

INTERIM

2020 *REPORT*



Australian Dairy Nutritional Group

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AUSTRALIAN DAIRY NUTRITIONALS GROUP (ASX CODE: AHF)
 RESULTS FOR ANNOUNCEMENT TO THE MARKET
 For the half-year ended 31 December 2019

	%	\$000	\$000
	Change	December 2019	December 2018
Revenues from ordinary activities		11,432	10,599
Loss from ordinary activities after tax attributable to members of the stapled entity		(637)	(1,192)
Loss for the period attributable to members of the stapled entity		(637)	(1,192)
		December 2019	June 2019
		cents	cents
Net tangible asset backing per stapled security		8.8	8.7

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

On 26 August 2019, the Group acquired Organic Nutritionals Pty Ltd (refer Note 3(i))

On 7 October 2019, the Group acquired assets and assumed liabilities from Jonesy's Dairy Fresh Pty Ltd (refer Note 3(ii))

On 24 December 2018, the Group acquired Flahey's Nutritionals Pty Ltd (refer Note 3(iii))

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

Your directors submit the financial report of the Consolidated Group for the half-year ended 31 December 2019.

INFORMATION ON DIRECTORS

The names of directors who held office during or since the end of the half-year:

Name	Position
Martin Bryant	Chairman (appointed 11 November 2019)
Michael Hackett	Director
Adrian Rowley	Director
Peter Skene	CEO / Director
Paul Morrel	Director

OPERATING RESULTS

The consolidated net loss attributed to members of the Group, after providing for income tax was \$636,585 (2018: \$1,191,727). This result is comprised of a net loss from the dairy processing segment of \$1,498,543 (2018: \$1,002,484) and net profit from the dairy farm segment of \$861,958 (2018: \$189,243 loss).

Total income for the half-year ended 31 December 2019 is \$12,494,529 up 16% against the 2018 comparative period of \$10,741,845. This is a result of a \$438,181 increase in revenue from the dairy processing segment and a \$1,314,503 increase from the dairy farm segment.

Total expenses for the half-year ended 31 December 2019 were \$13,131,114, up 10% against the 2018 comparative period of \$11,933,572. This comprised a \$943,240 increase in expenses from the dairy processing segment and an increase of \$263,302 from the dairy farm segment.

FINANCIAL POSITION

The net assets of the Group at 31 December 2019 total \$40,236,382, an increase of \$7,221,721 from the June 2019 comparative.

The key assets and liabilities in the statement of financial position at 31 December 2019 are:

- cash and cash equivalents of \$9,319,100 (June 2019: \$3,748,550);
- property, plant and equipment of \$30,474,668 (June 2019: \$29,190,439);
- intangible assets of \$7,021,501 (June 2019: \$6,974,236);
- biological assets (livestock) of \$5,412,100 (June 2019: \$4,928,422); and
- total borrowings of \$12,887,653 (June 2019: \$12,695,402).

CURRENT RATIO

The Group's bank borrowing is a facility with the Commonwealth Bank of Australia Limited (CBA), which was established in April 2016, and is due for renewal on 4 October 2021 (refer Note 9(ii)). Despite the CBA facility's maturity date of 4 October 2021, under the terms of the facility, the Group may not have an unconditional right to defer settlement beyond 12 months from the current balance date.

As a result, in accordance with the provisions of the Australian Accounting Standards (AASB 101: Presentation of Financial Statements) and prudent disclosure practices, the Group has re-classified the existing CBA facility from a non-current liability at 30 June 2019, to a current liability at 31 December 2019. Consequently, this presents as a net current asset deficiency at 31 December 2019.

All obligations under the loan agreement have been met in accordance with the terms of the facility and at the balance date the Group has cash and cash equivalents of \$9,319,100. The directors are confident of restructuring or refinancing the facility prior to maturity date and in the interim, to meet all covenants. Accordingly, on this basis the financial statements of the Group have been prepared on a going concern basis and the financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary if the Group could not continue as a going concern.

REVIEW OF OPERATIONS

Organic Strategy Implementation

The Group continues with the progressive conversion of its high quality farms in South Western Victoria to produce certified organic milk for the production of organic and other premium dairy products including fresh milk, butter, cream, yoghurts, and in the medium term, organic milk powder and infant formula.

During the farm conversion period, farm milk production volumes decrease in comparison with conventional milk production, because of the need to provide livestock with organic feed and to eliminate the use of most chemicals and pesticides including medicinal ones such as antibiotics. However, there is no increase in the value or price of milk in the early stages. Because of these changes, milk production and cash flow for farmers decreases in the early years before being sold at organic prices when fully certified organic. The typical period to convert a conventional working dairy farm to a certified organic farm is three years. This presents a financial barrier to farmers considering organic conversion and generally limits the volume of organic milk available for processors.

The Group is well advanced in the organic conversion of its dairy farms, with the Yaringa farm achieving fully certified organic status in November 2019 and other farms remaining on track for full certification in 2021.

Camperdown Dairy Company

Camperdown Dairy (CDC) is located at Camperdown in South West Victoria and processes raw milk to produce a range of premium Camperdown Dairy branded milks, including Jersey and Free-Range labels. CDC also contract packs milk, yoghurt and other dairy products under both CDC and customer labels.

The domestic retail market is very competitive, particularly for conventional milk and yoghurt products. For that reason, the Group's strategy is to focus on the higher margin premium organic and other premium markets. The investment in that is well underway.

Current high raw milk (farm) prices, and the continued highly competitive markets that Camperdown Dairy's current products are in (yoghurts, bottled milks), remain consistent with that communicated to shareholders at the time of the decision to differentiate into organic and infant formula was communicated.

The Collective products continue to be produced by Camperdown Dairy and sold throughout much of Australia. A new high-speed pouch filling machine arrived in Camperdown in November 2019 and has been successfully installed and commissioned. New product development continues to be a focus for the owners of the Collective brand as they navigate a competitive market and offer great products.

Infant formula

Following on from the purchase of Flahey's Nutritionals, the Group is continuing to focus on premium infant formula with "Tummy Heath" and organic brands which are now trademarked in China, Australia and other countries with sales potential .

Many "infant formula" businesses do not manufacture their own formula and are essentially tinning operations that pack infant formula base, which has been manufactured by others. The Group is intending to manufacture its own infant formula from its own organic milk provided from its own farms. This will differentiate the Group as a fully vertical integrated infant formula manufacture and supplier made from organic milk produced in Australia.

The first major step was taken during the December 2019 half year review period, when the Group completed the acquisition of a small infant formula production plant, which has been relocated to Camperdown. Town-planning and formal building approvals are currently being completed for the imminent construction of a new processing facility on industrial land owned by the Group at Camperdown.

Jonesy's – A premium branded milk distribution business

In October 2019, Australian Dairy Nutritionals Limited entered into a Joint Venture with premium dairy business Jonesy's Fresh, whereby the Joint Venture acquired all assets of the Jonesy's business, which include;

- Long established relationships supplying restaurants, cafes and retailers;
- Premium quality brands and products;
- Delivery infrastructure;
- Distribution IP.

The business is a channel to market for both the existing market and premium Camperdown milks and other products. The timing for completion was in the lead up to the Christmas period, in which the café market is seasonally low, and several key steps are underway to improve the opportunity for the business.

REVIEW OF OPERATIONS (cont'd)

Dairy Farms - Australian Dairy Farms Trust and SW Dairies Pty Ltd

Many parts of western Victoria, including the Group's farms, have experienced very good seasonal conditions. This combined with elevated farm gate milk prices has resulted in a successful season for the farms with strongly growing pastures and higher than expected cropping for hay and silage. For the first time in many years pastures in South West Victoria have remained green and productive through to February.

Despite the dry and fire effected conditions that much of Australia has been experiencing, the Group's farms experienced generally good conditions.

These outcomes have been achieved by strong on-farm management combined with an ongoing farm improvement strategy. Over several years, the drought and fires in other regions have increased the demand for livestock to replenish lost herds and this has resulted in materially stronger livestock and farm values.

The Group's livestock recorded an independently assessed gain on change in fair value of livestock during the half year of \$1,057,962.

The Yaringa Farm at Nirranda South, was acquired in October 2018 and is producing fully certified organic milk. This has been a significant step in the Group's strategy of focusing on higher value-added products.

All other company owned farms remain on track for full certification to organic milk production in 2021.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under S 307C of the Corporations Act 2001 is set out on page 26 for the half-year ended 31 December 2019.

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



Martin Bryant
Chairman

Mellbourne
27 February 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

		December 2019	December 2018
	Notes	\$	\$
Revenue	4(a)	11,432,067	10,598,592
Other income	4(b)	1,062,462	143,253
Administration and non-dairy related costs	4(c)(v)	(455,563)	(374,751)
Employment expenses	4(c)(iv)	(3,152,238)	(2,624,716)
Finance costs	4(c)(i)	(286,596)	(301,360)
Dairy processing related costs	4(c)(iii)	(5,353,776)	(4,827,482)
Dairy farm related costs	4(c)(ii)	(2,453,049)	(2,877,791)
Depreciation and amortisation		(855,608)	(556,311)
Deemed cost of livestock sold	4(c)(vi)	(574,284)	(371,161)
Loss before income tax		(636,585)	(1,191,727)
Income tax expense	4(d)	-	-
Loss for the period		(636,585)	(1,191,727)
Other comprehensive income			
Items that will be classified subsequently to profit or loss		-	-
Items that will not be reclassified to profit or loss		-	-
Other comprehensive income for the period		-	-
Total comprehensive loss for the period attributable to members		(636,585)	(1,191,727)
Loss is attributable to:			
Company shareholders		(343,267)	(734,534)
Trust unitholders		(293,318)	(457,193)
		(636,585)	(1,191,727)
Total comprehensive loss is attributable to:			
Company shareholders		(343,267)	(734,534)
Trust unitholders		(293,318)	(457,193)
		(636,585)	(1,191,727)
Earnings per stapled security:			
Basic earnings per stapled security (cents)	13	(0.18)	(0.47)
Diluted earnings per stapled security (cents)	13	(0.18)	(0.47)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Notes	December 2019 \$	June 2019 \$
ASSETS			
Current Assets			
Cash and cash equivalents		9,319,100	3,748,550
Trade and other receivables		2,213,351	2,477,116
Inventories		1,245,058	995,718
Other current assets		591,658	216,416
Total Current Assets		13,369,167	7,437,800
Non-Current Assets			
Biological assets	5	5,412,100	4,928,422
Right of use assets	6	497,660	-
Intangible assets	7	7,021,501	6,974,236
Property, plant & equipment	8	30,474,668	29,190,439
Total Non-Current Assets		43,405,929	41,093,097
Total Assets		56,775,096	48,530,897
LIABILITIES			
Current Liabilities			
Trade and other payables		2,576,605	2,370,950
Lease liabilities	6	167,496	-
Provisions		449,868	314,797
Borrowings	9	12,592,392	264,363
Total Current Liabilities		15,786,361	2,950,110
Non-Current Liabilities			
Lease liabilities	6	352,171	-
Provisions		104,921	135,087
Borrowings	9	295,261	12,431,039
Total Non-Current Liabilities		752,353	12,566,126
Total Liabilities		16,538,714	15,516,236
Net Assets		40,236,382	33,014,661
EQUITY			
Issued capital	10	33,191,050	25,474,856
Reserves		720,408	591,634
Accumulated losses		(16,594,439)	(16,264,510)
Equity attributable to shareholders		17,317,019	9,801,980
Non-controlling interests			
Issued units	10	30,744,991	30,744,991
Accumulated losses		(7,825,628)	(7,532,310)
Equity attributed to non-controlling interests		22,919,363	23,212,681
Total Equity		40,236,382	33,014,661

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Notes	December 2019 \$	December 2018 \$
Cash Flows from Operating Activities			
Receipts from customers		12,273,668	10,953,671
R&D tax incentive		299,516	-
Payments to suppliers and employees		(12,464,187)	(11,283,403)
Interest received		60,354	3,567
Finance costs		(286,596)	(301,360)
Net operating cash flows		(117,245)	(627,525)
Cash Flows from Investing Activities			
Payment for property, plant & equipment		(831,064)	(5,427,488)
Payment for biological assets	5	-	(48,800)
Payment for intangible assets		(53,086)	-
Payment for acquisition of Organic Nutritionals Pty Ltd	3(i)	(1,235,013)	-
Payment for acquisition of Flahey's Nutritionals Pty Ltd	3(ii)	-	(400,000)
Net investing cash flows		(2,119,163)	(5,876,288)
Cash Flows from Financing Activities			
Proceeds from issue of stapled securities net of transaction costs	10	7,677,005	2,633,111
Net proceeds of loans - unsecured		(35,802)	112,057
Proceeds from CBA facility		-	4,550,000
Proceeds from borrowings		355,818	-
Repayment of hire purchase loans		(127,765)	(69,126)
Repayments of lease principle		(62,298)	-
Net financing cash flows		7,806,958	7,226,042
Net increase / (decrease) in cash held		5,570,550	722,229
Cash at the beginning of the period		3,748,550	2,331,700
Cash at the end of the financial period		9,319,100	3,053,929

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

		Issued Capital Ordinary	Option Reserve	Accumulated Losses	Non- controlling Interest (Trust)	Total
	Notes	\$	\$	\$	\$	\$
Balance at 1 July 2019		25,474,856	591,634	(16,264,510)	23,212,681	33,014,661
AASB16 Adjustment		-	-	(20,865)	-	(20,865)
Balance at 1 July 2019		25,474,856	591,634	(16,285,375)	23,212,681	32,993,796
Comprehensive income for the half-year						
Loss attributable to company shareholders / trust unitholders		-	-	(343,267)	(293,318)	(636,585)
Total comprehensive loss for the half-year		-	-	(343,267)	(293,318)	(636,585)
Transactions with equityholders in their capacity as equity holders and other transfers:						
Contributions of equity, net of transaction costs	10	7,596,194	-	-	-	7,596,194
Option reserve - KMP options		-	162,977	-	-	162,977
Employee performance securities issued	10	120,000	-	-	-	120,000
Transfer to retained earnings (options)		-	(34,203)	34,203	-	-
Total transactions with equity holders		7,716,194	128,774	34,203	-	7,879,171
Balance at 31 December 2019		33,191,050	720,408	(16,594,439)	22,919,363	40,236,382

		Issued Capital Ordinary	Option Reserve	Accumulated Losses	Non- controlling Interest (Trust)	Total
	Notes	\$	\$	\$	\$	\$
Balance at 1 July 2018		18,760,113	761,279	(13,031,720)	23,984,499	30,474,171
Comprehensive income for the half-year						
Loss attributable to company shareholders / trust unitholders		-	-	(734,534)	(457,193)	(1,191,727)
Total comprehensive loss for the half-year		-	-	(734,534)	(457,193)	(1,191,727)
Transactions with equityholders in their capacity as equity holders and other transfers:						
Contributions of equity, net of transaction costs		2,633,111	-	-	-	2,633,111
Option reserve - KMP options		-	15,250	-	-	15,250
Acquisition of Flahey's Nutritionals Pty Ltd		75,000	750,000	-	-	825,000
Transfer to retained earnings (options)		-	(21,417)	21,417	-	-
Transfer to issued capital (options)		300,720	(300,720)	-	-	-
Total transactions with equity holders		3,008,831	443,113	21,417	-	3,473,361
Balance at 31 December 2018		21,768,944	1,204,392	(13,744,837)	23,527,306	32,755,805

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

Australian Dairy Nutritionals Group (“the Group”) was formed by the stapling of Australian Dairy Nutritionals Limited, previously named 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.

These general purpose interim financial statements for half-year reporting period ended 31 December 2019 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standard 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 Australian Dairy Nutritionals Limited and its controlled entities (referred to as 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 the Group for the year ended 30 June 2019, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on the date of signing the directors’ report.

(b) Current Ratio

The Group’s bank borrowing is a facility with the Commonwealth Bank of Australia Limited (CBA), which was established in April 2016, and is due for renewal on 4 October 2021 (refer Note 9(ii)). Despite the CBA facility’s maturity date of 4 October 2021, under the terms of the facility, the Group may not have an unconditional right to defer settlement beyond 12 months from the current balance date.

As a result, in accordance with the provisions of the Australian Accounting Standards (AASB 101: Presentation of Financial Statements) and prudent disclosure practices, the Group has re-classified the existing CBA facility from a non-current liability at 30 June 2019, to a current liability at 31 December 2019. Consequently, this presents as a net current asset deficiency at 31 December 2019.

All obligations under the loan agreement have been met in accordance with the terms of the facility and at the balance date the Group has cash and cash equivalents of \$9,319,100. The directors are confident of restructuring or refinancing the facility prior to maturity date and in the interim, to meet all covenants. Accordingly, on this basis the financial statements of the Group have been prepared on a going concern basis and the financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary if the Group could not continue as a going concern.

(c) 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 for those as described in Note 1(d) below.

(d) New and Amended Standards Adopted by the Group

The Group has considered the implications of new or amended Accounting Standards which have become applicable for the current financial reporting period. The Group had to change its accounting policies and make adjustments as a result of adopting the following Standard:

– AASB 16: *Leases*

The impact of the adoption of this Standard and the respective accounting policies is disclosed in Note 2.

NOTE 2: CHANGES IN ACCOUNTING POLICIES

This note describes the nature and effect of the adoption of AASB 16: *Leases* on the Group’s financial statements and discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

Leases

The Group as lessee

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (i.e. a lease with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

NOTE 2: CHANGES IN ACCOUNTING POLICIES (cont'd)

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

Initial Application of AASB 16: Leases

The Group has adopted AASB 16: Leases retrospectively with the cumulative effect of initially applying AASB 16 recognised at 1 July 2019. In accordance with AASB 16 the comparatives for the 2018 reporting period have not been restated as permitted under specific transition provisions in the standard.

The Group has recognised a lease liability and right-of-use asset for all leases (with the exception of short-term and low-value leases) recognised as operating leases under AASB 117: Leases where the Group is the lessee.

Lease liabilities are measured at the present value of the remaining lease payments. The Group's weighted average incremental borrowing rate of 4.25% as at 1 July 2019 was used to discount the lease payments.

The right-of-use assets for the lease have been measured and recognised in the statement of financial position as at 1 July 2019 by taking into consideration the lease liability and the prepaid and accrued lease payments previously recognised as at 1 July 2019 (that are related to the lease).

The following practical expedients have been used by the Group in applying AASB 16 for the first time:

- Leases that have a remaining lease term of less than 12 months as at 1 July 2019 have been accounted for in the same way as short term leases;
- The use of hindsight to determine lease terms on contracts that have options to extend or terminate;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review. The Group did not have any onerous contracts as at 1 July 2019.

The difference between the undiscounted amount of operating lease commitments at 30 June 2019 and the discounted operating lease commitments as at 1 July 2019 was \$139,616. This difference is attributable to discounting the operating lease commitments at the Group's incremental borrowing rate by \$119,033 and \$20,583 for the remaining lease commitments on the Docklands premises treated as a short-term lease in accordance with the practical expedient available.

NOTE 3: BUSINESS COMBINATIONS

(i) Organic Nutritionals Pty Ltd

On 26 August 2019, Australian Dairy Nutritionals Limited acquired 100% of the issued capital and control of Organic Nutritionals Pty Ltd (Organic Nutritionals) for a total purchase consideration of \$1,235,013. This acquisition forms part of the Group's overall strategy to expand its dairy processing business and is a key step in its organic infant formula project.

The identifiable assets acquired and liabilities assumed on acquisition of Organic Nutritionals were as follows:

	\$
Purchase consideration:	
Cash	1,235,013
Total purchase consideration	<u>1,235,013</u>
Fair value of assets acquired and liabilities assumed:	
Trade and other receivables	14,879
Property, plant and equipment	1,220,134
Net identifiable assets acquired and liabilities assumed	<u>1,235,013</u>

There have been no other transactions in Organic Nutritionals from acquisition date to 31 December 2019.

(ii) Jonesy's Distribution Pty Ltd

On 7 October 2019, Australian Dairy Nutritionals Limited (the Group) acquired the business assets of Jonesy's Dairy Fresh as part of a joint venture with Somerville Property Holdings Pty Ltd (Somerville Property). There was no consideration paid and the joint venture company, Jonesy's Distribution Pty Ltd (Jonesy's Distribution) is 75% owned by the Group and 25% owned by Somerville Property.

The business assets of Jonesy's Dairy Fresh include premium quality brands and products, long established relationships supplying cafes, restaurants and retailers and the associated delivery systems and infrastructure. The Group supplies Jonesy's Distribution with milk and dairy products, providing another distribution channel for its products.

The identifiable assets acquired and liabilities assumed on acquisition of the Jonesy's Dairy Fresh business assets were as follows:

	\$
Purchase consideration	-
Fair value of assets acquired and liabilities assumed:	
Property, plant and equipment	4,500
Net identifiable assets acquired and liabilities assumed¹	<u>4,500</u>

¹ The Group has assessed the fair value of the Jonesy's Dairy Fresh brand and customer list and whilst there is an underlying value in both, it has adopted a conservative approach in not bringing these to account at 31 December 2019 due to current and prior period trading losses in the business. Under AASB 3: Business Combinations the acquisition identifiable assets can be reassessed for a 12 month period following acquisition, so the Group will monitor the trading position and reassess the fair value in accordance with results.

In addition, the Group will provide working capital funding to Jonesy's Distribution through a loan facility with its wholly owned subsidiary, Camperdown Dairy Company Pty Ltd (CDC). The facility is fully secured against the existing and future assets of Jonesy's Distribution and includes all trade payables owed to CDC by Jonesy's Dairy Fresh on establishment of the joint venture. The trade payables and subsequent assumed liabilities transferred to Jonesy's Distribution on 7 October 2019 were \$1,008,095 and the balance of the facility, including accrued interest at 31 December 2019 is \$1,022,738. Subsequent to balance date, CDC has provided a further \$80,000 working capital funding through the loan facility.

As disclosed above, Jonesy's Distribution has assumed liabilities of \$1,008,095 through a loan facility with CDC. As the debtor in CDC has been fully provided for in the half-year and prior periods up to completion, there is no impact for the assumed liability on consolidation. The loan in CDC will continue to be impaired until Jonesy's Distribution is in a positive trading position and has the cash flow to commence repayments.

	\$
Results contributed by the acquired entity since acquisition date:	
Revenue	267,874
Loss before income tax	(74,858)

NOTE 3: BUSINESS COMBINATIONS (cont'd)

(iii) Flahey's Nutritionals Pty Ltd (31 December 2018 acquisition)

On 24 December 2018, Australian Dairy Nutritionals Limited acquired 100% of the issued capital and control of Flahey's Nutritionals Pty Ltd (Flahey's) for a total purchase consideration of \$1,095,260. This acquisition formed part of the Group's overall strategy to expand its dairy processing business and was a key step in entering the infant / toddler formula market. Additionally, Christopher Flahey, the founder of Flahey's Nutritionals and an experienced sales executive in the infant formula sector, joined the Group as its Sales and Marketing executive.

	\$
Purchase consideration:	
Cash	400,000
Completion price adjustment	(129,740)
Stapled securities ¹ :	75,000
Performance consideration ² :	750,000
Total purchase consideration	<u>1,095,260</u>

¹ On 24 December 2018, 625,000 stapled securities were issued at the market price of 12 cents.

² On 24 December 2018, 6,250,000 consideration securities were issued and valued using both the binomial option pricing model and Black-Scholes model. The consideration securities are subject to various performance milestones and Christopher Flahey remaining employed with the company on a conversion date. The consideration securities are forfeited if performance hurdles are not satisfied and the conversion dates are as follows:

- 31 August 2019 - 1,875,000 consideration securities will be available to be converted to 1,875,000 stapled securities;
- 30 August 2020 - 1,875,000 consideration securities will be available to be converted to 1,875,000 stapled securities; and
- 31 August 2021 - 2,500,000 consideration securities will be available to be converted to 2,500,000 stapled securities.

The independent valuation resulted in a price of 12 cents per consideration security under both models.

For financial accounting purposes (Under AASB 3 Business Combinations) the performance consideration was accounted for as follows:

	\$
Recognised as cost of acquisition (i)	345,260
Amortised as performance consideration through profit and loss (ii)	750,000
	<u>1,095,260</u>

(i) Fair value of assets acquired and liabilities assumed:

Other current assets	20,260
Intangible assets ³ :	322,140
Property, plant and equipment	2,860
Net identifiable assets acquired and liabilities assumed	<u>1,095,260</u>

³ In accordance with AASB 3: Business Combinations the acquirer is required to recognise separately from Goodwill the identifiable intangible assets of Flahey's on acquisition. Under the accounting standard, an intangible asset is considered identifiable if it meets the Contractual Legal Criterion. Flahey's uses a range of recipes, formulations and patents which meet the Contractual Legal Criterion and in accordance with this requirement the Group has attributed \$322,140 to the fair value of identifiable intangible assets acquired.

(ii) Performance consideration is amortised over 3 years, with a charge to profit and loss to reflect the actual number of securities which issue. In the half-year to 31 December 2019, Christopher Flahey resigned from the company and \$126,273 has been written back into profit for previously accrued share based payments on the basis that no securities will be issued. The consideration securities are yet to be cancelled.

NOTE 4: REVENUE AND EXPENSES

	Note	December 2019 \$	December 2018 \$
(a) Revenue			
Revenue from contracts with customers	(i)	11,034,381	9,817,726
Other sources of revenue	(ii)	397,686	780,866
Total revenue		11,432,067	10,598,592
 (i) Revenue disaggregation			
The revenue is disaggregated by service line and timing of revenue recognition.			
Service lines:			
- Dairy processing		6,632,610	5,473,150
- Dairy farms		4,401,771	4,344,576
		<u>11,034,381</u>	<u>9,817,726</u>
Timing of revenue recognition			
Services transferred to customers:			
- at a point in time		11,034,381	9,817,726
		<u>11,034,381</u>	<u>9,817,726</u>
 (ii) Other sources of revenue			
Interest - unrelated		60,354	3,567
Farm costs recoveries		26,098	27,107
R&D tax incentive		299,516	-
Final distribution from Camperdown Cheese and Butter joint venture		-	737,577
Fuel rebate and other revenue		11,718	12,615
		<u>397,686</u>	<u>780,866</u>
 (b) Other Income			
Gain on change in fair value of livestock (refer Note 5)		1,057,962	143,253
Gain on transfer of property, plant and equipment (refer Note 3(ii))		4,500	-
		<u>1,062,462</u>	<u>143,253</u>
 (c) Expenses			
(i) Finance costs			
CBA facility		257,126	287,619
Loans - unsecured		713	516
Finance costs - right of use assets		11,694	-
Finance charges payable under finance leases		17,063	13,225
		<u>286,596</u>	<u>301,360</u>
 (ii) Dairy related costs			
Feed costs		1,157,788	1,446,576
Repairs, maintenance and vehicle costs		161,603	160,491
Animal health costs		28,996	49,969
Land holding and lease costs		(88,739)	76,491
Breeding and herd testing expenses		65,552	127,185
Dairy shed expenses		59,877	66,862
Electricity		175,008	66,498
Other dairy related costs		892,964	883,719
		<u>2,453,049</u>	<u>2,877,791</u>

NOTE 4: REVENUE AND EXPENSES (cont'd)

	December 2019 \$	December 2018 \$
(iii) Dairy processing related costs		
Cost of goods sold	4,213,882	3,195,938
Freight costs	325,648	187,120
Property and lease costs	124,167	214,015
Loss allowance on receivables	178,082	695,693
Other dairy processing related costs	511,997	534,716
	5,353,776	4,827,482
(iv) Employment benefits expense		
Employee and director remuneration costs	2,989,261	2,609,466
Equity settled share based payment costs	162,977	15,250
	3,152,238	2,624,716
(v) Administration and non-dairy related costs		
Administration costs	267,727	160,052
Professional costs	187,836	214,699
	455,563	374,751
(vi) Other significant items		
Deemed cost of livestock sold (refer Note 5)	574,284	371,161

(d) Tax Expense

There is no income tax applicable to the result for the period due to the availability of carried forward tax losses.

NOTE 5: BIOLOGICAL ASSETS

	Note	December 2019 \$	June 2019 \$
Non-current			
Dairy cattle	(i)	5,412,100	4,928,422
Total biological assets		5,412,100	4,928,422
Movements during the period:			
Opening carrying amount		4,928,422	5,205,774
Purchases of livestock		-	53,621
Deemed cost of livestock disposed		(574,284)	(869,525)
Gain from changes to fair value		1,057,962	538,552
Closing carrying amount		5,412,100	4,928,422
Movements during the period:			
		Number	Number
Opening balance		3,939	3,812
Purchases		-	65
Natural increase and attrition		495	1,610
Sales		(794)	(1,548)
Closing balance		3,640	3,939

(i) Biological assets represent the dairy livestock owned by the Group. The livestock is valued at fair value, by an independent stock agent, based on the prices in the open dairy cattle market in the locality of the Group's dairy operations. A fair value gain of \$1,057,962 (June 2019: \$538,552) has been recognised in profit and loss at 31 December 2019, and represents price movements, natural increase and the movement in ages of young stock.

NOTE 6: RIGHT OF USE ASSETS

The Group has the following leases recognised under AASB16.

- a 5-year and 3 month lease on factory premises at 325 Manifold Street, Camperdown, with an expiry date of 31 March 2025; and
- a 3-year and 2 month lease on 368 acres of land on Cooramook Road, Grassmere, Victoria.

The land lease has a 3-year option, which provides the Group opportunities to manage the lease in order to align with its strategies. The extension or termination option is only exercisable by the Group; however, management has no reasonable certainty at this point in time that the option will be exercised and as such the option is not included in the calculation of the lease liability.

(i) AASB 16 related amounts recognised in the statement of financial position

	December 2019 \$
Right of use assets	
Leased building	918,924
Accumulated depreciation	(421,264)
	<u>497,660</u>
Movement in carrying amounts:	
Leased building:	
Recognised on initial application of AASB 16 (previously classified as operating leases under AASB 17)	561,100
Depreciation expense for the period	(63,440)
	<u>497,660</u>
Lease liabilities	
Current	167,496
Non-current	352,171
	<u>519,667</u>

(ii) AASB 16 related amounts recognised in the statement of profit or loss

	December 2019 \$
Depreciation charge related to right of use assets	63,440
Interest expense on lease liabilities (included in finance costs)	11,694

(iii) AASB 16 related amounts recognised in the statement of cash flows

	December 2019 \$
Total half-yearly cash outflows for leases	73,992

NOTE 7: INTANGIBLE ASSETS

	Notes	December 2019 \$	June 2019 \$
Goodwill			
- at cost	(i)	6,616,393	6,616,393
		6,616,393	6,616,393
Product development			
Recipes, formulations & patents - at fair value		336,220	336,220
New product development - at cost		94,249	41,163
Less accumulated amortisation		(25,361)	(19,540)
		405,108	357,843
Total intangible assets		7,021,501	6,974,236

(i) As set out in the 30 June 2019 financial statements, goodwill relates to the dairy processing segment cash-generating-unit (CGU) and was assessed for impairment using a value-in-use calculation applying reasonable based estimates of revenue, gross margin, discount rates and terminal growth rate. In the current half-year period the CGU trading performance is down on the projections used in the 2019 assessment, however future projections remain broadly in line with expectations and the directors consider the carrying value of goodwill remains recoverable.

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

	Note	December 2019 \$	June 2019 \$
Land, buildings and improvements			
- at cost		26,560,020	26,560,020
Less accumulated depreciation		(1,623,912)	(1,240,622)
Less accumulated impairment		(2,824,473)	(2,824,473)
	(i)	22,111,635	22,494,925
Plant and equipment - owned			
- at cost		9,909,050	7,767,241
Less accumulated depreciation		(2,537,685)	(2,175,287)
		7,371,365	5,591,954
Plant and equipment - leased			
- at cost		1,295,290	1,366,521
Less accumulated depreciation		(303,622)	(262,961)
		991,668	1,103,560
Total property, plant and equipment		30,474,668	29,190,439

NOTE 8: PROPERTY, PLANT AND EQUIPMENT (cont'd)

(i) Below is a table showing the carrying value of land, buildings and improvements by farm/location:

Brucknell No 1 - Farm	22 October 2014	4,110,529
Brucknell No 2 - Farm	22 October 2014	4,064,232
Brucknell No 3 - Farm	6 March 2015	2,251,313
Missens Road - Farm	9 July 2015	1,512,897
Drumborg - Farm	16 September 2015	5,098,143
Depot & Old Geelong Rd (Camperdown) - Land	17 November 2017	272,974
Yarringa - Nirranda South	4 October 2018	4,801,547
Total		22,111,635

Land, buildings and improvements represents the total holding costs of each farm including purchase price, acquisition costs, capitalised development, land improvement and conversion to organic costs since acquisition.

NOTE 9: BORROWINGS

	Note	December 2019 \$	June 2019 \$
Current			
Loans - unsecured	(i)	320,016	-
CBA facility	(ii)	12,054,000	-
Bank hire purchase loans - secured		218,376	264,363
Total current borrowings		12,592,392	264,363
Non-current			
Bank hire purchase loans - secured		295,261	377,039
CBA facility	(ii)	-	12,054,000
Total non-current borrowings		295,261	12,431,039
Total borrowings		12,887,653	12,695,402

(i) The Group has unsecured short-term loans for payment of the Group's insurance policies.

(ii) The Group established borrowing facilities with the Commonwealth Bank of Australia Limited (CBA) in April 2016, as a three year re-drawable loan facility of \$10,000,000 to assist with the acquisition of Camperdown Dairy Company. Since that time, the term and principal amount has been varied and at 31 December 2019 the principle amount is \$12,054,000 with a facility maturity date of 4 October 2021. The facility is subject to compliance with predetermined covenants and at least annual reviews.

All obligations under the loan agreement have been met in accordance with the terms of the facility and at the balance date the Group has cash and cash equivalents of \$9,319,100. CBA advised on 16 December 2019 that it may not renew the facility on its maturity of 4 October 2021. Accordingly, the Group made enquiries with other lenders and are confident that at least equivalent alternative funding will be available if the Group requires it at or before that time.

Despite the CBA facility maturity date of 4 October 2021, under the terms of the facility, the Group may not have an unconditional right to defer settlement beyond 12 months from the current balance date. As a result, in accordance with the provisions of the Australian Accounting Standards (AASB 101: Presentation of Financial Statements) and prudent disclosure practices, the Group has re-classified the existing CBA facility from a non-current liability at 30 June 2019, to a current liability at 31 December 2019. The directors are confident of restructuring or refinancing the facility prior to maturity date and in the interim, to meet all covenants.

Collateral Provided:

The CBA facility is secured by a first registered mortgage over all the Group farms and a general security interest over all Group assets. In addition the Company has provided a negative pledge to not grant a security interest over its shareholding in Camperdown Dairy Company, and an unlimited guarantee secured over all its present and after acquired property.

Lease liabilities (hire purchase loans) are secured by the underlying leased assets.

NOTE 10: ISSUED CAPITAL

	December 2019 \$	June 2019 \$
Contributed equity of the Group	63,936,041	56,219,847

Movement in stapled securities:

Date	Details	Number of Stapled Securities	Issue Price \$	Shareholders \$	Unitholders \$	Stapled Entity \$
01 Jul 2019	Opening balance	300,144,291		25,474,856	30,744,991	56,219,847
19 Aug 2019	Placement - Tranche 2 (i)	67,342,149	0.12	8,081,058	-	8,081,058
18 Nov 2019	Employee performance securities (ii)	1,000,000	0.12	120,000	-	120,000
18 Nov 2019	Loan securities (iii)	2,500,000		-	-	-
	Transaction costs			(484,864)	-	(484,864)
31 December 2019		370,986,440		33,191,050	30,744,991	63,936,041
01 Jul 2018	Opening balance	242,792,046		18,760,113	30,744,991	49,505,104
02 Jul 2018	KPI performance rights (iv)	3,000,000	0.10	300,720	-	300,720
30 Oct 2018	Stapled Security Purchase Plan (v)	20,919,363	0.13	2,719,500	-	2,719,500
24 Dec 2018	Purchase of Flahey's Nutritionals Pty Ltd (vi)	625,000	0.12	75,000	-	75,000
28 Jun 2019	Placement - Tranche 1 (vii)	32,657,851	0.12	3,918,942	-	3,918,942
28 Jun 2019	Ultima Capital Consultancy (viii)	150,031	0.16	24,005	-	24,005
	Transaction costs			(323,424)	-	(323,424)
30 June 2019		300,144,291		25,474,856	30,744,991	56,219,847

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.

- (i) On 19 July 2019, there were 67,342,149 stapled securities issued on completion of a placement being conducted in two tranches (refer (vii)). The fair value of securities issued in tranche 2, determined by reference to the placement price of \$0.12 per security, was \$8,081,058.
- (ii) On 18 November 2019, there was 1,000,000 stapled securities granted to Chris Melville as a share-based payment. The fair value of securities issued, determined by reference to market price, was \$120,000.
- (iii) On 18 November 2019, there was 2,500,000 loan securities granted to Chris Melville as a share-based payment.
- (iv) On 2 July 2018, there was 3,000,000 stapled securities granted to Peter Skene as a share-based payment. The fair value of securities issued, determined by independent valuation, was \$300,720 (being the amount of the options granted).
- (v) On 30 October 2018, there was 20,919,363 stapled securities issued to eligible securityholders under the Group's Stapled Security Purchase Plan at a price of \$0.13 per security. The fair value of securities issued, determined by reference to the offer issue price, was \$2,719,500.
- (vi) On 24 December 2018, 625,000 stapled securities were issued as part of the acquisition of Flahey's Nutritionals. The fair value of securities issued, determined by reference to market price, was \$75,000 (refer Note 3).
- (vii) On 28 June 2019, there were 32,657,851 stapled securities issued on completion of a placement being conducted in two tranches (refer (i)). The fair value of securities issued in tranche 1, determined by reference to the placement price of \$0.12 per security, was \$3,918,942.
- (viii) On 28 June 2019, there was 150,031 stapled securities issued to Ultima Capital Partners for consultancy services in relation to the Group's infant formula project. The fair value of securities issued, determined by reference to market price, was \$24,005.

NOTE 11: SEGMENT REPORTING

(a) Segment Performance	Dairy Farms	Dairy Processing	Total
31 December 2019			
Revenue	\$	\$	\$
External sales	4,739,103	6,632,610	11,371,713
Other revenue	1,057,962	4,500	1,062,462
Interest revenue	48,556	11,798	60,354
Total segment revenue	5,845,621	6,648,908	12,494,529
Total group revenue			12,494,529
Segment net result before tax	861,958	(1,498,543)	(636,585)
31 December 2018			
Revenue	\$	\$	\$
External sales	4,384,298	5,315,547	9,699,845
Other revenue	143,253	895,180	1,038,433
Interest revenue	3,567	-	3,567
Total segment revenue	4,531,118	6,210,727	10,741,845
Total group revenue			10,741,845
Segment net loss before tax	(189,243)	(1,002,484)	(1,191,727)
(b) Segment Assets			
As at 31 December 2019			
Segment assets	36,899,240	19,875,856	56,775,096
Segment assets include:			
Additions to non-current assets	32,331	2,091,332	2,123,663
As at 30 June 2019			
Segment assets	33,425,001	15,105,896	48,530,897
Segment assets include:			
Additions to non-current assets	6,680,822	1,183,643	7,864,465

NOTE 11: SEGMENT REPORTING (cont'd)

	Dairy Farms	Dairy Processing	Total
(c) Segment Liabilities			
As at 31 December 2019	\$	\$	\$
Segment liabilities	4,969,919	11,568,795	16,538,714
	Dairy Farms	Dairy Processing	Total
As at 30 June 2019	\$	\$	\$
Segment liabilities	6,139,679	9,376,557	15,516,236

NOTE 12: FAIR VALUE MEASUREMENTS

(a) Fair Value Hierarchy

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

31 December 2019

	Note	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Non-financial assets					
Biological assets	5	-	5,412,100	-	5,412,100
Total non-financial assets recognised at fair value on a recurring basis		-	5,412,100	-	5,412,100

30 June 2019

Biological assets	5	-	4,928,422	-	4,928,422
Total non-financial assets recognised at fair value on a recurring basis		-	4,928,422	-	4,928,422

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

Description	Fair Value at 31 December 2019 \$	Valuation Technique(s)	Input Used
Non-financial assets			
Biological assets	5,412,100	Market approach using recent observable industry market data for dairy cattle	Breed, weight, condition
	5,412,500		

NOTE 13: EARNINGS PER STAPLED SECURITY CALCULATIONS

	December 2019 cents	December 2018 cents
Earnings per stapled security:		
Basic loss per stapled security	(0.18)	(0.47)
Diluted loss per stapled security	(0.18)	(0.47)
Reconciliation of earnings to profit or loss:		
Loss attributable to shareholders and unitholders	(636,585)	(1,191,727)
	Number of Securities	Number of Securities
Weighted average number of stapled securities outstanding during the year used in calculating basic EPS	350,277,340	252,886,994
Weighted average number of options outstanding	-	-
Weighted average number of stapled securities outstanding during the year used in calculating dilutive EPS	350,277,340	252,886,994

All options on issue are considered to be dilutive potential ordinary securities, however they are presently anti-dilutive at 31 December 2019 as the Group is in losses.

NOTE 14: SHARE BASED PAYMENTS

(a) Stapled securities granted to employees under the Group Incentive Plan as share-based payments during the half-year ended 31 December 2019 are as follows:

Grant Date	Number
18 November 2019	1,000,000

The fair value of securities granted, determined by reference to market price, was \$120,000.

These securities were issued as compensation to key management personnel of the Group.

(b) Loan securities granted to key management personnel as share-based payments during the half-year ended 31 December 2019 are as follows:

Grant Date	Number	Exercise Price	Vesting Date	Exercisable on or before
18 November 2019	2,500,000	\$0.115	18 November 2019	18 November 2022

A summary of key terms and conditions of the loan securities are:

- Loan securities are securities in the stapled entity, each carrying the same dividend rights and otherwise ranking pari passu in all respects with ordinary issued securities in the Group;
- Financial assistance is provided to participants by way of a limited recourse interest free loan to acquire the securities;
- The loan is repayable at any time or is repayable immediately if the participant ceases to be an employee;
- The Group retains security over the loan securities whilst ever there is an amount outstanding under the loan; and
- Loan securities that have not vested and / or are subject to loan repayment will be restricted from trading.

Under the applicable Accounting Standards, the loan securities and related limited recourse loan are accounted for as options, which gives rise to a share based payment expense. The value of the loan and the issue price of the shares are not recorded as loans receivable or share capital of the Group until repayment or part repayment of the loan occurs.

The fair value of loan securities granted during the half-year period was \$158,191 This value was calculated using a binomial option pricing model applying the following inputs:

Exercise price:	\$0.115
Life of the option:	3 years
Expected share price volatility:	79.977%
Weighted average risk-free interest rate:	0.75%

NOTE 14: SHARE BASED PAYMENTS (cont'd)

(c) A summary of movements of all options during the half-year is as follows

Options outstanding at 1 July 2019	16,250,000
Granted (i)	2,500,000
Forfeited (ii)	(10,000,000)
Exercised (iii)	-
Options outstanding at 31 December 2019	8,500,000 (all exercisable)

(i) Granted options

On 19 August 2019 the Group issued 2,500,000 lead manager options to L39 Pty Ltd, representing 1% of the total proceeds of the placement completed on that date (\$12 million, total of tranche 1 and tranche 2).

The issue price of the options was 4.8 cents calculated using the Black-Scholes method, the expiry date is 19 August 2022 and the options will vest when the stapled security price is \$0.18 or more for a period of 5 consecutive trading days.

The fair value of the options issued is \$120,000 based on the total proceeds of the placement.

(ii) Cancelled and forfeited performance options

Options are forfeited if performance hurdles are not satisfied or after the holder ceases to be employed by the Group, unless the Board determines otherwise. During the half-year ended 31 December 2019, 10,000,000 performance options were forfeited as the performance hurdle was not satisfied and \$34,203 has been transferred from the equity reserve to retained earnings.

(iii) Exercised performance options

During the half-year ended 31 December 2019 there were no performance options exercised.

(iv) On 24 December 2018, 6,250,000 consideration securities were issued to Christopher Flahey as part of the acquisition of Flahey's Nutritionals Pty Ltd (refer Note 3(iii)). The consideration securities are subject to various performance milestones and Christopher Flahey remaining employed with the company on a conversion date. The consideration securities are forfeited if performance hurdles are not satisfied. In the half-year to 31 December 2019, Christopher Flahey resigned from the company and \$126,273 has been written back into profit for previously accrued share based payments on the basis that no securities will be issued. The consideration securities are yet to be cancelled.

(v) Performance options approved but not issued

On 29 November 2019, securityholders approved the issue of 6,000,000 performance rights to directors, subject to achievement of specific performance hurdles. At the date of this report, the performance rights have not been issued.

(d) Included under employee benefits expense in the statement of profit or loss is \$162,977 (2018: \$15,250), which relates to equity-settled share-based payment transactions - securities and options.



Australian Dairy Nutritionals Group

DIRECTORS' DECLARATION

For the half-year ended 31 December 2019

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

- (a) the financial statements and notes set out on pages 7 to 24 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 2019 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.

A handwritten signature in black ink, appearing to read 'M Bryant', written over a horizontal line.

Martin Bryant
Chairman

Melbourne
27 February 2020



Auditor's Independence Declaration

Under Section 307C of the *Corporations Act 2001*

To the Directors of Australian Dairy Nutritionals Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2019 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 Australian Dairy Nutritionals Limited and the entities it controlled during the period.

A handwritten signature in blue ink that reads 'Nexia Brisbane Audit Pty Ltd'.

Nexia Brisbane Audit Pty Ltd

A handwritten signature in blue ink that reads 'ND Bamford'.

ND Bamford
Director

Date: 27 February 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF AUSTRALIAN DAIRY NUTRITIONALS LIMITED

Report on the Half-Year Financial Report

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

We have reviewed the accompanying half-year financial report of the Australian Dairy Nutritionals Group, which comprises the consolidated condensed statement of financial position as at 31 December 2019, the consolidated condensed statement of profit or loss and other comprehensive income, the consolidated condensed statement of changes in equity and the consolidated condensed 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.

Director's Responsibility for the Half-Year Financial Report

The directors of Australian Dairy Nutritionals Limited and the directors of Dairy Fund Management 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 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 gives a true and fair view and 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Australian Dairy Nutritionals Group financial position as at 31 December 2018 and its 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 Nutritionals Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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 other 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.

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF AUSTRALIAN DAIRY NUTRITIONALS LIMITED (CONTINUED)

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*, which has been given to the directors of Australian Dairy Nutritionals Group, would be in the same terms if given to the directors 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 Nutritionals Group is not in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of Australian Dairy Nutritionals Group financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- ii. complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'Nexia Brisbane Audit Pty Ltd'.

Nexia Brisbane Audit Pty Ltd

A handwritten signature in black ink that reads 'Nigel Bamford'.

ND Bamford

Director

Level 28, 10 Eagle Street,
Brisbane, QLD, 4000

Date: 27 February 2020

Board of Directors

Martin Bryant
Chairman

Michael Hackett
Director

Adrian Rowley
Director

Peter Skene
Director

Paul Morrell
Director

Company Secretary

Kate Palethorpe
Company Secretary & Legal Counsel

Registered Office

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Share Register

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Web: www.linkmarketservices.com.au

Auditor

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Stock Exchange

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

The ASX Code is "AHF".

