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

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
Donald Clifton Jacobs and Ngaruawahia.com Ltd	8,150,058 (5.12%)	2 June 2016
Albany Braithwaite Holdings Limited	18,036,556 (11.33%)	15 April 2016
Deborah Lee Seerup as beneficial owner via ASB Nominees as registered holder.	8,100,005 (5.09%)	7 April 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 3 August 2016 was 159,185,350 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 2016 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
NFA Limited (in Liquidation)	Financial Services	G C Bluett, P C Luscombe, R N Speirs
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	Holding company	G C Bluett
QWF Holdings Limited	Property Investment	G C Bluett
Lifestyles of New Zealand Queenstown Limited	Property investment	G C Bluett
LONZ 2008 Limited	Property investment	G C Bluett
LONZ 2008 Holdings Limited	Property investment	G C Bluett
Matarangi Beach Estates Limited (In Receivership)	Non-trading	G C Bluett
Clearwater Hotel 2004 Limited	Property development and investment	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

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 3 August 2016.

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
29 September 2015	Satisfaction of Debt	3,947,464
24 November 2015	Satisfaction of unpaid directors' fees	6,139,139
4 December 2015	Payment for NZ Farmers Livestock Ltd shares	19,267,822

The total number of issued ordinary shares on issue is 159,185,350.

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, being the volume weighted average market price of ordinary shares as quoted by the NZX Main Board over the 20 business days prior to the announcement date or issue date.

The share options must 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.

On 30 September 2014 1,160,000 options were exercised, meaning 2,320,000 options have not been exercised as at 30 June 2016.

TWENTY LARGEST REGISTERED SHAREHOLDERS as at 3 August 2016

Rank	Investor Name	Total Units	% Issued Capital
1	Stockmans Holdings Limited	19267822	12.1
2	Albany Braithwaite Holdings Limited	18336556	11.52
3	ASB Nominees Limited	9000005	5.65
4	Donald Clifton Jacobs	7892003	4.96
5	Leh Soon Yong	5312723	3.34
6	Ronald Alfred Brierley	3031591	1.9
7	Garry Charles Bluett	2799711	1.76
8	Stuart David Hynes	2551600	1.6
9	John Stewart Faulks	2494529	1.57
10	Ross Phillip Drew	2100000	1.32
11	Geochem Services Limited	1765015	1.11
12	Paul Gerard Foley & John William Mccay	1422865	0.89
13	Philip Charles Luscombe & Ainsley Jocelyn Luscombe	1295566	0.81
14	James Field Seerup & Jeanette Elizabeth Seerup	1221115	0.77
15	Omaio Investments Limited	1196550	0.75
16	New Zealand Central Securities Depository Limited	1175519	0.74
17	Probatus Investments Limited	1085937	0.68
18	Gerald Andrew McDouall	1059392	0.67
19	Lee Athol Wilson & Shirley Ann Wilson	1000000	0.63
20	FNZ Custodians Limited	929450	0.58

ANALYSIS OF SHAREHOLDING as at 3 August 2016

Range	Holders	Holders %	Issued Capital	Issued Capital %
1-1000	267	4.65	163999	0.1
1001-5000	4294	74.8	8596174	5.4
5001-10000	334	5.82	2352265	1.48
10001-50000	516	8.99	13542200	8.51
50001-100000	155	2.7	12053469	7.57
Greater than 100000	175	3.05	122477243	76.94
Total	5741	100	159185350	100

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 29 November 2016 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 2016.

NZX REGULATION WAIVERS

The Company was granted the following waivers in the 12 months preceding 30 June 2016:

Date of Decision	Applicable Rule	Reason
6 November 2014	6.2.2(b) and 9.2.5(b)	Waiver from NZX Main Board Listing Rule ("Rule") 6.2.2(b), to the extent that this Rule would require an Appraisal Report to accompany Allied Farmers Limited's notice of meeting for its AGM ("Notice"); and from Rule 9.2.5(b), to the extent that this Rule would require an Appraisal Report to accompany the Notice. The Notice sought shareholder approval to a Material Transaction with a Related Party whereby Allied Farmers Rural Limited proposed to purchase 950 shares in NZ Farmers Livestock Limited from Stockmans Holdings Limited, an Associated Person of Related Parties William Sweeney and Oliver Carruthers, for \$1 million to be satisfied by the issue of new shares in Allied Farmers Limited. The resolution seeking approval was passed and the Material Transaction was completed on 4 December 2015.

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, limited free cash, 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 2016 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.

The Board previously considered that Andrew McDouall was precluded from being an independent director of the Company due to his relationship with the Company as a provider of investment banking services to the Company from time to time. At the November 2015 Board meeting, the Board noted that Andrew McDouall has not provided any non-director related services to ALF for a number of years, and accordingly no longer has any Disqualifying Relationships. On that basis, the Board determined that Mr McDouall is an Independent Director. 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 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.

Philip Luscombe 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 very 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. This resulted in a significant increase in their respective shareholdings in the Company. 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 2015 TO 30 JUNE 2016

Board Meetings

The full board held 12 Board meetings during the year ended 30 June 2016. The table below shows Directors' attendance at these Board meetings.

Philip Luscombe	12
Garry Bluett	12
Andrew McDouall	12
Mark Benseman	5*

*Mark Benseman was appointed a director on 1 October 2015.

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 2015, 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 developed a diversity policy, as the current employee numbers and the challenges of attracting new directors to the Board means that such a policy is not worthwhile at this time. The Board will review this position if circumstances change.

GENDER

The gender of composition of directors and officers as at 30 June 2016 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%

ALLIED FARMERS LIMITED

FINANCIAL REPORT

For the year ended 30 June 2016

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Statement of Profit or Loss and Other Comprehensive Income

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2016

	Note	June 2016 \$000	June 2015 \$000
Revenue			
Sale of goods		5,948	5,139
Interest income		175	95
Commission Income		9,755	9,456
		<u>15,878</u>	<u>14,690</u>
Gain on settlement of liability		-	635
Other income		162	17
		<u>162</u>	<u>652</u>
Total income		<u>16,040</u>	<u>15,342</u>
Expenses			
Cost of inventory sold		4,642	4,540
Interest and funding expense	2	658	875
Rental and operating leases		107	108
Employee benefit expense		5,740	4,451
Depreciation and amortisation	3	532	378
Other operating expenses	4	2,787	3,875
Total expenses		<u>14,466</u>	<u>14,227</u>
Profit before income tax		1,574	1,115
Income tax expense	6	182	460
Profit for the year		<u>1,392</u>	<u>655</u>
Other comprehensive income		-	-
Total comprehensive income		<u>1,392</u>	<u>655</u>
Profit/(loss) Attributable to:			
Owners of the Parent		705	128
Non-Controlling Interests		687	527
Total earnings per share attributable to the equity holders of the Parent Company:			
Basic (cents per share)	5	0.48	0.12
Diluted (cents per share)	5	0.47	0.12

The notes on pages 28 to 54 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2016

	Note	Share Capital	Accumulated losses	Non Controlling Interests	Total Equity
		\$000	\$000	\$000	\$000
Opening Balance as at 1 July 2014		149,056	(153,150)	207	(3,887)
Comprehensive income					
Net profit for the year ended 30 June 2015		-	128	527	655
Total comprehensive income		-	128	527	655
Transactions with owners					
Share capital issued	7	1,191	-	-	1,191
Sale of shares in NZ Farmers Livestock Ltd	14	-	805	195	1,000
Dividends paid to Non Controlling Interests		-	-	(434)	(434)
Total transactions with owners		1,191	805	(239)	1,757
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	14	1,000	(816)	(184)	-
Share capital issued	7	532	-	-	532
Total transactions with owners		1,532	(816)	(528)	188
Closing balance as at 30 June 2016		151,779	(152,328)	654	105

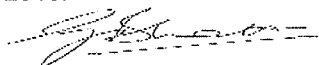
The notes on pages 28 to 54 are an integral part of these financial statements.

Consolidated Balance Sheet
Allied Farmers Limited and Subsidiaries
As at 30 June 2016

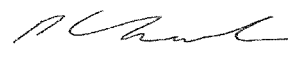
	Note	June 2016 \$000	June 2015 \$000
Equity			
Share capital		151,779	150,247
Reserves	8	(152,328)	(152,217)
		(549)	(1,970)
Non Controlling Interests	9	654	495
Total equity (deficit)		105	(1,475)
Liabilities			
Current liabilities			
Trade and other payables	11	7,144	7,513
Borrowings	10	1,546	635
Taxation		151	-
Total current liabilities		8,841	8,148
Non-current liabilities			
Borrowings	10	3,782	5,208
Total non-current liabilities		3,782	5,208
Total liabilities		12,623	13,356
Total liabilities and shareholders equity		12,728	11,881
Assets			
Current assets			
Cash and cash equivalents		2,478	2,285
Trade and other receivables	17	5,510	5,112
Prepayments	17	308	68
Inventory		1	47
Other Investments		-	90
Current taxation		-	169
Total current assets		8,297	7,771
Non-current assets			
Deferred tax asset	6	407	134
Investment	16	232	-
Advances	16	68	-
Property, plant and equipment	12	3,642	3,967
Intangible assets	13	82	9
Total non-current assets		4,431	4,110
Total assets		12,728	11,881

The notes on pages 28 to 54 are an integral part of these financial statements.

The Board of Directors of Allied Farmers Limited authorised these financial statements for issue on 29 August 2016.



.....Director



.....Director

Consolidated Statement of Cash Flows

Allied Farmers Limited and Subsidiaries

For the year ended 30 June 2016

	Note	June 2016 \$000	June 2015 \$000
Cash Flows from Operating Activities			
Cash was provided from:			
Receipts from customers		15,431	14,288
		<u>15,431</u>	<u>14,288</u>
Cash was applied to:			
Payments to suppliers and employees		(13,121)	(13,917)
Interest paid		(658)	(776)
Taxation paid	6	(134)	(524)
		<u>(13,913)</u>	<u>(15,217)</u>
Net cash flows (used in)/ from operating activities		<u>1,518</u>	<u>(929)</u>
Cash Flows from Investing Activities			
Cash was provided from:			
Sale of shares in NZFLL		-	1,000
Sale of property, plant and equipment		-	181
Realisation of Investment		90	-
Dividend received		25	20
		<u>115</u>	<u>1,201</u>
Cash was applied to:			
Investing in associate company	17	(232)	-
Loan to associate company		(68)	-
Purchase of property, plant and equipment and intangible assets	13	(281)	(204)
		<u>(581)</u>	<u>(204)</u>
Net cash flows from investing activities		<u>(466)</u>	<u>997</u>
Cash Flows from Financing Activities			
Cash was provided from:			
Issue of bonds		-	1,000
Issue of shares	7	-	1,166
Borrowings		775	-
		<u>775</u>	<u>2,166</u>
Cash was applied to:			
Borrowings	10	(1,290)	(2,397)
Dividends paid to non controlling interests		(344)	(434)
		<u>(1,634)</u>	<u>(2,831)</u>
Net cash flows (used in)/ from financing activities		<u>(859)</u>	<u>(665)</u>
Net (decrease)/ increase in cash and cash equivalents		193	(597)
Cash and cash equivalents at beginning of year		2,285	2,882
Cash and cash equivalents at end of year		<u>2,478</u>	<u>2,285</u>

The notes on pages 28 to 54 are an integral part of these financial statements.

Reconciliation of Operating Cash Flows

Allied Farmers Limited and Subsidiaries

For the year ended 30 June 2016

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

	Note	June 2016 \$000	June 2015 \$000
Net profit after tax for the period		<u>1,392</u>	<u>655</u>
Adjustments for:			
Gain on settlement of liability		-	(635)
Gain on reversal of provision/accrual		-	(285)
Share of profit equity accounted		18	-
(Profit)/Loss on sale of assets		26	243
Depreciation	13	506	373
Amortisation of intangibles		26	5
Movement in impairment provisions on trade receivables		17	2
Movement in deferred tax assets	6	(273)	64
Dividend received treated as Investing activity		-	(20)
		<u>320</u>	<u>(253)</u>
Movement in working capital:			
(Increase)/Decrease in trade and other receivables	18	(404)	(508)
Increase/(Decrease) in payables and provisions	11	164	(776)
(Increase)/decrease in inventory		46	(47)
		<u>(194)</u>	<u>(1,331)</u>
Net cash (outflows)/inflows from operating activities		<u>1,518</u>	<u>(929)</u>

The notes on pages 28 to 54 are an integral part of these financial statements

Statement of Accounting Policies

Allied Farmers Limited and Subsidiaries

For the year ended 30 June 2016

GENERAL INFORMATION

These financial statements have been approved for issue by the Board of Directors on 29 August 2016. 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 including calf processing. The provision of asset management services being the realisation of the assets acquired from Hanover Group has been completed this year.

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 consolidated 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.

Employee benefits previously classified as provisions have been reclassified to Trade and Other Payables.

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 International Accounting Standards Board (IASB) and 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 and has yet to assess its full impact.

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.

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 and has yet to assess its full impact.

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

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

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 comprehensive income using the effective interest method.

Commission income

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".

The Group acts as an agent for livestock transactions, for which the commission income is recognised in the statement of comprehensive income on an accrual basis when the service has been provided and the commission earned. Revenue is recognised in the statement of comprehensive income on a net basis given the Group's classification as an agent.

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.

INVENTORIES

Inventories

Inventories are recorded at the lower of cost or net realisable value including the direct cost of purchase, costs of conversion and other costs of bringing the inventories to their present location and condition.

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 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 into the following: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading, or designated as such on initial recognition on the basis that the financial asset is part of a group of financial assets and whose performance is evaluated on a fair value basis in accordance with the documented risk management or investment strategy of the Group and information about the group of financial assets is provided on a fair value basis to the Group 's key management personnel.(see note 18).

The Group do 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 taken against a receivable will not yield any further recoveries.

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. 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 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 profit or loss statement.

INTANGIBLE ASSETS

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 profit or loss statement over the period of the borrowings using the effective interest rate method.

Borrowing costs are recognised in the profit or loss statement 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 Parent Company's 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 (note 5).

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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Going concern and liquidity

The financial statements have been presented on a going concern basis. In order for there to be a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future, there will need to be:

- the continued cash flow and budget achievement of New Zealand Farmers Livestock Limited as well as timely receipt of distributions from New Zealand Farmers Livestock Limited;
- agreement of arrangements with certain creditors for satisfaction of outstanding balances including timed repayment and share issues.
- arrangements to satisfy bond debt maturities in 2017 (see note 10); The Group has considered the following options for these debt maturities - alternative borrowing sources, rollover of bonds, and partial repayment and rollover.
- achievement of the key assumptions underpinning the 2017 financial performance and cash flow forecasts.

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.

The Group is in a net current liability position of \$544,000 30 June 2016. The current liability position is made up of \$600,000 of bonds that matured and were reissued in August 2016. (see note 23). After removing these bonds the Group is in net current asset position of \$56,000.

In approving these financial statements for issue the Directors consider the adoption of the going concern assumption to be appropriate having taken account of the matters listed above and their ability to undertake the actions necessary to meet those assumptions. To this end the Directors are seeking to confirm arrangements with other creditors; have confidence in the series of dividends planned to be made by NZFL and continue to support growth opportunities for NZFL. The Directors forecast that they can generate sufficient cash flows to meet their obligations as they fall due, and have reasonable expectations that this forecast will be met

Notes to the Financial Statements

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2016

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 in Taranaki, Waikato, King Country, Manawatu and the South Island. The Livestock activities are influenced by seasonality. Livestock Sales are normally stronger in the Autumn season and Bobby 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 Ltd.

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 income	-	(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

The segment results for the year ended 30 June 2015 are as follows:

	Asset Management \$000	Livestock Services \$000	Corporate \$000	Total Continuing \$000
Sales of goods and commission	-	14,595	-	14,595
Interest Income	-	95	-	95
Other Income	157	-	1,943	2,100
Total income	157	14,690	1,943	16,790
Cost of Inventory sold	-	(4,540)	-	(4,540)
Depreciation and amortisation	-	(378)	-	(378)
Interest and funding expense	(21)	(577)	(277)	(875)
Rental and operating leases	-	(108)	-	(108)
Employee benefit expense	(37)	(4,374)	(40)	(4,451)
Other expenses (external)	131	(3,231)	(775)	(3,875)
Profit / (loss) before income tax	230	1,482	851	2,563
Inter-segmental income	-	-	(1,448)	(1,448)
Profit / (loss) before income tax	230	1,482	(597)	1,115
Income tax	-	(270)	(190)	(460)
Profit / (loss) after income tax	230	1,212	(787)	655

The segment assets and liabilities as at 30 June 2015 are as follows:

	Asset Management \$000	Livestock Services \$000	Corporate \$000	Total Continuing \$000
Current Assets	90	6,860	821	7,771
Non Current Assets	-	4,107	3	4,110
Assets	90	10,967	824	11,881
Current Liabilities	(30)	(6,273)	(1,845)	(8,148)
Non Current Liabilities	-	(3,608)	(1,600)	(5,208)
Liabilities	(30)	(9,881)	(3,445)	(13,356)
Capital expenditure	-	1,140	-	1,140

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 2016 \$000	Group June 2015 \$000
2 Interest and funding expense		
Borrowings - Crown Asset Management Ltd	-	55
Borrowings - Bank and other borrowings	215	296
Borrowings - Finance lease	129	234
Borrowings - Bonds	164	199
Other	150	91
	<u>658</u>	<u>875</u>
3 Depreciation and amortisation		
Depreciation		
Buildings	12 61	61
Motor vehicles	12 420	275
Plant and equipment	12 25	37
	<u>506</u>	<u>373</u>
Amortisation of intangible assets		
Computer software	13 26	5
	<u>532</u>	<u>378</u>
4 Other operating expenses		
Included in other operating expenses are:		
PricewaterhouseCoopers - audit fees	122	152
PricewaterhouseCoopers - accounting advice	3	15
PricewaterhouseCoopers - share register audit	-	3
PricewaterhouseCoopers - taxation advice	10	12
Directors' fees	18 137	180
Contractors and consultants	317	334
Information systems expenses	11	177
Compliance Costs	216	50
Loss on sale of fixed assets	13 26	243
Insurance	125	154
Software and hardware maintenance	101	146
Storage	123	103
Marketing and advertising	283	157
Telecommunications	214	212
Vehicle Expenses	480	405
Other expenses	620	1,533
	<u>2,787</u>	<u>3,875</u>

5 Earnings per share		June	June
		2016	2015

(a) Basic earnings per share

The calculation of basic earnings per share at 30 June 2016 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)	705	128
Weighted average number of ordinary shares on issue (thousands)	147,441	107,819
Basic earnings per share (cents)	0.48	0.12

(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.

Profit attributable to the owners of the parent from continuing operations (\$000)	705	128
Weighted average number of ordinary shares on issue (thousands)	149,761	110,139
Diluted earnings per share (cents)	0.47	0.12

6 Taxation

	June	June
	2016	2015
	\$000	\$000
Current tax:		
Current tax on profits for the year	455	404
Deferred tax:		
Recognition of deferred tax asset	(273)	56
Income tax expense	182	460
Profit from continuing operations before income tax	1,573	1,115
Prima facie income tax expense at 28%	440	312
Plus/(less) tax effect of permanent and temporary differences:		
Non-deductible expenditure	5	3
Timing differences	27	(14)
Recognition of deferred tax asset	(273)	56
Effect of current year tax loss not available for off-set against Group companies	(17)	103
Income tax expense	182	460

6 Taxation (continued)

	2016 \$000	2015 \$000
Current tax receivable/(payable):		
Opening balance	169	63
Current tax overpayment/(underpayment)	<u>(320)</u>	<u>106</u>
Closing balance receivable/(payable)	<u><u>(151)</u></u>	<u><u>169</u></u>
Deferred tax balances:		
Opening balance	134	190
Derecognition of deferred tax asset related to previous losses carried forward	-	(190)
Recognition of tax losses not previously recognised		
Deferred tax impact of employee provisions	20	134
Recognition of tax losses	<u>253</u>	<u>-</u>
Closing balance	<u><u>407</u></u>	<u><u>134</u></u>
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 period	<u>273</u>	<u>-</u>
	<u><u>407</u></u>	<u><u>134</u></u>

Group unrecognised deferred tax assets comprised of unused tax losses as at 30 June 2016 total \$48,575,000 gross (June 2015: \$781,000).

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 2016 the balance of imputation credits available to the shareholders of the Parent Company were \$156,690 (June 2015: \$149,397).

7 Share capital

	Group 2016 \$000	Group 2015 \$000
Ordinary shares (fully paid)		
Balance at beginning of year	150,208	148,998
Issue of ordinary shares	1,532	1,191
Transfer due to exercise of options	-	19
Balance at end of year	<u>151,740</u>	<u>150,208</u>
Share options		
Balance at beginning of year	39	58
Transfer due to exercise of options	-	(19)
Balance at end of year	<u>39</u>	<u>39</u>
Total	<u><u>151,779</u></u>	<u><u>150,247</u></u>
Number of shares issued and fully paid	000's	000's
Balance at beginning of year	129,831	105,471
Issue of ordinary shares	<u>29,354</u>	<u>24,360</u>
Balance at end of year	<u><u>159,185</u></u>	<u><u>129,831</u></u>

During the year the Group issued 29,354,425 shares. The total number of shares on issue as at 30 June 2015 is 159,185,350 (June 2015: 129,830,925).

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.

Shares issued for the 2016 year in value total \$1,532,000 of which \$327,000 were issued to directors as settlement of outstanding directors fees and \$205,000 to various creditors in settlement of their debt. This did not provide any cash receipts to the Group. The balance of shares issued of \$1,000,000 were issued to pay for the acquisition of 9% of the shares in New Zealand Farmers Livestock Ltd held by the non controlling interests.

Shares issued for the 2015 year in value total \$1,191,000 of which \$25,000 were issued to Speirs Group Ltd as part of the settlement of their debt. This did not provide any cash receipts to the Group.

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. This option can be exercised at any time within 5 years from the grant date. The number of options issued was 3,480,000. The Options may be exercised at any time by the Bondholder in whole but not in part by written notice to Allied Farmers Ltd no later than the expiry date of the Options accompanied by full payment of the aggregate exercise price. At 30 June 2016 2,320,000 of the options were exercisable. When the options are exercised, the Parent issues new shares and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

The Bonds issued were initially recorded at fair value and subsequently measured at amortised cost using the effective interest rate method. The share options were also recorded at fair value at the grant date of 13 September 2013 using the Black Scholes model. The Group determined the fair value of these Options to be \$58,000.

The significant inputs into the model were the weighted average share price of 2.7 cents at the grant date, the exercise price of 2.7 cents, the volatility of 76.7%, an expected option life of 2.5 years and an annual risk free return rate of 3.03%.

On 30 September 2014 1,160,000 options were exercised providing a share issue consideration of \$31,320. There are 2,320,000 options remaining that have not been exercised.

8 Reserves

	2016 \$000	2015 \$000
Accumulated losses		
Balance at beginning of year	(152,217)	(153,150)
Net profit for the year	705	128
(Purchase)/Sale of shares in subsidiary New Zealand Farmers Livestock Ltd	(816)	805
Balance at end of year	<u>(152,328)</u>	<u>(152,217)</u>

9 Non Controlling Interest

	2016 \$000	2015 \$000
New Zealand Farmers Livestock Ltd		
Balance at beginning of year	495	207
Current year profit attributable to non controlling interests	687	527
Purchase of shares in NZ Farmers Livestock Ltd	(184)	195
Dividend paid to Non Controlling Interests	(344)	(434)
Balance at end of year	<u>654</u>	<u>495</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 \$338,973 from the Current Assets (2015: \$241,267).

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	
	2016 \$000	2015 \$000
Cash flows generated from operating activities		
Cash generated from operations	3,214	1,720
Interest paid	(492)	(615)
Income tax paid	(144)	(524)
Net cash generated from operating activities	<u>2,578</u>	<u>581</u>
Net cash (used in) investing activities	<u>(489)</u>	<u>(22)</u>
Net cash (used in) generated from financing activities	<u>(1,586)</u>	<u>(1,550)</u>
Net (decrease) / increase in cash and cash equivalents	503	(991)
Cash and cash equivalents at beginning of year	1,608	2,599
Cash and cash equivalents at end of year	<u>2,111</u>	<u>1,608</u>

10 Borrowings

	Group 2016 \$000	Group 2015 \$000
Current		
Bank borrowings (secured)	517	265
Bonds (secured)	600	-
Finance leases	429	370
	<u>1,546</u>	<u>635</u>
Non Current		
Bank borrowings (secured)	2,535	2,385
Bonds (secured)	1,000	1,600
Other borrowings (secured)	-	700
Finance Leases	247	523
	<u>3,782</u>	<u>5,208</u>

Bank borrowings

New Zealand Farmers Livestock Ltd 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 Ltd. The loan was secured by way of a first mortgage charge over the sale yards. The loan was refinanced by the ANZ Bank New Zealand Limited in January 2016 when the loan was increased to repay the second mortgage of \$700,000 in favour of L Morrison. On the 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 reset floating at 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 2016 is \$3,052,607 (30 June 2015: \$2,644,125) see note 19.2.

Overdraft Facilities

A subsidiary, NZ Farmers Livestock Limited has an overdraft facility of \$1,000,000 which has not been drawn down as at 30 June 2016 (June 2015: Overdrawn \$4,858). This facility has an interest rate of 6.56% p.a. and is secured over the assets of NZ Farmers Livestock Limited excluding its subsidiary Farmers Meat Export Limited.

A subsidiary Farmers Meat Export Ltd has, from 1 July 2015, an undrawn overdraft facility of \$1,500,000 which expires on 31 January 2017. This facility has an interest rate of 6.56% p.a. and is secured over the assets of Farmers Meat Export Ltd.

The creation of the new Farmers Meat Export Ltd facility has created the following additional securities granted in favour of the ANZ Bank New Zealand Ltd - 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.

Bonds

Allied Farmers Rural Ltd issued \$600,000 of Bonds on 13 September 2013. The Bonds are secured by way of a second charge General Security Agreement over all of the assets and undertakings of Allied Farmers Ltd and subsidiaries excluding New Zealand Farmers Livestock Ltd and subsidiaries and a specific security over the shares held by Allied Farmers Rural Ltd in New Zealand Farmers Livestock Ltd plus a guarantee from Allied Farmers Ltd and subsidiaries. The Bonds mature on 29 August 2016. The Group has secured a new second ranking \$550,000 bond, the proceeds of which will be used, together with \$50,000 cash, to repay and redeem the \$600,000 bond. These existing bonds have an interest rate of 12% per annum. The new bonds have an interest rate of 7.75% and mature on 30 September 2018. There are no specific financial covenants.

Allied Farmers Rural Ltd issued a further \$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 Ltd and subsidiaries excluding New Zealand Farmers Livestock Ltd and subsidiaries and a specific security over the shares held by Allied Farmers Rural Ltd in New Zealand Farmers Livestock Ltd plus a guarantee from Allied Farmers Ltd 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 2016 the interest rate on the Bonds was 8.69% p.a. There are no specific financial covenants.

Borrowing Covenants

ANZ Bank New Zealand Ltd

The bank applies a financial covenant annually that the New Zealand Farmers Livestock Ltd 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

	2016	2015
	\$000	\$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	467	433
Later than 1 year and no later than 5 years	245	552
	<u>712</u>	<u>985</u>
Future Finance Charges of Finance Lease Liabilities	(36)	(92)
Present Value of Finance Lease Liabilities	<u>676</u>	<u>893</u>
The present value of finance lease liabilities is as follows:		
No later than 1 year	429	370
Later than 1 year and no later than 5 years	247	523
	<u>676</u>	<u>893</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 Ltd (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 Ltd has the option to purchase in respect of motor vehicles held under finance leases.

11 Trade and other payables

	2016	2015
	\$000	\$000
Trade creditors	5,099	5,910
Employee profit share and commissions	932	927
Other creditors and payables	1,113	676
	<u>7,144</u>	<u>7,513</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.

12 Property, plant and equipment

	2016 \$000	2015 \$000
Freehold land		
Cost at beginning of year	2,019	2,019
Additions	-	-
Disposals	-	-
Cost at end of year	<u>2,019</u>	<u>2,019</u>
Buildings		
Cost at beginning of year	1,003	1,028
Disposals	-	-
Reclassification	-	(25)
Cost at end of year	<u>1,003</u>	<u>1,003</u>
Accumulated depreciation at beginning of year	(115)	(164)
Depreciation charged to profit or loss statement	(61)	(61)
Reclassification	-	110
Accumulated depreciation at end of year	<u>(176)</u>	<u>(115)</u>
Buildings net book value	<u>827</u>	<u>888</u>
Motor vehicles		
Cost at beginning of year	1,241	1,127
Additions	186	1,140
Disposals	(138)	(1,026)
Cost at end of year	<u>1,289</u>	<u>1,241</u>
Accumulated depreciation at beginning of year	(334)	(661)
Depreciation charged to profit or loss statement	(420)	(275)
Disposals	130	602
Accumulated depreciation at end of year	<u>(624)</u>	<u>(334)</u>
Motor vehicles net book value	<u>665</u>	<u>907</u>
Plant and equipment		
Cost at beginning of year	269	354
Additions	13	-
Disposals	(6)	-
Reclassification	(10)	(85)
Cost at end of year	<u>266</u>	<u>269</u>
Accumulated depreciation at beginning of year	(116)	(79)
Depreciation charged to profit or loss statement	(25)	(37)
Disposals	6	-
Accumulated depreciation at end of year	<u>(135)</u>	<u>(116)</u>
Plant and equipment net book value	<u>131</u>	<u>153</u>
Property, plant and equipment cost at end of year	<u>4,577</u>	<u>4,532</u>
Property, plant and equipment accumulated depreciation at end of year	<u>(935)</u>	<u>(565)</u>
Total property, plant and equipment net book value	<u>3,642</u>	<u>3,967</u>
Vehicles include the following amounts where the Group is a lessee under a Capitalised Finance Lease:		
Cost Capitalised Finance Lease	1,289	1,241
Accumulated Depreciation	<u>(624)</u>	<u>(334)</u>
Net Book Amount	<u>665</u>	<u>907</u>

13 Intangible assets

	2016 \$000	2015 \$000
Computer software		
Cost at beginning of year	127	698
Additions	99	3
Disposals	(8)	(574)
Cost at end of year	<u>218</u>	<u>127</u>
Accumulated amortisation at beginning of year	(118)	(687)
Amortisation charged to profit or loss statement	(26)	(5)
Disposals	8	574
Accumulated amortisation at end of year	<u>(136)</u>	<u>(118)</u>
Computer software net book value	<u>82</u>	<u>9</u>

14 Investment in subsidiaries

		2016	2015
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%
Subsidiaries of Allied Farmers Rural Limited			
NZ Farmers Livestock Limited	Livestock Services	66%	57%
Subsidiary of NZ Farmers Livestock Limited			
Farmers Meat Exports Limited	Sale of livestock	100%	57%
NZ Farmers Livestock Finance Ltd	Livestock Finance	100%	-
Associate of New Zealand Farmers Livestock Ltd			
Redshaws Livestock Ltd	Sale of livestock	17%	-
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.

Changes in interest in subsidiary without loss of control

On 4 December 2015 a subsidiary Allied Farmers Rural Ltd purchased a 9% interest to add to the 57% interest it held in subsidiary New Zealand Farmers Livestock Ltd for consideration of \$1,000,000.

The effect of changes in the ownership interest in New Zealand Farmers Livestock Ltd on the equity attributable to the owners of the company is summarised as follows:

	2016 \$000	2015 \$000
Carrying amount of non-controlling interests acquired	184	(195)
Shares issued to non controlling interests	(1,000)	-
Consideration received from non-controlling interests	-	1,000
(Decrease)/Increase in parent's equity	<u>(816)</u>	<u>805</u>

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

	Date of Receivership/ Liquidation	Principal activity	Interest held by Group	
			2016	2015
NFA Ltd (in Liquidation) formerly called Allied Nationwide Finance Limited (in Liquidation)	8 February 2013	Financial Services	100%	100%
Matarangi Beach Estates Limited (in Receivership)	18 November 2010	Property development and investment	100%	100%

Subsequent to the dates of the receivership or liquidation of these companies they have not been consolidated as the Group no longer has direct control over their affairs.

15 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 4 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	2016	2015
- Associated Auctioneers	33%	Te Kuiti		
Summarised Balance Sheet				
Current Assets			74	13
Current Liabilities			38	45
Net Assets			<u>36</u>	<u>(32)</u>
Summarised statement of profit or loss				
Income			232	263
Expenses			254	282
Profit			<u>(22)</u>	<u>(19)</u>
- Associated Auctioneers	50%	Stratford		
Summarised Balance Sheet				
Current Assets			81	21
Current Liabilities			9	15
Non current assets			19	12
Net assets			<u>91</u>	<u>18</u>
Summarised statement of profit or loss				
Income			285	227
Expenses			212	240
Profit			<u>73</u>	<u>(13)</u>
- Associated Auctioneers	50%	Frankton		
Summarised Balance Sheet				
Current Assets			177	183
Current Liabilities			11	26
Non current assets			103	100
Net assets			<u>269</u>	<u>257</u>
Summarised statement of profit or loss				
Income			463	402
Expenses			351	392
Profit			<u>112</u>	<u>10</u>

- Associated Auctioneers	50%	Taumaranui		
Summarised Balance Sheet				
Current Assets			11	10
Current Liabilities			5	4
Net assets			<u>6</u>	<u>6</u>
Summarised statement of profit or loss				
Income			8	29
Expenses			9	42
Profit			<u>(1)</u>	<u>(13)</u>
- Associated Auctioneers	25%	Morrinsville		
Summarised Balance Sheet				
Current Assets			146	313
Current Liabilities			23	124
Non current assets			242	238
Net assets			<u>365</u>	<u>427</u>
Summarised statement of profit or loss				
Income			366	381
Expenses			278	311
Profit			<u>88</u>	<u>70</u>

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 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.

16 Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows;

	2016	2015
	\$000	\$000
Redshaws Livestock Ltd original cost including legal expenses	214	-
Share of profit for year	18	-
Total	<u>232</u>	<u>0</u>

Working capital loan

68 -

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

Redshaws Livestock Ltd

18 -

16(a) Investment in associates

Set out below are the investment in associate which the directors believe are material to the group.

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 Livestock Trading Hawkes Bay	Measurement method Equity
Redshaw Livestock Ltd	New Zealand	17%		

Redshaws Livestock Ltd is a private company and there is no quoted market price available for the shares.

	2016	2015
Summarised Balance Sheet		
Current Assets	2,263	-
Current Liabilities	2,189	-
Non current assets	<u>1,274</u>	-
Net assets	<u>1,348</u>	-
Summarised statement of profit or loss		
Income	639	-
Expenses	<u>381</u>	-
Profit	<u>258</u>	-
Reconciliation of summarised financial information		
Opening net assets at 1 July 2015	1,250	-
Profit for period	258	-
Dividend	(160)	-
Closing net assets	1,348	-
Interest in associate at 17%	232	-

17 Trade and other receivables

	2016	2015
	\$000	\$000
Trade receivables (gross)	5,534	5,119
Provision for impaired assets	<u>(24)</u>	<u>(7)</u>
Trade receivables (net of provision)	5,510	5,112
Prepayments	<u>308</u>	<u>68</u>
	<u>5,818</u>	<u>5,180</u>
Aging of Past Due Receivables that are not impaired		
1-30 days	304	329
31-60 days	89	67
61-90 days	<u>65</u>	<u>63</u>
Total Past Due Receivables	<u>458</u>	<u>459</u>

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

18 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

	2016	2015
	\$000	\$000
Salaries and other short term benefits	271	299
Directors fees	<u>137</u>	<u>180</u>
Total key management personnel compensation	<u>408</u>	<u>479</u>
Directors long service leave entitlement	<u>197</u>	<u>176</u>

Included in Accounts Payable is an amount of \$55,292 of directors fees unpaid as at 30 June 2016 (2015: \$327,001).

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 Ltd, which over the year that totalled \$462,155 in sales, \$533,847 in purchases, and \$24,385 in commission, resulting in gross transactions of \$1,020,386 (2015: \$929,267).

As at 30 June 2016 those directors and key management owed the group \$3,778 (2015: \$5,970) and the group owed those parties \$110,029 (2015: \$10,493). There have been no bad debts written off any of these amounts.

New Zealand Farmers Livestock Ltd borrowed \$700,000 on the 3 September 2013 from a party related to the Chief Executive Officer to part finance the acquisition of the sale yards from Allied Farmers Ltd. The loan is secured by way of second mortgage over the sale yards. The loan was for a 3 year period at an interest rate of 12% p.a. There are no additional financial covenants to the L Morrison loan facility to those covenants provided to the ANZ Bank Ltd. The loan was re-paid in full during the year and replaced by a loan from ANZ.

Allied Farmers Limited has bonds on issue. Garry Bluett is the holder of \$250,000 in bonds personally and through his related party Arcos Investments. Mark Bensemen is the holder of \$750,000 in bonds personally and through his company Albany Braithwaite Holdings Ltd.

Allied Farmers Rural Limited, entered into an agreement with Stockmans Holdings Limited, to purchase 950 shares in NZ Farmers Livestock Limited (NZFL) for a purchase price of \$1 million, settled via the issuance of Allied Farmers Limited shares. The 950 shares represent 9.26 percent of the total NZFL shares on issue. It is deemed to be a related party of Allied Farmers Limited because Oliver Carruthers and Bill Sweeney, both of whom are directors of subsidiaries of Allied Farmers Limited, are the two directors and shareholders of Stockmans Holdings Limited

At year end the Group had a receivable of \$68,000 from Redshaws Livestock Limited.

19 Financial risk management

19.1 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 finance leases.

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 22. 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. 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.

	2016 \$000	2015 \$000
Credit quality of financial assets		
Cash at bank		
ANZ Bank New Zealand Ltd	2,149	1,126
Westpac Banking Corporation Ltd	266	672
Bank of New Zealand Ltd	30	10
TSB Bank Ltd	33	3
ASB Bank Ltd	-	474
	<u>2,478</u>	<u>2,285</u>

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

	2016 \$000	2015 \$000
Trade Receivables		
Counterparties without external credit rating		
Group 1	234	300
Group 2	<u>5,276</u>	<u>4,880</u>
	<u>5,510</u>	<u>5,180</u>
Trade Receivables written off at year end	<u>39</u>	<u>41</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.

19 Financial risk management (continued)

19.2 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 10) 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 2016	Total	Under 6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 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	0
30 June 2015						
Total	Under 6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	
\$000						
Financial liabilities						
Trade and other payables	6,771	6,771	-	-	-	-
Borrowings - ANZ Bank New Zealand Ltd	2,850	213	213	2,424	-	-
Borrowings - Related Party	805	42	42	721	-	-
Borrowings - Finance Leases	985	216	216	390	163	-
Borrowings - Bonds	1,905	85	85	710	1,025	-
Gross payable on financial liabilities	13,316	7,327	556	4,245	1,188	-

19.3 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 cash and cash equivalents, 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:

	2016	2015
	\$000	\$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	(20)	(18)
If interest rates for the year were 50 bps lower		
Effect on net profit for the year / equity	20	18

19.4 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:

19.5 Offsetting financial assets and liabilities

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

The result of this arrangement is that the ANZ Borrowings of \$3,052,607 could be settled net with \$2,043,000 cash recognised in these financial statements.

20 Contingent assets and liabilities

There were no material contingent assets or liabilities outstanding as at 30 June 2016 for the Group.

21 Commitments

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

	2016 \$000	2015 \$000
Operating lease commitments		
Lease commitments under non-cancellable operating		
Not later than one year	104	68
Later than one year and not later than five years	72	111
Later than five years	-	-
	<u>176</u>	<u>179</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 10). There are also options to purchase Land and Buildings currently leased if certain criteria are met.

Other commitments

New Zealand Farmers Livestock Limited entered into an arrangement 9 June 2016 to acquire the business of three agents based in the Northland area to gain a foothold in the area. There are no tangible assets or liabilities involved in the acquisition and payment of consideration is deferred until after 30 June 2016 and will be recognised in the Statement of Profit or Loss.

On 1 July 2016 New Zealand Farmers Livestock Limited settled its obligation to purchase the second tranche of shares in Redshaw Livestock Ltd. It now owns 34% of Redshaw Livestock Ltd.

The Group is committed to purchase a further 18% of Redshaw Livestock Limited on 1 July 2017 for \$225,000

On the 14 July 2016 New Zealand Farmers Livestock Ltd guaranteed 52% of the bank facility of \$650,000 of Redshaws Livestock Ltd to its bank the Bank of New Zealand Ltd.

22 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.

	Available for sale financial \$000	Loans and receivables \$000	Other amortised cost \$000	Total \$000
30 June 2016				
Assets per balance sheet				
Cash and cash equivalents	-	2,478	-	2,478
Trade and other receivables	-	5,510	-	5,510
	-	7,988	-	7,988
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
	-	-	12,473	12,473
	Available for sale financial assets \$000	Loans and receivables \$000	Other amortised cost \$000	Total \$000
30 June 2015				
Assets per balance sheet				
Cash and cash equivalents	-	2,285	-	2,285
Trade and other receivables	-	5,180	-	5,180
Other Assets	90	-	-	90
	90	7,465	-	7,555
Liabilities per balance sheet				
Trade and other payables	-	-	6,771	6,771
Borrowings - Bank	-	-	2,650	2,650
Borrowings - Bonds	-	-	1,600	1,600
Borrowings - Related Party	-	-	700	700
Borrowings - Finance Leases	-	-	893	893
	-	-	12,614	12,614

Financial Assets pledged as collateral for bank facilities

	2016 \$000	2015 \$000
Cash and cash equivalents	2,111	1,600
Trade and other receivables	5,818	5,180
	7,929	6,780

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.

23 Events subsequent to balance date

Subsequent to balance date, the following events occurred which are not otherwise dealt with in the financial statements, that may significantly affect the operations of the Group.

Finance Company

New Zealand Farmers Livestock Ltd formed a new 100% owned subsidiary company N Z Farmers Livestock Finance Ltd on 29 June 2016. NZ Farmers Livestock Finance Ltd has agreed to acquire all the livestock financing business previously carried out by Stockmans Ltd in conjunction with New Zealand Farmers Livestock Ltd for a sum of \$100,000. The ANZ Bank NZ Ltd has agreed to provide a funding facility of \$5,000,000. The settlement of the acquisition of the business is expected to be on 31 August 2016.

Bonds

The Group has secured a new second ranking \$550,000 bond, the proceeds of which will be used, together with \$50,000 cash, to repay and redeem the \$600,000 bond that matured 29 August 2016. The 2013 bonds have an interest rate of 12% per annum. The new bonds will have an interest rate of 7.75%. There are no specific financial covenants.(see note 10).



Independent auditor's report

To the shareholders of Allied Farmers Limited

Our opinion

In our opinion the consolidated 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 2016, 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).

What we have audited

Allied Farmers Limited consolidated financial statements comprise:

- the balance sheet as at 30 June 2016;
- 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; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

Our firm carries out other services for the Group in the areas of taxation compliance, accounting advice and other assurance services. The provision of these other services has not impaired our independence as auditors of the Group.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent



with the consolidated 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 consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated 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://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page5.aspx

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

Chartered Accountants
29 August 2016

Wellington

COMPANY DIRECTORY

Directors of the Company

Garry C Bluett BMS, CA (Chairman)
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North Shore City 0740

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Share Registrar

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