Australian Dairy Farms

AUSTRALIAN DAIRY FARMS GROUP

INTERIM FINANCIAL REPORT

For the Half-Year ended 31 December 2014

Australian Dairy Farm Group consisting of

Australian Dairy Farms Limited ABN 36 057 046 607 and

Australian Dairy Farms Trust ARSN 600 601 689

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Australian Dairy Farms

AUSTRALIAN DAIRY FARMS GROUP (ASX CODE: AHF)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

For the half-year ended 31 December 2014

(All comparisions to half-year ended 31 December 2013)

	% Change	$000 December 2014	$000 December 2013
Revenues from ordinary activities	38,500%	772	2
Profit from ordinary activities after tax attributable to members of the stapled entity	(1,058%)	(846)	(73)
Net profit for the period attributable to members of the stapled entity	(1,058%)	(846)	(73)
		cents	**cents**
Net tangible asset backing per stapled security		14.7	1.1

Dividend Information	**Amount per Share (Cents)**	**Franked Amount per Share (Cents)**	**Tax Rate for Franking (%)**
Final dividend	Nil	Nil	Nil
Interim dividend	Nil	Nil	Nil
Record date			Not Applicable

The Group does not have any dividend re-investment plan in operation.

Loss or gain of control over other entities

For the year ended 30 June 2014 the reporting entity was a company structure named APA Financial Services Limited, which had been listed on ASX under the ASX Code "APP" since 2006. During the period under review, the structure of the listed entity changed in accordance with the resolutions of its shareholders at a general meeting held on 1 September 2014 and APA Financial Services Limited changed its name to Australian Dairy Farms Limited on 9 October 2014.

On 22 October 2014, the securities of Australian Dairy Farms Limited (Company) and Australian Dairy Farms Trust (Trust) were stapled together to form the ASX listed Australian Dairy Farms Group (Group). To account for the stapling, Australian Accounting Standards require an acquirer to be identified and an in-substance acquisition to be recognised. In relation to the stapling of the Company and the Trust, the Company is identified as having acquired control over the assets of the Trust.

Acquisition

On 22 October 2014 the Company acquired previously dormant SW Dairy Farms Pty Ltd to establish a farm operations company as part of the Group.

Investment in associates and joint ventures

Not applicable

Audit Status

This report has been subject to audit review. There is no dispute or qualification to report.

Refer to the Directors' Report and Interim Financial Report for additional information.

DIRECTORS' REPORT

The board of directors of Australian Dairy Farms Limited ("the Company") submits to members the Interim Financial Report of the company and its controlled entities ("the Group") for the half-year to 31 December 2014.

PRINCIPAL ACTIVITIES AND CHANGES IN THE NATURE OF THOSE ACTIVITIES

The principal activities of the Group during the half-year were:

- From July 2014 to 22 October 2014 (the "Pre-Stapling Period") the principal activity of the Company, as APA Financial Services Limited, was investment in securities, during which time the significant change in activity to becoming a stapled entity focused on the acquisition of dairy farms and production of milk for sale was in the advanced stages of planning and implementation.
- From 22 October 2014 (the "Post-Stapling Period") the structure of the listed entity changed to a stapled security of Australian Dairy Farms Group, which was listed on ASX on 28 October 2014. The principal activity of the Group for the 70 days since settlement has been ownership and operation of dairy farms for the production and sale of milk and the investment in securities ceased with the progressive disposal of securities during the period under review.

OPERATING RESULTS

The consolidated net loss attributed to members of the Group, after providing for income tax was $846,420 (2013: $72,684). The result was achieved on $800,972 of revenue and other income and total expenses of $1,647,392 Included in expenses for the half-year is an impairment expense on revaluation of land and buildings of $638,165 and $436,532 in costs for corporate administration and legal and professional fees and other costs associated with the stapling arrangement and re-listing on the ASX.

From the first acquisition of farms and the commencement of milk production on 22 October 2014, the operating result for farm operations is a $153,048 net profit before income tax and interest. This result was achieved on revenue from dairy farm operations of $667,975 less dairy related costs of $403,403, employment expenses of $105,171 and depreciation and amortisation of $4,353.

NET FINANCIAL POSITION

The net assets of the Group are $10,480,841 at 31 December 2014, an increase of $9,997,392 from 30 June 2014.

REVIEW OF OPERATIONS

The half-year ended 31 December 2014 has been a period of very significant change which has given a new direction to the business activities of the Group, introduced new security holders and new capital to provide a potentially very promising financial future for Australian Dairy Farms Group and its security holders as an aggregator of milk supply in Australia.

Key Events

During the period the most significant events were as follows:

- **1 August 2014**

Notice of General Meeting to commence the restructure approvals process lodged with ASX and dispatched to shareholders.

- **12 August 2014**

Trading Halt to announce that its lead broker Bell Potter had secured Cornerstone investors for a proposed capital rising.

- **20 August 2014**

PDS and Prospectus for primary capital raising lodged with ASIC for Australian Dairy Farms Group,

- **1 September 2014**

Australian Dairy Farms Group lists on ASX after finalising successful capital raising of $9,297,100.

- **17 November 2014**

Loyalty Options prospectus lodged with ASIC and ASX.

- **18 November 2014**

Australian Dairy Farms Group announces acquisition of Ignatios Farm for completion 14 January 2015.

REVIEW OF OPERATIONS (cont'd)

Key Events (cont'd)

- **22 December 2014**

Australian Dairy Farms Group announces acquisition of Brucknell No 3 Farm.

- **30 December 2014**

Placement to institutional and sophisticated investors to raise an additional $3.0 million.

GROUP STRATEGY

The Group's business strategy is to aggregate and consolidate quality dairy farms, initially in the "Golden Triangle" of dairy in South West Victoria, to maximise milk production volumes for sale to established milk processors to take advantage of increased pricing for increasing production volumes.

The Directors have set a target to be producing in excess of 50 million litres annually within two years (730 days) after listing. Indicatively, that means operating approximately 15-20 quality dairy farms with about 7,000 milking cows on average throughout the year.

By securing a total of four farms and livestock with annual production estimates of in excess of 10 million litres, the Group has positioned itself in its first 70 days as a listed stapled entity to be able to realise 20% of its two year target for farm and livestock numbers.

SIGNIFICANT SHAREHOLDER GROWTH AND SUPPORT

One of the key strengths and outcomes of Australian Dairy Farms Group's activities during the half year to 31 December 2014 is that it has secured significant investment from a wide range of institutional and professional investors from both Australia and internationally. The directors believe that this will provide a strong base for growth in the Group and realisation of the Directors' strategic targets.

Additionally, there has been strong growth in the number of retail investors such that at the end of January 2015, there were over 900 registered security holders compared with approximately 300 six months earlier.

LOYALTY OPTIONS

On 27 February 2015 the loyalty options allotted on 8 December 2014 will vest in respect of those security holders who have satisfied the terms of issue as set out in the Loyalty Option Offer Document dated 17 November 2014. Vesting notices will be sent to eligible holders in the first week of March 2015.

Loyalty Options that vest will be exercisable by the holders at any time until 31 March 2016 on payment of the exercise price of 25 cents.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 14 January 2015, the purchase of Ignatios Farm was settled in accordance with the contract of purchase announced on 17 November 2014.

The Brucknell No 3 Farm which adjoins one of the existing farms at Brucknell is scheduled for completion on 6 March 2015 in accordance with the contract of purchase for that farm.

The Group is currently undertaking due diligence on several additional farms in the South Western Victoria region. No additional farms have been contracted at the date of this report.

INFORMATION ON DIRECTORS

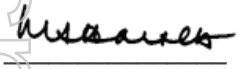
The following persons held office as directors of the Group during or since the end of the half-year. The names and details of the directors are:

Name	Position	Appointed/Retired
Michael Hackett	Chairman	
Adrian Rowley	Director	
Keith Jackson	Director	1 September 2014 (appointed)
Graham Anderson	Director	1 September 2014 (retired)

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under S 307C of the Corporations Act 2001 is set out on page 31 for the half-year ended 31 December 2014.

This report is signed in accordance with a resolution of the board of directors.



Michael Leslie Hackett

Chairman

Brisbane

27 February 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Notes	December 2014 $	December 2013 $
Revenue	2(a)	690,514	1,778
Other income	2(b)	110,458	-
Administration and non-dairy related costs	2(c)(iv)	(436,532)	(74,462)
Employment expenses	2(c)(iii)	(105,171)	-
Finance costs	2(c)(i)	(59,768)	-
Dairy related costs		(403,403)	-
Depreciation and amortisation	2(c)(ii)	(4,353)	-
Impairment of property, plant and equipment	2(c)(v)	(638,165)	-
Loss before income tax		**(846,420)**	**(72,684)**
Income tax benefit /(expense)	2(d)	-	-
Net loss for the period		**(846,420)**	**(72,684)**
Other comprehensive income			
Items that may be classified subsequently to profit or loss when specific conditions are met:			
Net gain on revaluation of financial assets		-	15,445
Income tax relating to items that may be subsequently reclassified		-	-
		-	15,445
Items that will not be reclassified to profit or loss		-	-
Other comprehensive income for the period, net of tax		**-**	**15,445**
Total comprehensive loss for the period, net of tax		**(846,420)**	**(57,239)**
Profit / (loss) is attributable to:			
Company shareholders		75,641	(72,684)
Trust unitholders		(922,061)	-
		(846,420)	**(72,684)**
Total comprehensive income / (loss) is attributable to:			
Company shareholders		75,641	(57,239)
Trust unitholders		(922,061)	-
		(846,420)	**(57,239)**
Earnings per share:			
Basic earnings per stapled security (cents)	23	(1.34)	(0.02)
Diluted earnings per stapled security (cents)	23	(1.34)	(0.02)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Notes	December 2014 $	June 2014 $
ASSETS			
Current Assets			
Cash and cash equivalents	3	5,215,460	36,367
Trade and other receivables	4	553,978	21,229
Inventories	5	111,813	-
Non-current assets held for sale	6	12,400	725,147
Other current assets	7	484,884	11,853
Total Current Assets		**6,378,535**	**794,596**
Non-Current Assets			
Biological assets	8	2,316,504	-
Property, plant & equipment	9	8,799,421	-
Total Non-Current Assets		**11,115,925**	**-**
Total Assets		**17,494,460**	**794,596**
LIABILITIES			
Current Liabilities			
Trade and other payables	10	517,074	304,495
Provisions	11	18,707	-
Borrowings	12	243,843	6,652
Total Current Liabilities		**779,624**	**311,147**
Non-Current Liabilities			
Borrowings	12	6,233,995	-
Total Non-Current Liabilities		**6,233,955**	**-**
Total Liabilities		**7,013,619**	**311,147**
Net Assets		**10,480,841**	**483,449**
EQUITY			
Issued capital	13	10,878,384	7,866,059
Reserves		1,656	197,767
Retained earnings		(7,504,735)	(7,580,377)
Equity attributable to shareholders		**3,375,305**	**483,449**
Non-controlling interests			
Trust unitholders		7,105,536	-
Total Equity		**10,480,841**	**483,449**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	December 2014 $	December 2013 $
Cash Flows from Operating Activities		
Receipts from customers	290,912	-
Payments to suppliers and employees	(891,294)	(70,056)
Interest received	22,539	1,778
Finance costs	(26,596)	-
Net operating cash flows	**(604,439)**	**(68,278)**
Cash Flows from Investing Activities		
Payment for property, plant & equipment	(4,892,037)	-
Payment for capital development	(225,259)	-
Proceeds from sale of non-current assets held for sale	627,095	-
Payment for biological assets	(1,327,098)	-
Proceeds from sale of biological assets	25,116	-
Payment for deposits on property	(411,717)	-
Cash from acquisition of Trust	2,731	-
Net investing cash flows	**(6,201,169)**	**-**
Cash Flows from Financing Activities		
Proceeds from issue of stapled securities net of transaction costs	11,429,301	-
Proceeds from related parties	-	20,000
Repayment of loans - unsecured	(4,989)	-
Proceeds from CBA facility	4,000,000	-
Proceeds from loan - Fonterra	220,000	-
Proceeds from bank hire purchase loans	181,884	-
Repayment of loans on acquisition of Trust	(3,841,495)	-
Net financing cash flows	**11,984,701**	**20,000**
Net increase / (decrease) in cash held (refer note 18(b))	**5,179,093**	**(48,278)**
Cash at the beginning of the period	36,367	157,362
Cash at the end of the financial period	**5,215,460**	**109,084**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Issued Capital Ordinary	Financial Asset Revaluation Reserve	Non-controlling Interest (Trust)	Retained Earnings	Total
	$	$	$	$	$
Balance at 1 July 2013	**7,866,059**	**-**	**-**	**(7,156,488)**	**709,571**
Comprehensive income for the period					
Loss attributable to company shareholders	-	-	-	(72,684)	(72,684)
Other comprehensive income	-	15,445	-	-	15,445
Total comprehensive income / (loss) for the period	**-**	**15,445**	**-**	**(72,684)**	**(57,239)**
Balance at 31 December 2013	**7,866,059**	**15,445**	**-**	**(7,229,172)**	**652,332**

	Issued Capital Ordinary	Financial Asset Revaluation Reserve	Non-controlling Interest (Trust)	Retained Earnings	Total
	$	$	$	$	$
Balance at 1 July 2014	**7,866,059**	**197,767**	**-**	**(7,580,377)**	**483,449**
Comprehensive income for the year					
Profit / (loss) attributable to company shareholders / trust unitholders	-	-	(922,061)	75,641	(846,420)
Total comprehensive income / (loss) for the year	**-**	**-**	**(922,061)**	**75,641**	**(846,420)**
Transactions with equityholders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	3,012,325	-	8,572,076	-	11,584,401
Issue convertible notes	-	-	308,881		308,881
Total transactions with equity holders	**3,012,325**	**-**	**8,880,957**	**-**	**11,893,282**
Other					
Recognition of non-controlling interest in ADFT	-	-	(853,260)	-	(853,260)
Trust units acquired on stapling	-	-	(100)	-	(100)
De-recognition of revaluation increment on disposal of OHPL shares	-	(196,111)	-	-	(196,111)
Total other	**-**	**(196,111)**	**(853,360)**	**-**	**(1,049,471)**
Balance at 31 December 2014	**10,878,384**	**1,656**	**7,105,536**	**(7,504,735)**	**10,480,841**

The accompanying notes form part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Australian Dairy Farms Group ("the Group") was formed by the stapling of Australian Dairy Farms Limited ("the Company") and its controlled entities, and Australian Dairy Farms Trust ("the Trust"). The Financial Reports of the Group and the Trust have been presented jointly in accordance with ASIC Class Order 13/1050 relating to combining accounts under stapling and for the purpose of fulfilling the requirements of the Australian Securities Exchange.

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

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

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

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

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

(a) Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2014 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Group. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of APA Financial Services Limited for the year ended 30 June 2014, together with any public announcements made during the half-year.

(b) Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except in relation to the matters discussed below.

(c) Principles of Consolidation

Stapling

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

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

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

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

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

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

(c) Principles of consolidation (cont'd)

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

The financial statements presented include the net profit and loss of the Company for the period and includes the results of the Trust from 22 October 2014. The balance sheet includes the aggregated balance sheet of the Company and Trust as at 31 December 2014. The comparatives reflect the results of the Company.

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries as at 31 December 2014 and the results of all subsidiaries for the half-year then ended.

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

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

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

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company. A list of subsidiaries appears in note 15 to the consolidated financial statements.

(d) Inventories

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

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

(e) Biological Assets

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

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

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

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

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

(f) Property, Plant and Equipment

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

Basis of measurement of carrying amount

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

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

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

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

Impairment

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

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

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

Depreciation

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

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

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

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

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

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

(g) Leases

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

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

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

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

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

(h) Employee Benefits

Short-term employee benefits

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

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

Other long-term employee benefits

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

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

(i) Provisions

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

(j) Impairment of Assets

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

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

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

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

(k) Revenue and Other Income

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

Dairy cattle fair value adjustments are determined at the end of each reporting date (refer note 8). The amount of the net increment or decrement in the fair value is recorded as either revenue or expense in the income statement and is determined as:

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

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

(l) Critical Accounting Estimates and Judgments

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

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

- Carrying value determination of land and buildings, refer note 9;

- Fair value determination of livestock refer note 8;

- Fair value determination of financial liability and equity component of convertible notes refer note 12;

- Impairment of non-financial and financial assets refer note 1(j); and

- Income tax and other taxes refer note 1(c) of the APA Financial Services Limited 30 June 2014 annual report and note 2(d).

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

(m) Compound Financial Instruments

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

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

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

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

(n) New and Revised Accounting Standards Applicable to the Current Half-year Reporting Period

For the half-year reporting period to 31 December 2014, the following revised accounting standard became mandatory for the first time. A discussion of relevant new and revised requirements and its impact on the Group is provided below.

Interpretation 21: Levies is mandatorily applicable for annual financial reporting periods commencing 1 January 2014 and became applicable to the group for the first time in the current half-year reporting period 1 July 2014 to 31 December 2014. The Interpretation clarifies that a liability to pay a government levy should be recognised when the activity triggering the payment has occurred.

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

(n) New and Revised Accounting Standards Applicable to the Current Half-year Reporting Period (cont'd)

The Group pays land utilisation taxes with respect to property holdings and recognises a liability for such taxes based on the passage of time. As a consequence of this change in accounting policy, there are no adjustments to the financial statements required. There were no land utilisation taxes in the comparative period.

NOTE 2: REVENUE AND EXPENSES

	December 2014 $	December 2013 $
(a) Revenue		
Revenue		
Sale of milk	611,466	-
Other income	3,200	-
Livestock fair value adjustment (refer note 8)	53,309	-
	667,975	**-**
Other revenue		
Interest received - other persons	22,539	1,778
Total Revenue	**690,514**	**1,778**
(b) Other Income		
Gain on disposal of other financial assets (refer note 6)	110,458	-
	110,458	**-**
(c) Expenses		
(i) Finance costs		
CBA facility	(25,015)	-
Loans - unsecured	(504)	-
Finance charges payable under finance leases	(1,077)	-
Interest accured convertible note (related parties)	(33,172)	-
	(59,768)	**-**
(ii) Depreciation and amortisation of non-current assets		
Plant and equipment - owned	(3,245)	-
Plant and equipment - leased	(1,108)	-
	(4,353)	**-**
(iii) Employee benefits expense		
Wages and salaries costs	(79,004)	-
Superannuation	(7,460)	-
Employee benefits provisions	(18,707)	-
	(105,171)	**-**
(iv) Administration and non-dairy related costs		
Administration costs	54,333	18,324
Professional costs	100,620	56,138
Stapling transaction costs	281,579	-
	436,532	**74,462**
(v) Other significant expenses		
Impairment of land and buildings (refer note 9)	**(638,165)**	**-**

NOTE 2: REVENUE AND EXPENSES (cont'd)

(d) Tax Expense

(i) Tax Consolidated Group

The Company and its wholly owned Australian subsidiaries have implemented the tax consolidation legislation and will form a tax consolidated group. As a consequence these entities are treated as a single tax entity. The head entity within the tax consolidated group is Australian Dairy Farms Limited. The Trust is not part of the tax consolidated group.

(ii) Trust

Under current income tax legislation the Trust is not liable to pay tax provided its taxable income and taxable realised capital gains are distributed to unitholders.

(iii) Tax Losses for Half-year 31 December 2014.

Management have prepared tax estimates for the tax consolidated group for the half-year to 31 December 2014.

On the basis of these estimates, the Directors believe that the Parent Entity and its wholly owned subsidiaries have no taxable income for the half year to 31 December 2014 and have unbooked carried forward tax losses at 31 December 2014.

For the preparation of the half-year report at 31 December 2014 management has determined that the recoverability of these tax losses is presently uncertain as a trend of profitable growth has not been fully established.

NOTE 3: CASH AND CASH EQUIVALENTS

	December 2014 $	June 2014 $
Current		
Cash at bank and in hand	5,215,460	36,367
Total cash and cash equivalents	**5,215,460**	**36,367**

NOTE 4: TRADE AND OTHER RECEIVABLES

	Notes	December 2014 $	June 2014 $
Current			
Trade debtors		291,350	-
Other receivables	(a)	262,628	21,229
Total current receivables		**553,978**	**21,229**

(a) Included in other receivables is an estimated receivable of $258,428 in respect to sharefarming arrangements between the Australian Dairy Farms Trust (Trust) and DFI Brucknell Pty Ltd (DFI). Since June 2013, until the acquisition of the Brucknell No 1 and No 2 farms on 22 October 2014 , the Brucknell No 1 and Brucknell No 2 farms had been operated as a single unit under the share farming agreement by DFI. The estimated receivable represents expenses incurred by the Trust under the sharefarming agreement with the final allocation of revenue and expenses between the two properties (and owners) yet to be completed. An amount of $450,000 was witheld at settlement of the Brucknell No 2 Farms pending resolution of the reconciliation referred to above and remains in the Trust's solicitors trust account for this purpose.

NOTE 5: INVENTORIES

	December 2014 $	June 2014 $
Current		
Feedstock, hay and silage	111,813	-
Total inventories	**111,813**	**-**

NOTE 6: NON-CURRENT ASSETS HELD FOR SALE

	Notes	December 2014 $	June 2014 $
Current			
Non-current assets held for sale		12,400	725,147
Total non-current assets held for sale		**12,400**	**725,147**
Listed investment, at fair value			
- shares in listed corporations	(i)	12,400	-
Unlisted investment, at fair value	(ii)	-	725,147
Total available-for-sale financial assets		**12,400**	**725,147**
Movements during the half-year:			
Opening balance		725,147	527,380
Proceeds from sales		(627,095)	-
Financial asset revaluation reserve		(196,111)	197,767
Gain on disposal		110,458	-
Total non-current assets held for sale		**12,400**	**725,147**

(i) OneVue Holdings Limited (OVH) listed on the ASX 24 July 2014. The Group held 2,071,850 shares in OVH and received shareholder approval for the board to dispose of the Group's shares in OVH to provide working capital for the dairy aggregation project. The shares have been progressively disposed of for between $0.30 and $0.34 in the half-year, realising proceeds of $627,095. At 31 December 2014 there were 40,000 OVH shares held and valued at the last traded price on 31 December 2014 of $0.31.

(ii) At 30 June 2014 the fair value of the OVH shares was reclassified as current to reflect the proposal by the board to dispose of the shares within the next 12 months.

NOTE 7: OTHER ASSETS

	Notes	December 2014 $	June 2014 $
Current			
Prepayments		55,870	11,853
Bonds and deposits	(a)	429,014	-
Total other assets		**484,884**	**11,853**

(a) Included in bonds and deposits is a $186,930 deposit on Ignatios farm which was subsequently acquired 14 January 2015 and a $224,787 deposit on Brucknell No 3 farm at Missens Road that is scheduled for settlement 6 March 2015 as disclosed in note 22: Events after Balance Date.

NOTE 8: BIOLOGICAL ASSETS

	Notes	December 2014 $	June 2014 $
Non-current			
Dairy cattle	(a)	2,316,504	-
Total biological assets		**2,316,504**	**-**
Movements during the year:			
Opening carrying amount		-	-
Acquisition of livestock acquired through stapling		961,213	-
Purchases of livestock		1,327,098	
Sales of livestock		(25,116)	-
Gain from changes to fair value		53,309	-
Closing carrying amount		**2,316,504**	**-**
Herd Size:		**Number**	**Number**
Dairy cattle		1,468	-

(a) Biological assets represent the dairy cattle herd. The cattle are valued at fair value, by an independent stock agent, based on the prices in the open cattle market in the locality of the dairy operations. A fair value gain of $53,309 has been recognised in profit and loss at 31 December 2014, and represents the increase in value of the cattle due to market price.

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Note	December 2014 $	June 2014 $
Land and buildings			
- at cost	(a)	9,083,165	-
Less accumulated impairment	(b)	(638,165)	-
		8,445,000	**-**
Plant and equipment - owned			
- at cost		172,050	-
Less accumulated depreciation		(3,245)	-
		168,805	**-**
Plant and equipment - leased			
- at cost		186,724	-
Less accumulated depreciation		(1,108)	-
		185,616	**-**
Total property, plant and equipment		**8,799,421**	**-**

(a) The cost of land and buildings is comprised of $4,637,343 inclusive of transaction costs for the acquisition of the Brucknell No 2 farm at 463 Moreys Road on 22 October 2014 and $4,224,422 inclusive of transaction costs for the acquisition of the Brucknell No 1 farm at 417 Moreys Road held by the Australian Dairy Farms Trust at stapling date, plus capitalised development costs on both farms since acquisition of $221,400.

(b) On 25 February 2015, registered valuer Mr Roger Cussen provided an update of his independent valuation dated 26 May 2014 in light of recent sales evidence, assessing the fair value of the combined two properties of $8,336,000. This amount excludes $109,000 for capital development works at cost which were not considered in his most recent valuation. Adjusting carrying cost on the basis of the independent valuation results in an impairment of $638,165 at the end of the period under review. Capitalised government stamp duty on acquisition of the two properties amounted to $502,520.

NOTE 10: TRADE AND OTHER PAYABLES

	December 2014 $	June 2014 $
Current		
Trade creditors	460,086	44,567
Sundry creditors and accrued expenses	56,988	259,928
Total trade and other payables	**517,074**	**304,495**

NOTE 11: PROVISIONS

	December 2014 $	June 2014 $
Current		
Employee benefits	18,707	-
Total provisions	**18,707**	**-**

NOTE 12: BORROWINGS

	Notes	December 2014 $	June 2014 $
Current			
Loans - unsecured		1,663	6,652
Bank hire purchase loans - secured		22,180	-
Loan - Fonterra	(a)	220,000	-
Total current borrowings		**243,843**	**6,652**
Non-current			
Bank hire purchase loans - secured		159,704	-
CBA facility	(b)	4,000,000	-
Convertible notes	(c)	2,074,291	-
Total non-current borrowings		**6,233,995**	**-**
Total borrowings		**6,477,838**	**6,652**

(a) At 31 December 2014 the Group has a $220,000 interest free advance from Fonterra Milk Australia Pty Ltd which has a maturity date of 30 November 2015.

(b) At 31 December 2014 the Group has banking facilities with the Commonwealth Bank of Australia Limited (CBA) secured by registered mortgages and charges over current and future property assets of the Group. The facility is a three year loan facility of $4,000,000 which has a maturity date of 22 October 2017. The facility is subject to compliance with pre-determined covenants and an annual review. The directors have classified the facility as a non-current liability in its entirety based on the facility not maturing until 22 October 2017, the Group not intending to repay the facility prior to maturity date and the meeting of all covenants during the period and subsequent to balance date.

(c) On 22 October 2014 the Group issued 235 unlisted convertible notes each with a face value of $10,000. The key terms of the notes include a 2 year conversion date and conversion price of 20 cents per stapled security. The notes may be converted into stapled securities at any time by the noteholder and each note bears interest at 2% above the rate paid by the Group on the CBA facility. Interest accrues daily and will be paid in cash or stapled securities equal to the conversion price at the Group's election. The directors have classified the notes as a non-current liability as under the terms of the agreement the issuer is unable to redeem the notes for cash until the maturity date which is greater than 12 months from 31 December 2014.

NOTE 12: BORROWINGS (cont'd)

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

Subsequent to initial recognition, the debt component of the compound financial instrument is measured at amortised cost using the effective interest method with a balance at 31 December 2014 of $2,074,291. The equity component of the compound financial instrument is not remeasured.

NOTE 13: CONTRIBUTED EQUITY

	December 2014 $	June 2014 $
Contributed equity of the company	10,878,384	7,886,059

(a) Movement in stapled securities:

Date	Details	Number of Stapled Securities	Issue Price $	Shareholders $	Unitholders $	Stapled Entity $
01 Jul 2013	Opening balance	60,986,733		7,866,059	-	7,866,059
30 Jun 2014		**60,986,733**		**7,866,059**	**-**	**7,866,059**
22 Oct 2014	1:5 share consolidation	(48,789,323)	-	-	-	-
22 Oct 2014	Stapling arrangement	-	-	-	100	100
22 Oct 2014	Convertible notes	-	-	-	308,881	308,881
22 Oct 2014	Capital Raising	46,485,500	0.20	2,324,275	6,972,825	9,297,100
22 Oct 2014	Payment of director fees	775,000	0.20	155,000	-	155,000
30 Dec 2014	Placement	12,000,000	0.25	750,000	2,250,000	3,000,000
	Transaction costs	-	-	(216,950)	(650,849)	(867,799)
31 Dec 2014		**71,457,910**		**10,878,384**	**8,880,957**	**19,759,341**

The basis of allocation of the issue price of stapled securities issued post stapling is determined by arrangement between the Company and Trust as set out in the Stapling Deed.

(b) Stapled Securities

The ordinary shares of the Company are stapled with the units of the Trust. These entitle the holder to participate in dividends and distributions as declared from time to time and the proceeds on winding up. On a show of hands every holder of stapled securities present at a meeting in person, or by proxy, is entitled to one vote, and upon a poll each stapled security is entitled to one vote.

(c) Options

On 8 December 2014 the Group allotted 29,350,479 unlisted loyalty options over stapled securities pursuant to its bonus issue as set out in detail in the Offer Document dated 17 November 2014.

The loyalty options have an exercise price of $0.25 and are exercisable on or after the vesting date of 27 February 2015 and before 31 March 2016.

(d) Convertible Notes

On 22 October 2014 the Group issued 235 unlisted convertible notes each with a face value of $10,000. The key terms of the notes include a 2 year conversion date and conversion price of 20 cents per stapled security. The notes may be converted into stapled securities at any time by the noteholder and each note bears interest at 2% above the rate paid by the Group on the CBA facility. Interest accrues daily and will be paid in cash or stapled securities equal to the conversion price at the Group's election. The convertible notes are a compound financial instrument comprising a debt component and an equity component. The debt component of the compound financial instrument has initially been recognised at fair value $2,041,119 and the equity component of $308,881 is initially recognised as the difference between the face value of the compound financial instrument and the fair value of the debt component. The equity component of the compound financial instrument is not remeasured.

NOTE 15: CONTROLLED ENTITIES

Particulars in relation to controlled entities	Note	Class of Equity	December 2014 Percentage Owned	June 2014 Percentage Owned
Parent Entity:			%	%
Australian Dairy Farms Limited	(a)			
Wholly Owned Controlled Entities				
SW Dairy Farms Pty Ltd	(b)	ordinary	100	-
Dairy Fund Management Limited		ordinary	100	100
DFI Operations Pty Ltd (dormant)		ordinary	100	100
Other Controlled Entities			%	%
Australian Dairy Farms Trust	(c)	units	-	-

The financial year of all controlled entities is the same as that of the holding company and all controlled entities are incorporated in Australia.

(a) Ultimate Controlling Entity

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

(b) Acquisition of subsidiary

On 22 October 2014 the Company acquired previously dormant SW Dairy Farms Pty Ltd to establish a farm operations company as part of the Group.

(c) Stapling arrangement

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

Australian Accounting Standards require an acquirer to be identified and an in-substance acquisition to be recognised. In relation to the stapling of the Company and the Trust, the Company is identified as having acquired control over the assets of the Trust.

NOTE 16: FAIR VALUE MEASUREMENTS

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

- financial assets; and
- biological assets

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

(a) Fair Value Hierarchy

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

NOTE 16: FAIR VALUE MEASUREMENTS (cont'd)

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

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

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

- *Market approach:* valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- *Income approach:* valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- *Cost approach:* valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

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

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

31 December 2014

	Note	Level 1	Level 2	Level 3	Total
		$	$	$	$
Financial assets					
- Shares in listed companies	6	12,400	-	-	12,400
Total financial assets recognised at fair value on a recurring basis		**12,400**	**-**	**-**	**12,400**
Non-financial assets					
Biological assets	8	-	2,316,504	-	2,316,504
Total non-financial assets recognised at fair value on a recurring basis		**-**	**2,316,504**	**-**	**2,316,504**

30 June 2014

Financial assets					
- Shares in unlisted companies	6	-	725,147	-	725,147
Total financial assets recognised at fair value on a recurring basis		**-**	**725,147**	**-**	**725,147**

NOTE 16: FAIR VALUE MEASUREMENTS (cont'd)

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

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

Description	Fair Value at 31 December 2014 $	Valuation Technique(s)	Input Used
Non-financial assets			
Biological assets	2,316,504	Market approach using recent observable market data for dairy cattle	Breed, weight, condition
	2,316,504		

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

(c) Disclosed Fair Value Measurements

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

Trade and other receivables;

Inventories;

Other current assets;

Property, plant and equipment;

Trade and other payables;

Provisions; and

Borrowings.

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 17: FINANCIAL RISK MANAGEMENT

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

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

	Notes	2014 $	2014 $
Financial assets			
Cash and cash equivalents	3	5,215,460	36,367
Trade and other receivables	4	553,978	21,229
Financial assets	6	12,400	725,147
Bonds and deposits	7	429,014	-
Total financial assets		**6,210,852**	**782,743**
Financial liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	10	517,074	304,495
Borrowings	12	6,477,838	6,652
Total financial liabilities		**6,994,912**	**311,147**

(a) Financial Risk Management Policies

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

(i) Treasury Risk Management

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

(ii) Financial Risk Exposures and Management

Interest rate risk

The Group at the date of this report has debt exposure through $183,547 in fixed rate facilities and $6,383,172 in variable rate facilities and convertible notes.

Commodity price risk

The Group's financial instrument exposure to commodity price risk is considered nil.

Credit risk

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

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

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 17: FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk

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

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

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

Financial liability and financial asset maturity analysis

	Within 1 year		1 to 5 years		Over 5 years		Total	
	December 2014 $	June 2014 $	December 2014 $	June 2014 $	December 2014 $	June 2014 $	December 2014 $	June 2014 $
Financial liabilities due for payment								
Borrowings, refer (a)	(243,843)	(6,652)	(6,542,876)	-	-	-	(6,786,719)	(6,652)
Trade & other payables	(517,074)	(304,495)	-	-	-	-	(517,074)	(304,495)
Total contractual outflows	**(760,917)**	**(311,147)**	**(6,542,876)**	**-**	**-**	**-**	**(7,303,793)**	**(311,147)**
Total expected outflows	**(760,917)**	**(311,147)**	**(6,542,876)**		**-**	**-**	**(7,303,793)**	**(311,147)**
Financial assets - cash flows realisable								
Cash	5,215,460	36,367	-	-	-	-	5,215,460	36,367
Trade and other receivables	553,978	21,229	-	-	-	-	553,978	21,229
Financial assets	12,400	725,147	-	-	-	-	12,400	725,147
Bond and deposits	429,014	-	-	-	-	-	429,014	-
Total anticipated inflows	**6,210,852**	**782,743**	**-**	**-**	**-**	**-**	**6,210,852**	**782,743**
Net (outflows) / inflows on financial instruments	**5,449,935**	**471,596**	**(6,542,876)**	**-**	**-**	**-**	**(1,092,941)**	**471,596**

(a) Included above in the 1 to 5 years borrowings is $308,881 that has been classified as equity on the issue of the convertible notes. Refer note 13(d).

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NOTE 17: FINANCIAL RISK MANAGEMENT (cont'd)

Share price risk

The Group has exposure to share price risk through its investment in OneVue Holding Limited, an ASX listed company. Exposure exists to movements in the market price.

(b) Net Fair Values

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

		Carrying Amount		Fair Value	
	Footnote	December 2014 $	June 2014 $	December 2014 $	June 2014 $
Financial assets					
Cash and cash equivalents	(i)	5,215,460	36,367	5,215,460	36,367
Trade and other receivables	(i)	553,978	21,229	553,978	21,229
Financial assets	(ii)	12,400	725,147	12,400	725,147
Bonds and deposits	(i)	429,014	-	429,014	-
Total financial assets		**6,210,852**	**782,743**	**6,210,852**	**782,743**
Financial liabilities					
Trade creditors	(i)	517,074	304,495	517,074	304,495
Borrowings	(iii)	6,477,838	6,652	6,477,838	6,652
Total financial liabilities		**6,994,912**	**311,147**	**6,994,912**	**311,147**

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

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

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

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

(c) Contingencies

The Group has potential financial liabilities that may arise from certain contingencies disclosed in Note 21: Contingent Liabilities. As explained in that note, no material losses are anticipated in respect of any of those contingencies and the fair value disclosed above is the directors' estimate of amounts that would be payable by the Group as consideration of the assumption of those contingencies by another party.

(d) Sensitivity Analysis

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

(i) Interest rate sensitivity analysis

At 31 December 2014, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

NOTE 17: FINANCIAL RISK MANAGEMENT (cont'd)

	December 2014	June 2014
Change in profit	**$**	**$**
- Increase in interest rate by 2.5%	(29,192)	909
- Decrease in interest rate by 2.5%	29,192	(909)
Change in equity		
- Increase in interest rate by 2.5%	(29,192)	909
- Decrease in interest rate by 2.5%	29,192	(909)

(ii) Price risk sensitivity analysis

At 31 December 2014, the net effect on profit and equity of a 20% change in listed investments, with all other variables remaining constant is $2,480 up / down for the Group. In the June 2014 comparative period the investment was unlisted.

NOTE 18: STAPLING

(a) Summary of acquisition

On 1 September 2014, the Company resolved, subject to Completion, to consolidate its issued capital on a 1 for 5 basis at the ASX nominated record date and to ratify entering into the Stapling Deed with the Trust to staple the securities of the Trust and the Company for the purpose of listing on ASX.

On 22 October 2014 the 60,986,733 shares on issue in the Company were consolidated into 12,197,347 consolidated Company shares. Simultaneously, in accordance with the Stapling Deed the Trust increased the number of issued units to 12,197,347 and each unit on issue was stapled to one consolidated Company share to form the Stapled Securities of Australian Dairy Farms Group.

For relevant stapling arrangements Australian Accounting Standards require an acquirer to be identified and the general principles in AASB 3 Business Combinations to be applied. In relation to the stapling of the Company and the Trust, the Company has been identified as the acquirer. The following additional accounting principles have also been applied:

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

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

(iii) the issued units of the Trust are not owned by the Company. The net assets of the Trust are identified as minority interests and presented as such in the consolidated statement of financial position within equity.

(b) Assets and liabilities acquired

The assets and liabilities arising from the acquisition of the Trust at the date of stapling were as follows:

	$
Cash and cash equivalents	2,731
Trade and other receivables	229,707
Other assets	19,116
Biological assets	961,213
Property, plant and equipment	4,328,502
Trade and other payables	(203,034)
Borrowings - CBA facility	(2,250,000)
Borrowings - related parties	(3,941,495)
Net asset deficiency attributable to unitholders transferred to the stapled group	853,260
Net assets	-

The assets and liabilities acquired are excluded from the consolidated statement of cash flows.

NOTE 18: STAPLING (cont'd)

As part of the stapling transaction the Group issued $2,350,000 convertible notes in part settlement of related party loans.

The Group issued 775,000 stapled securities valued at $155,000 in lieu of payment of director fees.

(c) Non-cash flows in financing activities

As identified in Note 1(c) there was an in-substance acquisition in relation to the stapling of the Company and the Trust, as a result of this the acquisition occurred for nil consideration and therefore no cash was paid to the acquirer.

NOTE 19: SEGMENT REPORTING

Management has determined that the Group operates in one reportable segment, being the dairy industry in Australia.

NOTE 20: RELATED PARTIES

On 22 October 2014 the Group issued 235 unlisted convertible notes with a face value of $10,000. The key terms of the notes include a 2 year conversion date and conversion price of 20 cents per stapled security. The notes may be converted into stapled securities at any time by the noteholder and each note bears interest at 2% above the rate paid by the Group on the CBA facility. Interest accrues daily and will be paid in cash or stapled securities equal to the conversion price at the Group's election. At 31 December 2014 the convertible notes including accrued interest total $2,383,172.

145 of the convertible notes are held by Trustees Australia Limited and 90 by interests associated with Michael Hackett. These transactions are made on an arms-length commercial basis.

All other arrangements with related parties continue to be in place. For details of these arrangements, refer to 30 June 2014 Annual Financial Report.

NOTE 21: CONTINGENT LIABILITIES

On the 25 October 2013, the company received a letter from solicitors representing Technology Capital Pty Ltd, a consultant to one of the parties involved in the dairy aggregation project indicating that Technology Capital Pty Ltd believed it may have a future claim against the company in respect of matters relating to amounts claimed to be payable to other parties to the proposed project. An announcement was made to the ASX advising that the directors were of the view that there is no valid claim that could be envisaged and directors remain of that view.

On or about 19 November 2014 the Trust received notification of a claim from solicitors acting for Timboon Earthmoving regarding payment for certain earthworks partially undertaken but not completed by Timboon Earthmoving on Brucknell No 2 Farm at Brucknell pursuant to a contract for a specific scope of works and a fixed maximum price of $110,000, of which approximately $40,000 was earlier paid. The claim is disputed and is being contested.

NOTE 22: EVENTS AFTER THE BALANCE DATE

On 14 January 2015 the Trust completed the acquisition of Ignatios Farm at Glenfyne near Cobden and Warrnambool in South West Victoria's "Golden Triangle" dairy region. The property was purchased for $1,869,300 excluding GST and stamp duty. No livestock were purchased and the purchase price was paid from existing cash reserves.

On 6 March 2015, the Group is scheduled to complete the acquisition of Brucknell No 3 Farm which adjoins the Brucknell No 1 Farm on its Northern boundary. The Brucknell No 3 Farm is being acquired from an unrelated third party at a purchase price of $2,247,856. Livestock estimated to be approximately $600,000 and subject to independent valuation shortly prior to settlement and hay and silage on hand at fair value will also be acquired. The purchase will be funded from cash reserves and bank facilities.

On 8 December 2014, the Group allotted 29,350,479 Loyalty Options over stapled securities pursuant to its bonus issue as set out in detail in the Prospectus and Product Disclosure Statement (Offer Document) issued by the Group. The Loyalty Options have an exercise price of $0.25 and are exercisable on or after the Vesting Date, which is 27 February 2015, and before 31 March 2016. The Loyalty Options are issued subject to the full terms and conditions as set in the Offer Document dated 17 November 2014.

The directors are not aware of any other significant events post 31 December 2014.

NOTE 23: EARNINGS PER SHARE CALCULATIONS

Earnings used in calculating EPS are based on the consolidated result adjusted for the convertible note interest of $33,102. The weighted average ordinary securities used in EPS is 60,467,511. Loyalty options and convertible notes are considered to be dilutive potential ordinary securities however they are anti-dilutive at 31 December 2014 as the Group is in losses.

Australian Dairy Farms

DIRECTORS' DECLARATION

For the half-year ended 31 December 2014

In accordance with a resolution of the directors of Australian Dairy Farms Group, the directors of the stapled entity declare that:

(a) the financial statements and notes set out on pages 7 to 29 are in accordance with the Corporations *Act 2001*, including:

(i) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting; and

(ii) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date.

(b) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Michael Leslie Hackett
Chairman

Brisbane

27 February 2015

Hayes Knight
Accountants, Advisors & Auditors

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Auditor's Independence Declaration Under Section 307C of the *Corporations Act 2001*

To the Directors of Australian Dairy Farms Limited

As auditor for the review of the financial report of Australian Dairy Farms Limited and Australian Dairy Farms Trust for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2014 there have been no contraventions of:

(i) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

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

Hayes Knight Audit (Qld) Pty. Ltd.

Hayes Knight Audit (Qld) Pty Ltd

Robertson.

A M Robertson
Director

Level 23, 10 Eagle Street,
Brisbane, QLD, 4000

Date: 27 February 2015

Hayes Knight
Accountants, Advisors & Auditors

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE SECURITY HOLDERS OF AUSTRALAN DAIRY FARMS LIMITED AND THE UNIT HOLDERS OF AUSTRALIAN DAIRY FARMS TRUST

Report on the Half-Year Financial Report

Australian Dairy Farms Group ("Australian Dairy Farms") comprises Australian Dairy Farms Limited and the entities it controlled at the end of the half-year or from time to time during the half-year and Australian Dairy Farms Trust ("the Trust").

We have reviewed the accompanying half-year financial report of Australian Dairy Farms and the Trust, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of Australian Dairy Farms Limited and the directors of Trustees Australia Limited as responsible entity for the Australian Dairy Farms Trust (collectively referred to as "the directors") are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements *ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Australian Dairy Farms and the Trusts financial position as at 31 December 2014 and their performance for the half-year ended on that date, and complying with Accounting Standard *AASB 134: Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Dairy Farms and the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE SECURITY HOLDERS OF AUSTRALAN DAIRY FARMS LIMITED AND THE UNIT HOLDERS OF AUSTRALIAN DAIRY FARMS TRUST (CONTINUED)

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Dairy Farms and the Trust is not in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of Australian Dairy Farms and the Trust financial position as at 31 December 2014 and of their performance for the half-year ended on that date; and

(ii) complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Hayes Knight Audit (Qld) Pty. Ltd.

Hayes Knight Audit (Qld) Pty Ltd

Robertson.

A M Robertson
Director

Level 23, 10 Eagle Street,
Brisbane, QLD, 4000

Date: 27 February 2015

CORPORATE DIRECTORY

Board of Directors

Michael Hackett
Chairman

Adrian Rowley
Director

Keith Jackson
Director

Company Secretary

Jerome Jones
Company Secretary

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Stock Exchange

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

The ASX Code is “AHF”.