

Australian Dairy Farms Group

ASX Code: AHF

An extraordinary general meeting of the shareholders of Australian Dairy Farms Limited (ACN 047 046 607) and unitholders of the Australian Dairy Farms Trust (ARSN 600 601 689) will be held at **10.30 am (AEST) on Friday 29 July 2016 at the Melbourne City Conference Centre (opposite State Library), 333 Swanston St, Melbourne, Victoria.**

Australian Dairy Farms Limited and Australian Dairy Farms Trust (together the “Group”)

Notice of Extraordinary General Meeting

Notice is hereby given that an extraordinary general meeting of the Securityholders of Australian Dairy Farms Limited (**Company**) will be held in conjunction with an extraordinary general meeting of Unitholders of the Australian Dairy Farms Trust (**Trust**) (together the **Australian Dairy Farms Group** or the **Group**).

The meeting will be held at 10.30 am (AEST) on Friday 29 July 2016 at the Melbourne City Conference Centre (opposite State Library), 333 Swanston St, Melbourne, Victoria. (**Meeting**).

The Explanatory Memorandum to this Notice of Meeting provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and Proxy Form are each part of this Notice of Meeting.

Securityholders are urged to vote by attending the Meeting in person or by returning a completed Proxy Form in the enclosed reply paid envelope to our Share Registry, or lodge your votes online via the Share Registry’s website on www.linkmarketservices.com.au. Instructions on how to complete a Proxy Form are set out in the Explanatory Memorandum. Proxy Forms must be received by no later than 10:30am (AEST) on Wednesday, 27 July 2016.

Terms and abbreviations used in this Notice and Explanatory Memorandum are defined in Schedule 1 of the Explanatory Memorandum.

Agenda

RESOLUTION 1 - APPROVAL OF FINANCIAL ASSISTANCE FOR CDC TRANSACTION

To consider, and if thought fit, to pass with or without amendment the following resolution as a special resolution:

“For the purposes of sections 260A and 260B(2) of the Corporations Act 2001 (Cth), approval is given for Camperdown Dairy Company Pty Ltd ACN 140 640 606 and its subsidiaries (in respect of which the Company is the listed holding company) to give financial assistance from time to time in connection with the CDC Transaction, as described in the Explanatory Memorandum.”

A voting exclusion statement is set out below.

RESOLUTION 2 - APPROVAL OF CHANGE TO CONVERSION PRICE FOR CONVERTIBLE NOTES

To consider, and if thought fit, to pass with or without amendment the following resolution as an ordinary resolution:

“That for the purposes of Listing Rule 10.11 and for all other purposes, Securityholders approve the reduction in the conversion price for Convertible Notes from \$0.20 per Stapled Security to \$0.1838 as described in the Explanatory Memorandum.”

A voting exclusion statement is set out on page 4.

RESOLUTION - 3 APPOINTMENT OF DAIRY FUNDS MANAGEMENT LIMITED AS RESPONSIBLE ENTITY OF AUSTRALIAN DAIRY FARMS TRUST

To consider, and if thought fit, to pass with or without amendment the following as an ordinary resolution:

“For the purposes of section 601FL of the Corporations Act 2001 (Cth), clause 23 of the Constitution of the Trust and for all other purposes, subject to the grant of an appropriate AFSL to Dairy Fund Management Limited, Securityholders approve the appointment of Dairy Fund Management Limited as Responsible Entity of the Trust on retirement of Trustees Australia Limited, on the terms and conditions set out in the Explanatory Memorandum”

RESOLUTION 4 - APPROVAL OF CHANGES TO TERMS OF SECURITIES ISSUED UNDER THE ADFG INCENTIVE PLAN TO MICHAEL HACKETT

To consider, and if thought fit, to pass with or without amendment the following as an ordinary resolution:

“That for the purposes of Listing Rules 6.23 and 10.14 and for all other purposes, Securityholders approve the variation in the terms of Performance Rights previously granted to Michael Hackett or his nominee under the ADFG Incentive Plan on the terms and conditions set out in the Explanatory Memorandum.”

A voting exclusion statement is set out on page 4.

RESOLUTION 5 - APPROVAL OF CHANGES TO TERMS OF SECURITIES ISSUED UNDER THE ADFG INCENTIVE PLAN TO ADRIAN ROWLEY

To consider, and if thought fit, to pass with or without amendment the following as an ordinary resolution:

“That for the purposes of Listing Rules 6.23 and 10.14 and for all other purposes, Securityholders approve the variation in the terms of Performance Rights previously granted to Adrian Rowley or his nominee under the ADFG Incentive Plan on the terms and conditions set out in the Explanatory Memorandum.”

A voting exclusion statement is set out on page 4.

RESOLUTION 6 - APPROVAL OF CHANGES TO TERMS OF SECURITIES ISSUED UNDER THE ADFG INCENTIVE PLAN TO KEITH JACKSON

To consider, and if thought fit, to pass with or without amendment the following as an ordinary resolution:

“That for the purposes of Listing Rules 6.23 and 10.14 and for all other purposes, Securityholders approve the variation in the terms of Performance Rights previously granted to Keith Jackson or his nominee under the ADFG Incentive Plan on the terms and conditions set out in the Explanatory Memorandum.”

A voting exclusion statement is set out on page 4.

RESOLUTION 7 - ISSUE OF SECURITIES UNDER THE ADFG INCENTIVE PLAN TO NATHAN LEMAN

To consider, and if thought fit, to pass with or without amendment the following as an ordinary resolution:



“That for the purposes of Listing Rule 10.14 and for all other purposes, Securityholders approve the grant of up to 2,400,000 Performance Options to Nathan Leman or his nominee under the ADFG Incentive Plan on the terms and conditions set out in the Explanatory Memorandum.”

A voting exclusion statement is set out below.

VOTING PROHIBITION AND EXCLUSION STATEMENTS

Listing Rule

Under Listing Rule 14.11, the Group will disregard any votes cast on the following Resolutions by the following persons:

Resolution	Persons excluded from voting
Resolution 2 – Issue of Securities to Convertible Note Holders 	Michael Hackett and his associates, being beneficiaries of the Interim Facility Trust.
Resolutions 4 to 7 – Issue of Securities under the ADFG Incentive Plan to Related Parties 	Any Director of the Company or the Responsible Entity except one who is ineligible to participate in any employee incentive scheme in relation to the Group and any associates of those persons.

However, the Group need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the direction on the Proxy Form; or
- (b) it is cast by the person chairing the Meeting as proxy for the person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

By order of the Board of Directors and the Responsible Entity
Michael Hackett
Australian Dairy Farms Group
29 June 2016

Australian Dairy Farms Limited and Australian Dairy Farms Trust (together the “Group”)

Explanatory Memorandum

1 INTRODUCTION

This Explanatory Memorandum has been prepared for the information of Securityholders in connection with the business to be conducted at the Meeting to be held at 10.30 am (AEST) on Friday 29 July 2016 at the Melbourne City Conference Centre (opposite State Library) 333 Swanston St Melbourne Victoria. The purpose of this Explanatory Memorandum is to provide information to Securityholders in deciding how to vote on the Resolutions set out in the Notice.

This Explanatory Memorandum should be read in conjunction with and forms part of the accompanying Notice, and includes the following:

Action to be Taken by Securityholders	5
Resolution 1 – Approval of financial assistance for CDC Transaction (section 3)	6
Resolution 2 - Approval of securities issue to Convertible Note holders (section 4)	7
Resolution 3 – Appointment of new responsible entity (section 5)	10
Resolution 4 to 6 – Change in terms of securities issued under ADFG Incentive Plan (section 6)	11
Resolution 7 – Issue of securities to Nathan Leman (section 7)	16

Any forward looking statements in this Explanatory Memorandum are based on the Group’s current expectations about future events. They are, however, subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of the Group and the Board, which could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by any such forward looking statements in this Explanatory Memorandum.

This Explanatory Memorandum does not take into account any person’s investment objectives, financial situation or particular needs. If you are in any doubt about what to do in relation to the Meeting, you should consult your financial or other professional adviser.

Please contact the Group Secretary on +61 7 3020 3020 or shareholders@adfl.com.au if you wish to discuss any matter concerning the Meeting.

2 ACTION TO BE TAKEN BY SECURITYHOLDERS

Securityholders should read the Notice and this Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

2.1 Proxies

All Securityholders are invited and encouraged to attend the Meeting. If a Securityholder is unable to attend in person, they can appoint a proxy to attend on their behalf by signing and returning the Proxy Form (attached to the Notice) to the Group in accordance with the instructions on the Proxy Form. The Group encourages Securityholders completing a Proxy Form to direct the proxy how to vote on each Resolution.

The Proxy Form must be received no later than 48 hours before the commencement of the Meeting, i.e. by no later than 7:00pm (AEST) on Wednesday 27 July 2016. Any Proxy Form received after that time will not be valid for the Meeting.

You may lodge your votes for the extraordinary meeting in the following ways:

Online	www.linkmarketservices.com.au
By Mail	C/- Link Market Services Limited Locked Bag A14, Sydney South NSW 1235
By Facsimile	+61 2 92870309
By Hand	Link Market Services Limited Level 12, 680 George Street, Sydney NSW 2000

Securityholders lodging a Proxy Form are not precluded from attending and voting in person at the Meeting.

2.2 Corporate representatives

Securityholders who are bodies corporate may appoint a person to act as their corporate representative at the Meeting by providing that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as the body corporate's representative. The authority may be sent to the Group and/or registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative.

An appointment of corporate representative form is available from the website of the Group's registry (www.linkmarketservices.com.au).

2.3 Eligibility to vote

The Directors have determined that, for the purposes of voting at the Meeting, Securityholders are those persons who are the registered holders of Stapled Securities at 7.00pm (AEST) on Wednesday, 27 July 2016.

3 RESOLUTION 1 - APPROVAL OF FINANCIAL ASSISTANCE FOR CDC TRANSACTION

3.1 Introduction

On 29 December 2015, the Group announced the acquisition of Camperdown Dairy Company Pty Limited (**CDC**), an established dairy processing business operating from a leased factory premises at Camperdown in South West Victoria. CDC's plant has capacity to process 36 million litres of raw milk per annum into fresh pasteurised bottled milk, yoghurt, butter and cream packaged ready for supermarket shelves or export.

The Acquisition completed on 15 April 2016 and was funded by a combination of the Group's cash reserves and an increase of the Group's existing funding arrangements with its banker Commonwealth Bank (**CBA Facility**). The CBA Facility has a term of 3 years and, as is typical with these types of funding arrangements, is secured by, amongst other things, guarantees and general security interests provided by the Company, the Trust and SW Dairy Farms Limited (the entity that owns the Group's livestock and operating farm assets other than land). To date, CDC has not guaranteed the CBA Facility.

3.2 Why Securityholder approval is required?

Although CDC has not as yet provided a guarantee or security interest, CBA has, as a condition of the CBA Facility required the Group to obtain all necessary shareholder approvals under section 260B of the Corporations Act.

Section 260A of the Corporations Act provides that any financial assistance provided by a company to acquire shares in itself must be approved by special resolution passed in accordance with section 260B at a general meeting of the company's shareholders. Furthermore if immediately after the acquisition a company will be a subsidiary of an Australian listed company then the financial assistance must also be approved by special

resolution passed under section 260B(2) of the Corporations Act at a general meeting of that listed company's shareholders.

The Company is seeking shareholder approval for the CBA Facility to comply with the terms of the CBA Facility and, to the extent that CDC may at some time in the future, give a financial benefit with respect to the Company's acquisition of CDC, section 260A of the Corporations Act.

3.3 Reasons for giving financial assistance

The key reasons for the CBA Facility are:

- (a) The CBA Facility provided funds for the Company to complete the purchase of CDC. The purchase has allowed the Group to transform from a milk producer to value added dairy processor.
- (b) Without shareholder approval, the Group is likely to pay an increased margin on its borrowings under the CBA Facility and may not be able to comply with any request by CBA in the future for a guarantee or security interest from CDC to secure the CBA Facility.

3.4 Directors' recommendation.

The Directors recommend that Securityholders vote in favour of Resolution 1. The Chairman intends to cast and directed proxies in favour of this resolution.

4 RESOLUTION 2 - APPROVAL OF CHANGE TO CONVERSION PRICE FOR CONVERTIBLE NOTES

4.1 Introduction

During the two years prior to the Group being listed on ASX, Trustees Australia Limited (**Trustees Australia**) and others, including Michael Hackett (a director of both Trustees Australia and the Company) provided significant equity and debt funding to the Trust of approximately \$3,160,000 to assist the Group to acquire dairy farms and dairy livestock (**Interim Funding**). The Interim Funding was advanced on the basis that it was substantially repaid from capital raisings pursuant to the Offer Document lodged with ASIC on 20 August 2014 (**Offer Document**) prior to the Group being admitted to listing on ASX.

On 1 September 2014, the Company's shareholders approved several resolutions to restructure the existing capital of the Company as a stapled security, including the issue of convertible notes (**Convertible Notes**) with a total face value of up to \$2.35 million, depending on the level of new capital raised pursuant to the Offer Document, in repayment of the Interim Funding. To ensure that the Group had adequate capital following the capital raising, lenders of the Interim Funding agreed to convert the \$2,350,000 of the remaining debt to Convertible Notes to replace at call borrowings of the Interim Funding.

On 22 October 2014, the Group issued 235 Convertible Notes, each with a face value of \$10,000 to Trustees Australia Limited as trustee for the Interim Facility Trust, the beneficiaries of which are entities associated with Mr Hackett. The Notes were unsecured, for a term of 2 years (unless converted), paid interest 2% above the rate paid by the Group on its secured debts (owed to the CBA), and could at the holder's election be converted to 11,750,000 fully paid Stapled Securities at a conversion price of \$0.20 per Stapled Security (being the issue price under the capital raising undertaken by the Group in September 2014 to list on ASX).

The terms of the Convertible Notes included a term (clause 7), as is usual for terms of convertible debt securities, as follows:

"If there is a reorganisation of the capital of the Group (including without limitation a consolidation, subdivision, reduction, pro rata bonus issue or return), each Convertible

Note and the Conversion Price will, subject to the Listing Rules, be reorganised in the same manner and way as the Stapled Securities, so that:

- (a) the value of a Convertible Note is not adversely affected by the reconstruction;*
- (b) the Noteholder is not conferred with any additional benefits which are not also conferred on the holders of Stapled Securities (subject to the same provisions with respect to rounding of entitlements as sanctioned by the meeting of holders of Stapled Securities approving the reconstruction of capital); and*
- (c) subject to clause 7(b), in all other respects the terms for the conversion of a Convertible Note will remain unchanged.”*

To date no Convertible Notes have been converted or redeemed. To the extent holders of Notes do not elect to convert the Notes to Stapled Securities, the Group must repay the amount of \$10,000 per Note and accrued interest.

4.2 Reason for Securityholder approval

In November 2014, the Group undertook a pro rata bonus issue of loyalty options (**Loyalty Options**), the terms of which were set out in the Group’s prospectus and product disclosure statement dated 17 November 2014.

To comply with clause 7 of the Convertible Note terms and as a result of the dilutive effect of the bonus issue of Loyalty Options, the Group is required to reduce the conversion price under each Convertible Note.

ASX Listing Rule 7.21 provides:

“An entity which has convertible securities (except options) on issue may only reorganise its capital (in the case of a trust, interests) if, in respect of the convertible securities, the number of securities or the conversion price, or both, is reorganised so that the holder of the convertible securities will not receive a benefit that holders of ordinary securities do not receive. This rule does not prevent a rounding up of the number of securities to be received on conversion if the rounding up is approved at the security holders’ meeting which approves the reorganisation.”

The Group’s Directors (other than Mr. Hackett) have obtained advice from Ernst & Young (**EY**) that, as a result of the bonus issue of Loyalty Options, the intrinsic value of the Convertible Notes was reduced by \$333,471 and that to comply with clause 7 of the Convertible Notes, the conversion price for the Convertible Notes is to be reduced from \$0.20 to \$0.1838. This would result in an additional 4,412 Stapled Securities being issued upon conversion of each Convertible Note, or 1,036,851 Stapled Securities in total.

As a result of EY’s analysis, the Group’s Directors (other than Mr Hackett) have, on behalf of the Group, agreed with the Convertible Note Holders that, to comply with clause 7, the conversion price for Convertible Notes is to be reduced from \$0.20 to \$0.1838. This will result, upon conversion, in the issue of an additional 4,412 Stapled Securities per Convertible Note. The reduction in conversion price required by clause 7 and agreed between the Group and Convertible Note Holders is consistent with Listing Rule 7.21.

The dilutionary effect of reducing the conversion price from \$0.20 to \$0.1838 is 0.535%, assuming all Convertible Notes are converted in full and no other Stapled Securities are issued, as set out in the following table:

Securities on issue	Current conversion price (\$0.20)		Reduction in conversion price (\$0.1838)	
	Number	Dilution upon conversion	Number	Dilution upon conversion
Current	181,005,330		181,005,330	
Shares to be issued upon conversion	11,750,000	6.491%	12,785,636	7.063%
total	192,755,330		193,790,966	

ASX Listing Rule 10.11 provides that an entity must not issue securities to related parties and their associates without Securityholder approval. The Convertible Notes are held by entities associated with Mr Michael Hackett, a Director.

As the reduction in the conversion price is subject to Securityholder approval, the Group and the Convertible Note holders have agreed that, in the event Securityholder approval is not obtained, the Group will, to compensate the Note holders for the Group's non-compliance with clause 7 of the terms of the Convertible Notes, pay the Note holder an amount equal to the value of the Stapled Securities multiplied by the number of Stapled Securities that would have been issued had Securityholders approved the issue (**Compensation Payment**).

The Compensation Payment will be determined using the volume weighted average market price (as defined in the Listing Rules) for Stapled Securities calculated over the last 5 days on which sales in the securities were recorded before second day before the date the Notes are converted.

Any conversion prior to the Meeting will be without prejudice to the Convertible Note Holder's right under clause 7 of the Convertible Notes for the conversion price to be reduced or, failing shareholder approval, the Compensation Payment.

4.3 Information required by Listing Rule 10.13

For the purposes of Listing Rule 10.13, the following information is provided about the proposed reduction in conversion price as required under clause 7 of the Convertible Notes:

- (a) The Additional Stapled Securities issued upon conversion as a result of the reduction in conversion price will be issued to Trustees Australia Limited (as trustee for the Interim Facility Trust). Mr Hackett and his associates are beneficiaries of the Interim Finance Trust. The number issued will be an additional 4,412 Stapled Securities per Convertible Note or 1,036,851 Stapled Securities in total.
- (b) The Stapled Securities were issued on 22 October 2014 and have a maturity date of 22 October 2016. Any issue of Stapled Securities upon conversion will occur on the same date.
- (c) Any additional Stapled Securities issued as a result of the reduction in the conversion price are issued to comply with clause 7 of the Convertible Note terms, and no funds will be raised from the issue.
- (d) A voting exclusion statement is included in the Notice.

4.4 Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act (as modified by Part 5C.7) prohibits a public company from giving a financial benefit to a related party of the company or giving a financial benefit out of scheme property to a related party by a responsible entity of a registered scheme unless either:

- (a) the giving of the financial benefit is reasonable in the circumstances as if the company and related party were dealing at arm's length); or
- (b) prior Securityholder approval is obtained to the giving of the financial benefit.

Related party is widely defined under the Corporations Act, and includes directors of a company.

Financial benefit is defined broadly and includes benefits from the public company's subsidiaries. It is necessary to look at the economic and commercial substance and the effect of the transaction in determining the financial benefit. The Corporations Act requires that any consideration given be disregarded, even if the consideration is adequate.

The Convertible Note Holders are related parties of the Group, and the reduction of the conversion price constitutes the provision of financial benefits for the purposes of Chapter 2E of the Corporations Act.

In consideration of EY's analysis, the Group's Directors (i.e. other than Mr Hackett) are of the view that:

- (a) the reduction in conversion price and resulting increase in number of Stapled Securities to be issued upon conversion of each Convertible Note; and
- (b) the Compensation Payment,

are reasonable in the circumstances as if the Group and Convertible Note Holders were dealing at arm's length so that Security Holder approval is not required under Chapter 2E for the reduction and resulting increase in Stapled Securities.

4.5 Independent Directors' recommendation

The Directors (other than Mr Hackett) recommend that Securityholders vote in favour of this resolution as reducing the conversion price will allow the Group to:

- (a) comply with the terms of the Convertible Notes;
- (b) conserve the Group's cash which would otherwise be payable if the Group is required to pay the Compensation Payment.

5 RESOLUTION 3 - APPOINTMENT OF DAIRY FUNDS MANAGEMENT LIMITED AS RESPONSIBLE ENTITY OF AUSTRALIAN DAIRY FARMS TRUST

5.1 Introduction

In January 2013, Trustees Australia was appointed as the trustee of the Trust. It subsequently became the Responsible Entity on the Trust's conversion to a managed investment scheme, and it currently acts in that capacity under the stapled security structure of the Group. It was disclosed in the Offer Document that at an appropriate time Trustees Australia would seek to retire as the Responsible Entity in favour of a subsidiary entity of the Group when appropriate financial services licence authorisations were granted by ASIC.

The Directors have determined to simplify the structure of the Group by appointing a Group company as the new Responsible Entity, so as to internalise the responsible entity role and have the Group entirely under the responsibility of a single board of directors.

Dairy Fund Management Limited, a wholly owned subsidiary of the Company, has applied to ASIC for an AFSL which will allow it to act as Responsible Entity of the Trust and trustee of any other trust entity which may become part of the Group in the future. The Directors expect that the application will be approved by ASIC.

The Directors have requested Trustees Australia to retire in favour of Dairy Fund Management Limited once the AFSL has been approved and the Convertible Notes have been repaid or converted.

Section 601FL of the Corporations Act 2001 (Cth) provides that members of registered schemes (such as a managed investment scheme) must approve the replacement of a responsible entity. For that reason, Securityholder approval is sought for the appointment of

Dairy Fund Management Limited as Responsible Entity of the Trust on retirement of Trustees Australia.

5.2 Directors Recommendation

This proposal has been considered since prior to the commencement of the Group as a Stapled Security and would have been the structure of the Group at the time of listing on ASX had there not been Interim Funding (which was repaid in part through the issue of Notes).

The “internalising” of the Responsible Entity role within the Group, under the management and direction of the one board of Directors is a sensible and logical change to the Group structure and is supported by the Directors of both the Group and Trustees Australia.

Directors Adrian Rowley and Keith Jackson recommend that Securityholders vote in favour of this resolution

Because of his association with Trustees Australia as Chairman and major shareholder of that company, Michael Hackett does not provide any opinion on this resolution and he and his associates will refrain from voting on the resolution.

6 RESOLUTIONS 4 TO 6 – APPROVAL OF CHANGES TO THE TERMS OF ISSUE OF SECURITIES UNDER THE ADFG INCENTIVE PLAN TO RELATED PARTIES

6.1 Introduction

On 1 September 2014 the Group’s Securityholders approved the ADFG Incentive Plan, the details of which are set out in the Company’s notice of meeting dated 1 August 2014 (a copy of which is available from www.asx.com.au). The ADFG Incentive Plan provides that the Group may issue both Performance Rights and Options to eligible participants.

At a meeting of the Group’s Securityholders held on 15 June 2015 Securityholders approved the issue of 7,200,000 million Performance Rights to current and future directors of the Group, with the rights automatically vesting to fully paid ordinary Stapled Securities upon certain performance hurdles directly related to the production of progressively higher volumes of milk from the Group’s dairy farms being met. To date the hurdles have not been met and no Stapled Securities have been issued under the Plan.

The changes in milk pricing that have occurred during the last year in the Australian dairy industry and the expectation that large corporate milk processors will continue to closely link domestic milk prices to global milk commodity prices have materially impacted the profit performance of the Group’s dairy farms. The Directors recognised in the second half of 2015 that increasing milk production volumes at this time of significant industry change would not achieve the best return on investment for Securityholders, and as a result made the strategic decision to cease acquiring additional dairy farms that produce conventional milk for sale to major processors. In December 2015, the Group entered into a contract to acquire CDC and its focus is now on producing value added milk products for domestic and international sale. The initial results from this change of focus are already yielding positive results.

The Directors believe that it is in the Group and Securityholders’ best interests to change the structure and conditions of the existing Performance Rights on issue to refocus the incentive of Directors and management based on milestones consistent with the Group’s new strategy of value added processing and Securityholders’ interests.

6.2 Performance Rights granted

The table below sets out the allocation of Performance Rights between directors and the basis of the performance hurdles approved by Securityholders on 15 June 2015.

Director	Production target to be achieved by the Group (on an annualised basis) over a 6 month period within 5 years of issue		
	Litres of milk		
	25,000,000	50,000,000	75,000,000
Michael Hackett	400,000	1,000,000	1,000,000
Adrian Rowley	400,000	1,000,000	1,000,000
Keith Jackson	400,000	400,000	400,000
Future Directors	400,000	400,000	400,000
Total Rights	1,600,000	2,800,000	2,800,000

To date the hurdles have not been met given the changed strategic goals and no Performance Rights have vested.

6.3 Proposed variations

To better align Directors' interests with Securityholders and in light of the Group's change in strategy to lower volume value added processing, the Directors seek Securityholder approval to replace the existing Performance Rights with Performance Options which:

- vest upon satisfying performance hurdles linked to Total Securityholder Returns (TSR); and
- upon vesting and payment of a pre-determined exercise price,

entitle the holder to be issued one Stapled Security for each Performance Option exercised.

The vesting milestones, number of Performance Options granted and exercise price are set out in the below table:

Vesting hurdle	TSR Period			
	6 months ending 31/12/2016	12 months ending 30/06/2017	18 months ending 31/12/2017	30 months ending 31/12/2018
TSR increase to TSR Base	25%	30%	40%	50%
Exercise Price	\$0.230	\$0.250	\$0.270	\$0.290
No of Options Exercisable for hurdles				
Adrian Rowley	1,000,000	500,000	500,000	400,000
Michael Hackett	1,000,000	500,000	500,000	400,000
Keith Jackson	400,000	400,000	200,000	200,000
Future	0	400,000	400,000	400,000
Total on Issue	2,400,000	1,800,000	1,600,000	1,400,000
Nathan Leman ¹	1,000,000	500,000	500,000	400,000
Total	3,400,000	2,300,000	2,100,000	1,800,000

Where:

TSR means Total Securityholder Returns is calculated as:-

$$= \frac{(Price_{end} - Price_{begin} + Dividends)}{Price_{begin}}$$

TSR Base means the 5 Day VWAP prior to the date Performance Options are granted.

5 Day VWAP means the volume weighted average market price (as defined in the Listing Rules) for Stapled Securities calculated over the 5 trading days on which trades of Stapled Securities were recorded.

Price_{end} means the 5 Day VWAP prior to the date the TSR Period ends.

Price_{begin} means the 5 Day VWAP prior to the date the TSR Period begins.

¹ See section 7.

6.4 Requirement for Securityholder approval

Listing Rule 6.23

Listing Rule 6.23 provides that unless otherwise prohibited by the Listing Rules, any changes in the terms of options (which ASX considers include the Performance Rights) require prior securityholder approval. Amending the existing performance hurdles and nature of the Performance Rights to be Performance Options are changes that require approval by Securityholders under Listing Rule 6.23.

Listing Rule 10.14

Listing Rule 10.14 prohibits an entity from issuing securities to a director of the entity or any associate under an employee incentive scheme without securityholder approval. ASX has advised that in addition to approval under Listing Rule 6.23, the nature of the changes to the existing Performance Rights on issue is such that approval by Securityholders under Listing Rule 10.14 is also required.

If securityholder approval is obtained under Listing Rule 10.14, securityholder approval is not required under Listing Rule 7.1 and the proposed issue will be included in 15% annual limit permitted by Listing Rule 7.1.

Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act (as modified by Part 5C.7) prohibits a public company from giving a financial benefit to a related party of the company or giving a financial benefit out of scheme property to a related party by a responsible entity of a registered scheme unless either:

- (a) the giving of the financial benefit falls within one of the exceptions to the provision, including where the benefit is remuneration to a related party as an officer or employee of the public company or the responsible entity of the registered scheme and to give the remuneration would be reasonable given the circumstances of the public company or the responsible entity of the registered scheme giving the remuneration and the related party's circumstances (including the responsibilities involved in the office or employment); or
- (b) prior securityholder approval is obtained to the giving of the financial benefit.

The Company's Directors and the directors of the Responsible Entity consider the financial benefit given by the Group under the ADFG Incentive Plan to be reasonable remuneration given the circumstances of the Group and the Directors' circumstances (including the Directors' responsibilities) so that securityholder approval is not required under Chapter 2E from the Group's Securityholders.

6.5 Directors' remuneration and other interests

During the 2016 financial year to 30 June 2016, the Directors have received the following fees and payments from the Group, and currently have a relevant interest in the following Stapled Securities:

Director	Fees and payments (annualised) ¹	Stapled Securities Interests	Convertible Notes Interests
Michael Hackett	\$40,000	6,675,871	235 notes ²
Adrian Rowley	\$30,000	771,000	nil
Keith Jackson	\$30,000	nil	nil

¹ Plus compulsory superannuation where applicable.

² 235 Convertible Notes may be converted to 12,786,820 Stapled Securities assuming Securityholders approve Resolution 2, or 11,750,000 Stapled Securities if Resolution 2 is not approved.

Trustees Australia is the responsible entity for the Trust and is entitled to be paid fees of 2% on assets under management and reimbursement of expenses. To date Trustees Australia has not charged a management fee and has only been reimbursed costs. Trustee Australia's directors are Michael Hackett, Nathan Leman and Kerry Daly.

6.6 Information required by Listing Rule 10.15A

For the purposes of Listing Rule 10.15A, the following information is provided about the proposed change in the terms of issue of the Performance Rights to Performance Options:

- (a) Approval is sought with respect to Performance Rights held by Messrs Michael Hackett, Adrian Rowley and Keith Jackson, Directors of the Company, or their nominees and as yet to be identified persons who may be appointed Directors in the future.
- (b) The maximum number of Stapled Securities which may be acquired under the ADFG Incentive Plan is 7,200,000, subject to meeting milestones based upon milk production. To date no milestones have been met and no Stapled Securities have been issued under the Plan.
- (c) The Performance Rights have been approved to be issued to incentivise Directors and align their interests with Securityholders' interests, and did not have an issue price. The Performance Options will be issued upon satisfaction of hurdles set out in section 6.3 for no consideration, and have exercise prices as set out in that section.
- (d) On 15 June 2015, Securityholders approved the issue of 7,200,000 Performance Rights as set out in section 6.2. To date no vesting conditions have been met and no Stapled Securities have been issued under the ADFG Incentive Plan.
- (e) The Directors and associates of Directors who are entitled to participate in the Plan are as follows:
 - (i) Michael Hackett;
 - (ii) Keith Jackson;
 - (iii) Adrian Rowley;
 - (iv) Nathan Leman (a director of Trustees Australia, the Trust's responsible entity);
 - (v) Kerry Daly (a director of Trustees Australia),and their associates.
- (f) A voting exclusion statement is included in the Notice.
- (g) No loans will be provided in relation to the ADFG Incentive Plan.
- (h) Details of any securities issued under the ADFG Incentive Plan and a statement that approval for the issue of securities was obtained under Listing Rule 10.14 will be published in each annual report of the Group relating to the period in which securities have been issued.

On 15 June 2015 ASX granted a waiver so that any additional persons who may become non-executive Directors from time to time and are entitled to participate in the ADFG Incentive Plan may be issued securities under the Plan at the Board's discretion no later than 3 years after 15 June 2015, without Securityholder approval. To date, no additional Directors have been appointed.
- (i) Subject to Securityholders approving this Resolution, 6,000,000 Performance Rights currently on issue and 1.2 million Performance Rights, which have not yet been issued will have their terms of issue changed in accordance with this Resolution. The unissued Performance Options may be issued to future Directors at the Board's discretion no later than 3 years after the date of the meeting at which the issue of the Performance Rights was approved, namely 15 June 2015.

6.7 Further information

The following further information is provided to Securityholders to enable them to assess the merits of the resolution:

- (a) The related party to whom Resolutions 3 to 6 would permit the benefit to be given are:
 - (i) the existing Directors of the Group, Messrs Hackett, Rowley and Jackson;
 - (ii) future Directors who may participate in the Australian Dairy Farms ADFG Incentive Plan.
- (b) The nature of the financial benefit
Performance Rights held by Messrs Hackett, Rowley and Jackson will have their terms changed as set out in section 6.3.
- (c) Reasons for giving the benefit
The proposed changes in the terms of issue of the Performance Rights recognise the skills and value that the Directors bring to the Group and more closely aligns the interests of Securityholders generally with performance of Directors and management.
- (d) Related parties' existing relevant interest
The related parties' existing relevant interests are set out in section 6.5.
- (e) Total remuneration package
Details of the Directors' remuneration packages are set out in section 6.5.
- (f) Dilution
The Group's issued capital will not change as a result of changes proposed to the terms of issue of the existing Performance Rights. Securityholders will have their holding diluted by 3.85% in the event all Performance Options are exercised and no further Stapled Securities are issued.
- (g) Valuation of the financial benefit to be given
No additional financial benefit is expected to be given as a result of changing the vesting conditions and other terms of the Performance Rights to Performance Options.
- (h) Corporate governance
The guidelines in the ASX Corporate Governance Council's Corporate Governance Principals and Recommendations (3rd edition) recognise that it is generally acceptable for non-executive directors to receive securities as part of their remuneration to align their interest with the interest of other security holders, however suggest that non-executive directors generally should not receive options with performance hurdles attached or performance rights as part of their remuneration as it may lead to bias in their decision making and compromise their objectivity. The Principals and Recommendations are not mandatory or prescriptive. The Board has departed from the guidelines for non-executive remuneration in respect of the issue or proposed issue of performance rights to non-executive directors and considers that in the circumstances of the Group it is appropriate to do so in order to attract and retain high calibre and well-credentialed non-executive directors and provide tangible incentive to reward their involvement in the continued growth of the Group.
- (i) Other Information
The Directors are not aware of any other information that is reasonably required by Securityholders to allow them to make a decision on whether it is in the best interests of the Group to pass Resolutions 3 and 4.

6.8 Directors' recommendation

Given their interest in Resolutions 4 to 6, Messrs Hackett, Rowley and Jackson each decline to make a recommendation on Resolutions 4 to 6.

7 RESOLUTION 7- ISSUE OF SECURITIES UNDER THE ADFG INCENTIVE PLAN TO NATHAN LEMAN

7.1 Introduction

The Directors propose to grant up to 2.4 million Performance Options under the ADFG Incentive Plan to Nathan Leman, a director of Trustees Australia, the responsible entity of the Trust, or his nominee, with the following performance hurdles and exercise prices:

Vesting hurdle	TSR Period			
	6 months ending 31/12/2016	12 months ending 30/06/2017	18 months ending 31/12/2017	30 months ending 31/12/2018
TSR increase to TSR Base	25%	30%	40%	50%
Exercise Price	\$0.230	\$0.250	\$0.270	\$0.290
No of Options Exercisable for hurdles				
Nathan Leman ¹	1,000,000	500,000	500,000	400,000

Where:

5 Day VWAP means the volume weighted average market price (as defined in the Listing Rules) for Stapled Securities calculated over the 5 trading days on which trades of Stapled Securities were recorded.

Dividends means all dividends and distributions paid by the Group.

TSR means Total Shareholder Returns calculated as:

$$= \frac{(Price_{end} - Price_{begin} + Dividends)}{Price_{begin}}$$

Price_{begin} means the 5 Day VWAP prior to the date the TSR Period begins.

Price_{end} means the 5 Day VWAP prior to the date the TSR Period ends.

TSR Base means the 5 Day VWAP prior to the date Performance Options are granted.

As a result of being a director of Trustees Australia, Mr Leman is a related party and the Group and Securityholder approval is required to issue securities to Mr Leman.

7.2 Information required by Listing Rule 10.15A

For the purposes of Listing Rule 10.15A, the following information is provided about the proposed issue of Performance Options:

- (a) Mr Leman is a director of both Trustees Australia, the responsible entity of the Trust, and SW Dairy Farms Pty Limited, the entity within the Group that operates the farms and holds the equipment and stock used by the Group. While Mr Leman is not a direct employee of, and receives no direct remuneration from the Group, he has completed significant full-time duties in a senior management capacity in the active oversight, development and management of the dairy farms owned by the Trust as an employee and director of Trustees Australia.
- (b) The maximum number of securities to be issued to Mr Leman is 2,400,000 Performance Options. Each Performance Option entitles the holder, upon satisfaction of the relevant performance hurdle as set out in section 7.1, to be issued one Stapled Security.

- (c) The Performance Options will incentivise Mr Leman and align his interests with Securityholders' interests, and will not have an issue price. The milestones to be satisfied for the issue of Performance Options the exercise price are set out in section 7.1.
- (d) See section 6.2 for the names of all related parties and their associates who have received securities under the ADFG Incentive Plan since it was approved by Securityholders on 15 June 2015.
- (e) The Directors who are entitled to participate in the Plan are as follows:
 - (i) Michael Hackett;
 - (ii) Keith Jackson;
 - (iii) Adrian Rowley;
 - (iv) Nathan Leman (a director of Trustees Australia, the Trust's responsible entity);
 - (v) Kerry Daly (a director of Trustees Australia, and their associates.
- (f) A voting exclusion statement is included in the Notice.
- (g) No loans will be provided in relation to the ADFG Incentive Plan.
- (h) Details of any securities issued under the ADFG Incentive Plan and a statement that approval for the issue of securities was obtained under Listing Rule 10.14 will be published in each annual report of the Group relating to the period in which securities have been issued.

ASX has granted a waiver so that the Group may, without Securityholder approval, issue up to 1,200,000 Performance Options to additional persons who may, from time to time, become non-executive Directors and therefore entitled to participate in the ADFG Plan after the Plan was approved.
- (i) It is intended that 2,400,000 Performance Options will be issued to Mr Leman no later than 1 month after the date of the Meeting.

7.3 Directors' recommendation

The Directors recommend that Securityholders vote in favour of Resolution 7, as it will more closely align Mr Leman's interests with the performance of the Group and interests of its Securityholders and help to reward him for his efforts.

SCHEDULE 1 DEFINITIONS

In this Notice and Explanatory Memorandum:

ADFG Incentive Plan or Plan	means the Australian Dairy Farm Group's long-term incentive plan detailed in the Company's meeting booklet dated 1 August 2014 and approved by the Company's Shareholders on 1 September 2014.
AEST	means Australian Eastern Standard Time.
AFSL	means Australian Financial Services Licence.
ASX	means ASX Limited or the Australian Securities Exchange operated by ASX Limited, as the context requires.
Board	means the board of Directors.
CDC	means Camperdown Dairy Company Pty Limited (ACN 140 640 606).
CDC Transaction	means the Company's acquisition of CDC.
Company	means the Australian Dairy Farms Limited (ACN 057 046 607).
Compensation Payment	has the meaning given in section 4.2.
Convertible Note Holder	means a holder of Convertible Notes.
Convertible Note or Note	means the convertible notes issued by the Group in accordance with the meeting of the Company's shareholders held on 1 September 2014.
Corporations Act	means the <i>Corporations Act 2001 (Cth)</i> as amended.
Dairy Fund Management Limited	means Dairy Fund Management Limited (ACN 140 957 286)
Director	means a director of the Company or the Responsible Entity.
Explanatory Memorandum	means this explanatory memorandum.
Group	means the Company and Trust.
Interim Funding	has the meaning given in section 4.1.
Listing Rule	means the listing rules of the ASX.
Loyalty Option	means an option to subscribe for a Stapled Security in the Group, the terms and conditions of which are set out in the loyalty option offer document announced to ASX on 17 November 2014.
Meeting	means the meeting convened by this Notice (as adjourned from time to time).
Notice	means this notice of meeting.
Offer Document	means the prospectus and product disclosure statement prepared by the Group and under which Stapled Securities were offered for the purposes of (amongst other things) listing the Group on ASX.
Official List	means the official list of ASX.
Option	means an option to be issued a Stapled Security.
Performance Right	means a performance right issued under the ADFG Incentive Plan.
Performance Option	means an Option issued under the ADFG Incentive Plan.
Proxy Form	means the proxy form attached to this Notice.
Resolution	means a resolution set out in the Notice.
Responsible Entity	means Trustees Australia as the responsible entity of the Trust.
Securityholder	means a holder of Stapled Securities.
Share	means a fully paid ordinary share in the capital of the Company.
Stapled Security	means a Share stapled to a Unit.

Trust	means the Australian Dairy Farms Trust (ARSN 600 601 689).
Trustees Australia	means Trustees Australia Limited (ACN 010 653 862)
Unit	means a fully paid ordinary unit in the Trust.
VWAP	Volume weighed average market price as defined in the Listing Rules.

SCHEDULE 2 TERMS OF PERFORMANCE OPTIONS

Unless otherwise determined by the Board when it resolves to issue the Incentive Securities, Options granted under the Plan will include the following general terms:

1. The Options will be issued for no consideration.
2. Each Option entitles the holder to one Stapled Security.
3. The exercise price of the Options is as set out in the annexure to this schedule.
4. The Options will expire upon the earliest to occur of:
 - (i) 5 years;
 - (ii) the Option lapsing in accordance with the Long Term Incentive Plan; and
 - (iii) failure to meet vesting criteria or any other conditions applicable to the Option within the period set out in the annexure to this schedule.
5. Subject to any vesting criteria, the Options may be exercised at any time prior to the expiry date, in whole or in part, upon satisfaction of any vesting criteria and payment of the exercise price per Option.
6. The Options will not be quoted and are not transferable except without the prior consent of the Board or by force of law upon the holder's death.
7. The Group will provide to each Option holder a notice that is to be completed when exercising the Options ("Notice of Exercise"). Options may be exercised by the Option holder in whole or in part by completing the Notice of Exercise and forwarding the same to the Secretary of the Group to be received prior to the expiry date. The Notice of Exercise must state the number of Options exercised, the consequent number of Stapled Securities to be allotted and the identity of the proposed allottee. The Notice of Exercise by an Option holder must be accompanied by payment in full for the relevant number of Stapled Securities being subscribed, being an amount of the exercise price per Stapled Security.
8. All Stapled Securities issued upon the exercise of the Options will rank equally in all respects with the Group's then issued Stapled Securities. The Group must apply to the ASX, in accordance with the Listing Rules, for all Stapled Securities pursuant to the exercise of Options to be admitted to quotation.
9. There are no participating rights or entitlements inherent in the Options and the holders will not be entitled to participate in new issues or pro-rata issues of capital to securityholders during the term of the Options. That is: the Option holder has no rights to a change in the exercise price of the Option or a change to the number of underlying securities over which the Option can be exercised except in the event of a bonus issue. The Group will ensure, for the purposes of determining entitlements to any issue, that Option holder will be notified of a proposed issue after the issue is announced. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in such issues.
10. If from time to time on or prior to the Expiry Date the Group makes a bonus issue of securities to holders of Stapled Securities in the Group ("Bonus Issue"), then upon exercise of his or her Options a holder will be entitled to have issued to him or her (in addition to the Stapled Securities which he or she is otherwise entitled to have issued to him or her upon such exercise) the number of securities which would have been issued to him or her under that Bonus Issue if the Options had been exercised before the record date for the Bonus Issue.
11. In the event of any reconstruction (including consolidation, subdivisions, reduction or return) of the authorised or issued capital of the Group, all rights of the Option holder shall be reconstructed (as appropriate) in accordance with the ASX Listing Rules.

Annexure

Vesting hurdle	TSR Period			
	6 months ending 31/12/2016	12 months ending 30/06/2017	18 months ending 31/12/2017	30 months ending 31/12/2018
TSR Increase to TSR Base	25%	30%	40%	50%
Exercise Price	\$0.230	\$0.250	\$0.270	\$0.290
No of Options Exercisable for hurdles				
Adrian Rowley	1,000,000	500,000	500,000	400,000
Michael Hackett	1,000,000	500,000	500,000	400,000
Keith Jackson	400,000	400,000	200,000	200,000
Nathan Leman	1,000,000	500,000	500,000	400,000
Future	0	400,000	400,000	400,000

Where:

5 Day VWAP means the volume weighted average market price (as defined in the Listing Rules) for Stapled Securities calculated over the 5 trading days on which trades of Stapled Securities were recorded.

Dividends means all dividends and distributions paid by the Group.

TSR means Total Shareholder Returns calculated as:

$$= \frac{(Price_{end} - Price_{begin} + Dividends)}{Price_{begin}}$$

Price_{begin} means the 5 Day VWAP prior to the date the TSR Period begins.

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TSR Base means the 5 Day VWAP prior to the date Performance Options are granted.