

Milk New Zealand Holding Limited and Subsidiaries

Annual report
for the year ended 30 June 2015

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Directors' declaration

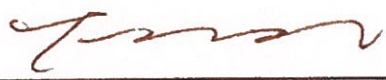
In the opinion of the Directors of Milk New Zealand Holding Limited (the Company) and Subsidiaries (the Group) the financial statements and notes, on pages 5 to 27:

- comply with New Zealand generally accepted accounting practice and present fairly the financial position of the Group as at 30 June 2015 and the results of operations and cash flows for the period ended on that date.
- have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

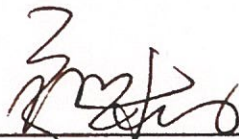
The Directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

The Directors are pleased to present the annual report including the financial statements of Milk New Zealand Holding Limited and Subsidiaries for the year ended 30 June 2015.



Director

Date: 10/12/2015



Director

10/12/2015

Directory

Nature of business	Production and sale of raw milk	
Registered office	Level 34, Vero Centre 48 Shortland Street Auckland Central New Zealand	
Directors	Zhaobai Jiang Terry Lee (appointed 14 October 2015)	
Shareholder	An Yuan Dairy Limited	<u>86,075,387</u> shares
Auditor	Deloitte Deloitte Centre 80 Queen Street Auckland 1010	

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF

MILK NEW ZEALAND HOLDING LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Milk New Zealand Holding Limited and its subsidiaries ('the Group') on pages 5 to 27, which comprise the consolidated statement of financial position as at 30 June 2015, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 207B of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors are responsible for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime and generally accepted accounting practice in New Zealand, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor, we have no relationship with or interests in Milk New Zealand Holding Limited or any of its subsidiaries, except that partners and employees of our firm deal with Milk New Zealand Holding Limited and its subsidiaries on normal terms within the ordinary course of trading activities of the business of Milk New Zealand Holding Limited and its subsidiaries. These trading activities have not impaired our independence as auditor of the Group.

Opinion

In our opinion, the consolidated financial statements on pages 5 to 27 present fairly, in all material respects, the financial position of Milk New Zealand Holding Limited and its subsidiaries as at 30 June 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards Reduced Disclosure Regime and generally accepted accounting practice in New Zealand.



Chartered Accountants

10 December 2015

Auckland, New Zealand

Statement of financial position

as at 30 June 2015
in New Zealand Dollars

	Note	Group 2015 \$	Group 2014 \$
Assets			
Cash and cash equivalents	9	2,673,326	2,394,860
Trade and other receivables	10	14,276,892	26,618,351
Inventory	12	457,826	1,576,921
Biological assets	11	-	5,126,663
Due from related parties	21	748,603	1,424,295
Derivative financial assets	18	-	545,472
Income tax receivable	7	570,590	812,914
Total current assets		18,727,237	38,499,476
Property, plant and equipment	14	197,086,487	412,193,791
Investments	15	19,074,322	25,858,409
Deferred tax asset	7	1,469,478	-
Intangible assets	13	-	1,313,000
Biological assets	11	-	17,388,774
Derivative financial assets	18	-	134,367
Total non-current assets		217,630,287	456,888,341
Total assets		236,357,524	495,387,817
Liabilities			
Bank overdraft	9	5,914,904	5,995,483
Trade and other payables	16	1,716,635	7,772,018
Interest bearing loans and borrowings	17	94,767,054	-
Derivative financial liabilities	18	55,002	-
Due to related parties	21	6,810,967	5,678,347
Total current liabilities		109,264,562	19,445,848
Deferred tax liability	7	-	2,544,324
Interest bearing loans and borrowings	17	-	191,876,124
Total non-current liabilities		-	194,420,448
Total liabilities		109,264,562	213,866,296
Equity			
Share capital	23	86,075,387	167,911,162
Retained earnings		(2,744,092)	33,441,341
Reserves	23	43,761,667	40,849,112
Equity attributable to owners of the Company		127,092,962	242,201,615
Non-controlling interest		-	39,319,906
Total equity		127,092,962	281,521,521
Total liabilities and equity		236,357,524	495,387,817

This statement is to be read in conjunction with the notes to the financial statements.




Statement of comprehensive income

for the year ended 30 June 2015
in New Zealand Dollars

	Note	Group 2015 \$	Group 2014 Restated* \$
Continuing operations			
Revenue	4	17,218,441	20,271,850
Cost of sales		(9,329,014)	(11,052,065)
Gross profit		7,889,427	9,219,785
Other revenue	4	1,660,583	2,221,148
Change in fair value of investments held at Fair Value through Profit or Loss	15	(3,934,079)	-
Loss on revaluation of plant, property and equipment	14	(3,182,388)	(2,833,395)
Administration expenses	5	(4,381,335)	(4,871,762)
Depreciation expenses	14	(972,648)	(839,306)
Operating loss before financing costs		(2,920,440)	2,896,470
Finance income	6	950,219	1,467,238
Finance expenses	6	(5,891,268)	(4,527,002)
Net financing costs		(4,941,049)	(3,059,764)
Loss before income tax		(7,861,489)	(163,294)
Income tax benefit / (expense)	7	206,610	(771,203)
Loss for the year from continuing operations		(7,654,879)	(934,497)
Discontinued operation			
Profit / (loss) from discontinued operation, net of tax*	8	(1,745,948)	39,686,834
Profit / (loss) for the year		(9,400,827)	38,752,337
Revaluation of property, plant and equipment	14	2,871,712	40,889,955
Revaluation of shares		-	23,000
Effective portion of changes in fair value of cash flow hedges	18	-	(69,665)
Income tax on other comprehensive income		-	(8,595)
Other comprehensive income for the period, net of income tax		2,871,712	40,834,695
Total comprehensive income / (loss) for the period		(6,529,115)	79,587,032
Profit attributable to:			
Owners of the Company		(9,400,827)	22,338,168
Non-controlling interest		-	10,453,443
Profit / (loss) for the year		(9,400,827)	32,791,611
Total comprehensive income / (loss) attributable to:			
Owners of the Company		(6,529,115)	63,187,280
Non-controlling interest		-	10,439,026
Total comprehensive income / (loss) for the period		(6,529,115)	73,626,306

* See note 8.

This statement is to be read in conjunction with the notes to the financial statements.

Statement of changes in equity

for the year ended 30 June 2015

in New Zealand Dollars

Group

	Note	Share capital	Retained earnings	Revaluation Reserve	Hedging reserve	Total	Non controlling interest	Total equity
		\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2013		100	11,103,173	-	-	11,103,273	-	11,103,273
Non controlling interest recognised on acquisition		-	-	-	-	-	28,880,880	28,880,880
Total comprehensive income for the year								
Profit after tax for the year		-	22,338,168	-	-	22,338,168	10,453,443	32,791,611
Other comprehensive income		-	-	40,906,954	(57,842)	40,849,112	(14,417)	40,834,695
Total comprehensive income for the year		-	22,338,168	40,906,954	(57,842)	63,187,280	10,439,026	73,626,306
Transactions directly with owners								
Share issue / (buy back)		167,911,062	-	-	-	167,911,062	-	167,911,062
Total other transactions		167,911,062	-	-	-	167,911,062	-	167,911,062
Balance at 30 June 2014	23	167,911,162	33,441,341	40,906,954	(57,842)	242,201,615	39,319,906	281,521,521
Balance at 1 July 2014		167,911,162	33,441,341	40,906,954	(57,842)	242,201,615	39,319,906	281,521,521
Total comprehensive income for the year								
Profit after tax for the year		-	(9,400,827)	-	-	(9,400,827)	-	(9,400,827)
Other comprehensive income		-	-	2,871,712	-	2,871,712	-	2,871,712
Total comprehensive loss for the year		-	(9,400,827)	2,871,712	-	(6,529,115)	-	(6,529,115)
Transactions directly with owners								
Share buy back on restructure		(81,835,775)	-	-	-	(81,835,775)	-	(81,835,775)
Disposal of subsidiaries with non-controlling interests		-	(26,784,606)	(16,999)	57,842	(26,743,763)	(39,319,906)	(66,063,669)
Total other transactions		(81,835,775)	(26,784,606)	(16,999)	57,842	(108,579,538)	(39,319,906)	(147,899,444)
Balance at 30 June 2015	23	86,075,387	(2,744,092)	43,761,667	-	127,092,962	-	127,092,962

This statement is to be read in conjunction with the notes to the financial statements.

Statement of cash flows

for the year ended 30 June 2015
in New Zealand Dollars

	Group 2015 \$	Group 2014 \$
Cash flows to operating activities		
Cash received from customer	29,122,458	30,638,108
Cash paid to suppliers and employees	(20,338,533)	(27,493,135)
Net GST receipt	613,855	-
Income tax receipt / (payment)	1,008,051	(780,388)
Net cash from operating activities	10,405,831	2,364,585
Cash flows to investing activities		
Proceeds from sale of property, plant and equipment	4,025	32,000
Fonterra dividends received	600,509	431,556
Acquisition of property, plant and equipment	(7,294,520)	(8,999,813)
Acquisition of biological assets	(1,037,207)	-
Acquisition of Synlait Farms Limited	-	(57,610,442)
Amount paid to third party held on trust	-	(8,800,000)
Net cash outflow to investing activities	(7,727,193)	(74,946,699)
Cash flows from financing activities		
Interest received	1,420,776	127,275
Advance from related parties	-	83,735,849
Finance charges	(7,640,371)	(6,486,583)
Drawdown / (repayment) of loan	3,900,002	(15,900,693)
Net cash from / (outflow to) financing activities	(2,319,593)	61,475,848
Net increase / (decrease) in cash	359,045	(11,106,266)
Opening cash and cash equivalents	(3,600,623)	7,505,643
Closing cash and cash equivalents	(3,241,578)	(3,600,623)
Made up of:		
Bank balances	2,673,326	2,394,860
Bank overdraft	(5,914,904)	(5,995,483)
Total cash and cash equivalents	(3,241,578)	(3,600,623)

This statement is to be read in conjunction with the notes to the financial statements.

Notes to the financial statements

1 Reporting Entity

Milk New Zealand Holding Limited ('the Company') is a company registered under the Companies Act 1993.

Financial statements for Group are presented. The consolidated financial statements of Milk New Zealand Holding Limited as at and for the period ended 30 June 2015 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'subsidiaries').

The subsidiaries are set out in note 22.

2 Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with the New Zealand Equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ('NZ IFRS RDR') applicable for Tier 2 entities and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements were authorised for issue by the Director on the date specified on page 2. The Company is a reporting entity for the purposes of the Financial Reporting Act 2013 and its financial statements comply with the Act.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following which are measured at fair value:

- Land and buildings
- Derivative financial instruments
- Intangible assets
- Investments
- Biological assets

The methods used to measure fair values are discussed further under the note on determination of fair value.

c) Functional and presentation currency

The financial statements are presented in New Zealand dollars (\$), which is the Group's functional currency.

d) Use of estimates and judgements

The preparation of the financial statements in conformity with NZ IFRS RDR requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 7 Income tax (Utilisation of tax losses)

3 Significant accounting policies

The accounting policies set out below have been applied consistently in these financial statements, and have been applied consistently by the Group and subsidiaries.

The comparative statement of comprehensive income has been re-presented as if an operation discontinued during the current year had been discontinued from the start of the comparative year (see note 5).

Significant accounting policies (continued)

a) Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Business combinations involving entities under common control

A common control transaction is a transaction in which both entities are ultimately controlled by the same shareholder both before and after the transaction and control is not transitory. Combinations of entities under common control are accounted for at carrying value at the date of the transaction and any resulting gain or loss is recognised directly in equity.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Significant accounting policies (continued)

c) Financial instruments

i *Non-derivative financial assets*

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale. The Company classifies their investment in Fonterra shares as being financial assets designated at fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities and debt securities.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables consist of cash and cash equivalents, trade and other receivables, and due from related parties.

Significant accounting policies (continued)

c) Financial instruments (continued)

ii *Non-derivative financial liabilities*

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

iii *Derivative financial instruments*

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value through profit or loss, based on available market quotes, at the end of the reporting period.

The Group classifies these derivative financial liabilities into the fair value through profit and loss category.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income and presented in the hedging reserve in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

d) Property, plant and equipment

Recognition and measurement

Items of plant and equipment are initially measured at cost less accumulated depreciation and accumulated impairment losses.

Land, buildings and plant, and land improvements are subsequently stated at valuation less accumulated depreciation as determined on a cyclical basis, by an independent registered valuer. The basis of the valuation is the highest and best use and disposal costs are not deducted. Any increase in the value of a class of land and buildings is recognised in other comprehensive income and presented in the revaluation reserve in equity unless it offsets a previous decrease in value recognised in the profit or loss, in which case it is recognised in profit or loss. A decrease in value relating to a class of land and buildings is recognised in the profit or loss where it exceeds the increase previously recognised in equity.

Cost includes expenditure that is directly attributable to the acquisition of the asset and includes the following:

- the cost of material and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Significant accounting policies (continued)

d) Property, plant and equipment (continued)

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred

Depreciation

For plant, equipment and buildings, depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a systematic basis over the estimated useful lives of each component of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- Buildings and plant 5 - 50 years
- Land improvement 20-50 years
- Office equipment 2-20 years
- Motor vehicles 5-10 years

Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Land and buildings, including dairy farms are included in the statement of financial position at their market valuation. The Group uses Crighton Anderson Property & Infrastructure Limited and Fergusson Lockwood & Associates, both are accredited Independent Valuers that uses the International Valuation Standards Committee and International Valuation Standards as a reference to determine the fair value of the Group's freehold land and buildings. Fair value is the amount for which assets could be exchanged between knowledgeable and willing buyers and sellers in an arms length transaction at the valuation date. Fair value is determined by direct reference to recent market transactions on arms length terms for land and buildings comparable in size, location and industry use to those held in the Group, and to market based yields for comparable properties. Dairy farms assets subject to revaluation are valued on an individual dairy unit basis.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position

e) Intangible assets

Recognition and measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, they are carried at cost less accumulated amortisation and accumulated depreciation and accumulated impairment losses

Amortisation

Amortisation of intangible assets is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The Group does not amortise surplus water rights and consents on the basis that it anticipates their renewal and/or future utilisation within the group in the ordinary course of events.

Intangible assets at acquisition

Intangible assets are a surplus water permit and is included in the financial position at fair value. The Group engaged Hydro Trader Limited to determine the fair value of the surplus surface water permit as at acquisition date. The fair value has been determined by using several different valuation methods such as, dryland versus irrigated land differential, a comparison with irrigation scheme shares and a comparison with groundwater permits. The valuation determined a fair value range with the mid-point of this range included in the financial position.

Significant accounting policies (continued)

f) **Biological assets**

Biological assets are measured at fair value less point-of-sale costs, with any change therein recognised in profit or loss. Point-of-sale costs include all those costs that would be necessary to sell the assets

g) **Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in-first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of items transferred from biological assets is their fair value less point-of-sale costs at the date of transfer.

h) **Impairment**

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Significant accounting policies (continued)

h) Impairment (continued)

Impairment of equity instruments

Equity instruments are deemed to be impaired whenever there is significant or prolonged decline in fair value below the original purchase price. For this purpose prolonged is regarded as any period longer than nine months and significant as more than 20 percent of the original purchase price of equity instrument. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the profit or loss.

i) Employee Entitlements

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under outstanding annual leave balances if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

j) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability.

k) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

l) Revenue recognition

Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised

m) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

Significant accounting policies (continued)

n) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), and dividend income, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, and unwinding of the discount on provisions and contingent consideration, impairment losses recognised on financial assets (other than trade receivables), mark to market on interest rate swaps and reclassifications of amounts previously recognised in other comprehensive income.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

o) Goods and services tax

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

p) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

q) Discontinued operations

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

r) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. These include property, plant and equipment, derivatives, intangible assets, investments, and biological assets (prior year). Fair values have been determined for measurement purposes based on the methods outlined in the notes specific to that asset or liability. Where applicable, further information about the assumptions made in determining fair value is also disclosed in the notes specific to that asset or liability.

Notes to the financial statements (continued)

4 Income	Continuing operations		Discontinued operations (see note 8)		Total Group	
	Group 2015 \$	Group 2014 \$	Group 2015 \$	Group 2014 \$	Group 2015 \$	Group 2014 \$
<i>Revenue</i>						
Milk sales	15,010,163	20,271,850	2,343,739	8,533,608	17,353,902	28,805,458
Livestock sales	2,208,278	-	1,051,262	237,993	3,259,540	237,993
	17,218,441	20,271,850	3,395,001	8,771,601	20,613,442	29,043,451
<i>Other revenue</i>						
Sundry revenue - farms	1,231,957	1,947,095	-	-	1,231,957	1,947,095
Feed trading	-	-	(69,783)	(42,709)	(69,783)	(42,709)
Insurance recoveries	-	-	-	50,545	-	50,545
Other sundry income	428,626	274,053	219,278	255,033	647,904	529,086
Sharemilker reimbursements	-	-	163,672	106,177	163,672	106,177
	1,660,583	2,221,148	313,167	369,046	1,973,750	2,590,194

5	Expenses	Group 2015	Group 2014
	<i>Administrative expenses</i>	\$	\$
	Administrative expenses include the following expenses:		
	Audit fees	44,000	67,500
	Consulting & Legal	689,893	1,696,422
	Operating lease expense	281,814	217,404
	Personnel	1,233,780	2,297,489
	Services and Supplies	106,383	993,747
	Standing charges	478,256	1,147,192
	Donations	52	1,633
	Rates	472,316	512,347
	Repairs and Maintenance	148,174	870,330
	Communication & Travel	284,332	183,985
	Director fees	578,120	102,804

6 Finance income / (expense)	Continuing operations		Discontinued operations (see note 8)		Total Group	
	Group 2015 \$	Group 2014 \$	Group 2015 \$	Group 2014 \$	Group 2015 \$	Group 2014 \$
Interest income	354,146	100,528	1,158,052	26,747	1,512,198	127,275
Dividends	596,073	431,556	4,437	-	600,510	431,556
Realised currency gains	-	935,154	-	-	-	935,154
Finance income	950,219	1,467,238	1,162,489	26,747	2,112,708	1,493,985
Interest expense	(4,798,353)	(3,508,554)	(2,299,080)	(1,906,837)	(7,097,433)	(5,415,391)
Bank and line fees	(1,037,777)	(1,018,448)	(45,749)	(61,000)	(1,083,526)	(1,079,448)
Foreign currency losses	(138)	-	-	-	(138)	-
Mark to market on interest rate swap	(55,000)	-	-	-	(55,000)	-
Finance expense	(5,891,268)	(4,527,002)	(2,344,829)	(1,967,837)	(8,236,097)	(6,494,839)

Notes to the financial statements (continued)

7 Income tax

	Group 2015 \$	Group 2014 \$
Tax recognised in profit or loss		
Deferred tax benefit		
Origination and reversal of temporary differences	(963,000)	1,811,729
Recognition of tax losses	-	(1,403,587)
Prior period adjustments	-	2,626
Other adjustments	(7,794)	158,120
Total tax expense/(benefit)	(970,794)	568,888
Tax expense		
Tax (benefit) / expense from continuing operations	(206,610)	771,203
Tax benefit from discontinued operation	(764,184)	(202,315)
	(970,794)	568,888
Reconciliation of effective tax rate		
Profit / (loss) before tax including discontinued operations	(10,371,622)	33,360,499
Income tax using the company tax rate of 28%	(2,904,054)	9,340,940
Tax effect of permanent differences	2,002,401	-
Tax effect of non assessable income	-	(10,829,598)
Tax effect of non-deductible expenses	-	1,896,800
Current year under/over provision	-	2,626
Other adjustments	(69,141)	158,120
Income tax (benefit)/ expense	(970,794)	568,888
Recognised deferred tax assets		
The Group has deferred tax assets attributable to the following		
- Tax losses	2,458,027	2,190,215
- Accruals	291,710	3,105,663
- Accrued Fonterra milk revenue	(1,280,259)	(1,566,664)
- Buildings, plant & equipment	-	(6,017,483)
- Derivative assets (NCA)	-	(48,591)
- Biological assets	-	(209,407)
- Other intangibles	-	1,943
Total deferred tax asset / (liability)	1,469,478	(2,544,324)

Tax receivable/ (payable)

The current tax receivable of \$570,590 (30 June 2014: \$812,914) represents the amount of income taxes recoverable in respect of the current period.

Imputation credits	Continued operations		Discontinued operations (see note 8)		Total	
	Group 2015	Group 2014	Group 2015	Group 2014	Group 2015	Group 2014
Imputation credits at end of period	570,551	812,915	-	8,033	570,551	820,948

8 Discontinued operations

In September 2014 the Group transferred its investment in the following subsidiaries and non-controlling interests; Milk New Zealand Dairy Limited, Theland Farm Group Limited, Theland Farms Limited, Theland Limited, New Zealand Standard Farm Limited, SFL Holdings Limited, Purata Farming Limited (previously Synlait Farms Limited) and Synlait Farms Finance Limited. These subsidiaries and their related operations were not a discontinued operation or classified as held for sale as at 30 June 2014 and the comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations. During 2015 Management committed to a wider international group strategic restructure plan which included the transfer of these subsidiaries and non-controlling interests to a related party under common ultimate control.

Cash flows from (used in) discontinued operation

	2015 \$	2014 \$
Net cash (used in) / from operating activities	4,478,285	(40,307,502)
Net cash used in investing activities	(2,152,267)	(17,056,615)
Net cash (used in) / from financing activities	(741,582)	55,628,145
Net cash flows for the year	1,584,436	(1,735,972)

Notes to the financial statements (continued)

Discontinued operations (continued)

		\$
Consideration for transferred entities		81,835,775
Assets and liabilities acquired:		
	Quantity	\$
Property plant and equipment		220,651,712
Biological assets		23,295,440
Intangible assets		1,313,517
Interest bearing loans and borrowings		(101,499,500)
Non-controlling interest		(39,319,906)
Other net liabilities		(22,605,488)
Share capital transferred	81,835,775	<u>81,835,775</u>

9 Cash and cash equivalents

	Group 2015	Group 2014
	\$	\$
Balances held with bank	2,673,326	2,394,860
Bank overdraft	(5,914,904)	(5,995,483)
<i>Cash and cash equivalents are classified as:</i>		
Current assets	2,673,326	2,394,860
Current liabilities	(5,914,904)	(5,995,483)
	<u>(3,241,578)</u>	<u>(3,600,623)</u>

10 Trade and other receivables

	Group 2015	Group 2014
	\$	\$
Trade receivable	24,582	810,287
Capitalised loan establishment costs	292,867	292,869
Accrued revenue	4,582,283	14,953,598
Prepayments	120,379	361,935
Other receivables	63,997	829,476
GST receivable	166,994	570,186
Amount held on trust by third party	9,025,790	8,800,000
	<u>14,276,892</u>	<u>26,618,351</u>

The main source of trading revenue is from Fonterra milk pay-outs and management have assessed that the likelihood of there being a doubtful debt to be minimal and as such there is no allowance for doubtful debts.

11 Biological assets

	Group - 2015		Group - 2014	
Livestock	Number of Livestock	Total Value \$	Number of Livestock	Total Value \$
Opening balance	12,579	22,293,300	-	-
Balance acquired on acquisition	-	-	13,361	20,962,082
Increase due to purchases	-	-	1,208	2,200,693
Net changes due to changes in fair value, births and deaths	2,373	1,046,263	(114)	238,668
Balance transferred on restructure	(14,438)	(23,288,150)	-	-
Decrease due to sales	(514)	(51,413)	(1,876)	(1,108,143)
Total	-	-	12,579	22,293,300
Feed (Kale)	Quantity (T)	Total Value \$	Quantity (T)	Total Value \$
Opening balance	823	222,137	-	-
Balance acquired on acquisition	-	-	678	182,860
Increase due to purchases	3,814	1,088,620	5,566	1,512,105
Net changes due to changes in fair value, growth, consumption	(4,610)	(1,303,467)	(5,421)	(1,472,828)
Balance transferred on restructure	(27)	(7,290)	-	-
Total	-	-	823	222,137
Total biological assets		<u>-</u>		<u>22,515,437</u>
Current:		-		5,126,663
Non current:		-		17,388,774
Total biological assets		<u>-</u>		<u>22,515,437</u>

Livestock and feed (kale) on hand

As part of the restructure of the overall group during the current year, the group disposed of its subsidiaries which held the livestock and kale.

Notes to the financial statements (continued)

12 Inventory

	Group 2015 \$	Group 2014 \$
Feed on hand (excluding kale)	-	1,576,921
Produce on farm	426,978	-
Stores on hand	30,848	-
	457,826	1,576,921

13 Intangible assets

	Group 2015 Surplus surface water permit	Total \$	Group 2014 Surplus surface water permit	Total \$
Opening balance	1,313,000	1,313,000	-	-
Balance acquired on acquisition	-	-	1,313,000	1,313,000
Transfer on restructure	(1,313,000)	(1,313,000)	-	-
Total	-	-	1,313,000	1,313,000

Surplus Surface water permit

In the prior year the Group engaged Hydro Trader Limited to determine the fair value of the surplus surface water permit. During the year the subsidiary that held the surface water permit was restructured into another group of companies.

14 Property, plant and equipment

	Group 2015						Total
	Buildings and Plant	Land improvement	Land	Office Equipment	Motor Vehicles	Assets under construction	
	\$	\$	\$	\$	\$	\$	\$
Cost and valuation							
Balance at 30 June 2014	51,499,310	16,701,136	343,661,000	213,750	577,000	6,706	412,658,902
Additions	4,312,135	2,455,727	373,998	3,524	120,313	28,823	7,294,520
Accumulated depreciation reversal on revaluation	(996,188)	-	-	-	-	-	(996,188)
Current year revaluation gain through revaluation reserve	(319,537)	330,857	2,860,392	-	-	-	2,871,712
Current year revaluation loss through profit and loss	(2,036,167)	(1,146,221)	-	-	-	-	(3,182,388)
Disposal/Transfers	(29,091,354)	(7,668,000)	(183,908,000)	(217,274)	(577,000)	(35,529)	(221,497,157)
Balance at 30 June 2015	23,368,199	10,673,499	162,987,390	-	120,313	-	197,149,401
Depreciation							
Balance at 30 June 2014	(348,868)	(100,113)	-	(3,577)	(12,553)	-	(465,111)
Depreciation for the year (continued operations)	(954,558)	-	-	-	(18,090)	-	(972,648)
Depreciation for the year (discontinued operations)	(348,082)	(81,679)	-	(6,477)	(28,477)	-	(464,715)
Disposal/Transfers	610,496	181,792	-	10,054	41,030	-	843,372
Reversal of accumulated depreciation on revaluation	996,188	-	-	-	-	-	996,188
Balance at 30 June 2015	(44,824)	-	-	-	(18,090)	-	(62,914)
Carrying amounts							
At 30 June 2015	23,323,375	10,673,499	162,987,390	-	102,223	-	197,086,487

The loan facilities in note 17 are secured against all the present and future assets of the Company including all property, plant and equipment. A valuation was undertaken at 30 June 2015 by Fergusson Lockwood & Associates of the Pengxin Farm Group Limited Land and buildings (excluding the Milk New Zealand office) of \$196,751,890. The remaining assets of motor vehicles \$102,223 and buildings and plant \$232,374 are held at cost less accumulated depreciation. The fair value of the freehold land and buildings was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

Notes to the financial statements (continued)

14 Property, plant and equipment (continued)

	Group 2014						Total
	Buildings and Plant	Land improvement	Land	Office Equipment	Motor Vehicles	Assets under construction	
Cost and valuation	\$	\$	\$	\$	\$	\$	\$
Balance at 30 June 2013	17,371,876	7,661,252	121,088,097	-	-	-	146,121,225
Balance acquired on acquisition	28,569,000	7,612,000	183,908,000	203,000	597,000	26,000	220,915,000
Additions	4,708,078	4,261,279	-	17,750	6,000	6,706	8,999,813
Accumulated depreciation reversal on revaluation	(1,101,696)	-	-	-	-	-	(1,101,696)
Current year revaluation gain through revaluation reserve	2,225,052	-	38,664,903	-	-	-	40,889,955
Current year revaluation loss through profit & loss	-	(2,833,395)	-	-	-	-	(2,833,395)
Disposal/Transfers	(273,000)	-	-	(7,000)	(26,000)	(26,000)	(332,000)
Balance at 30 June 2014	51,499,310	16,701,136	343,661,000	213,750	577,000	6,706	412,658,902
Depreciation							
Balance at 30 June 2013	(348,844)	-	-	-	-	-	(348,844)
Depreciation for the year (continued operations)	(839,306)	-	-	-	-	-	(839,306)
Depreciation for the year (discontinued operations)	(540,414)	(100,113)	-	(4,577)	(33,553)	-	(678,657)
Disposals	278,000	-	-	1,000	21,000	-	300,000
Reversal of accumulated depreciation on revaluation	1,101,696	-	-	-	-	-	1,101,696
Balance at 30 June 2014	(348,868)	(100,113)	-	(3,577)	(12,553)	-	(465,111)
Carrying amounts							
At 30 June 2014	51,150,442	16,601,023	343,661,000	210,173	564,447	6,706	412,193,791

15 Investments

	Group 2015	Group 2014
	\$	\$
Shares - Fonterra	19,074,322	23,008,400
Shares - Ballance Agri-Nutrients Limited	-	827,569
Shares - Central Plains Water Limited (CPWL)	-	1,909,500
Other investments	-	112,940
	19,074,322	25,858,409

Shares - Fonterra

Fonterra is a Co-operative for which shareholders are issued shares based upon milk solids supplied. Shares are held at fair value through profit or loss on the market price at year end. In the 2015 financial year an unrealised loss of \$3,934,079 (2014: \$5,960,726) was recorded.

Shares - Ballance Agri-Nutrients Limited

Ballance Agri-Nutrients Limited is a Co-operative for which shareholders are issued shares based upon the tonnage of fertiliser used during the year. Shares were held at fair value, based on market price at year end. During the year the shares in Ballance Agri-Nutrients Limited were transferred on restructure.

Shares - Central Plains Water Limited

Purata Finance Farming Limited (previously known as Synlait Farms Limited) holds 41,380 ordinary shares in Central Plains Water Limited. Ordinary shares were held at fair value based on the market price at year end. During the year the shares in Central Plains Water Limited were transferred on restructure.

16 Trade and other payables

	Group 2015	Group 2014
	\$	\$
Trade payables	120,520	2,861,455
Accrued expenses - payment to Landcorp	958,887	2,814,265
Accrued expenses - employee related	60,933	737,084
Accrued interest	363,078	312,782
Other accrued expenses	213,217	1,046,432
	1,716,635	7,772,018

Notes to the financial statements (continued)

17 Interest bearing loans and borrowings

	Group 2015 \$	Group 2014 \$
Current		
Secured ANZ bank facility 86 - Pengxin New Zealand Farm Group Limitec	12,500,000	-
Secured ANZ bank facility 88 - Pengxin New Zealand Farm Group Limitec	50,776,624	-
Secured ANZ bank facility 89 - Pengxin New Zealand Farm Group Limitec	18,300,000	-
Secured ANZ bank facility 90 - Pengxin New Zealand Farm Group Limitec	3,900,000	-
Secured ANZ bank facility 92 - Pengxin New Zealand Farm Group Limitec	9,290,430	-
Secured bank loan ANZ/BNZ - Tranche A	-	-
Non - current		
Secured ANZ bank facility 86 - Pengxin New Zealand Farm Group Limitec	-	12,500,000
Secured ANZ bank facility 88 - Pengxin New Zealand Farm Group Limitec	-	50,776,624
Secured ANZ bank facility 89 - Pengxin New Zealand Farm Group Limitec	-	18,300,000
Secured ANZ bank facility 90 - Pengxin New Zealand Farm Group Limitec	-	-
Secured ANZ bank facility 92 - Pengxin New Zealand Farm Group Limitec	-	8,800,000
Secured bank loan ANZ/BNZ - Tranche A	-	101,499,500
	94,767,054	191,876,124

The Group, through Pengxin New Zealand Farm Group Limited has loan facilities with ANZ Bank with a maximum drawdown limit of \$99,300,000 (30 June 2014: \$99,300,000). As at 30 June 2015 the Group has drawn down on \$94,767,054 (30 June 2014: \$90,376,624) of the total allowable facility limit. The facilities are held for a period of 3 months and interest is charged at 4.41% - 5.51% and may be amended by the ANZ Bank on maturity.

The loan facility agreement provides that the Group shall ensure the following financial ratios are met as at 30 June 2015:

- interest coverage ratio of no less than 1.50, being EBITDA (earnings before interest, tax, depreciation, amortisation, profits or losses from the sale or revaluation of capital assets, extraordinary or abnormal costs and losses and extraordinary or abnormal gains, and unrealised losses or gains under derivative transactions) divided by interest expense.
- total debt ratio not exceeding 0.55, being total debt divided by total tangible assets. The debt used in calculation of the covenant ratio includes only external bank interest bearing loans and borrowings.
- equity ratio not exceeding 1.00, being total debt divided by total equity.

The loan facility is secured against all the present and future assets of the Group, including all property, plant and equipment as disclosed in note 14.

ANZ Bank has also provided a guarantee on behalf of the Group to Kiwi Property Holdings Limited for an amount of \$150,301.

Breach of bank covenant

The Group exceeded the interest coverage ratio stated above as at 30 June 2015 and therefore all debt subject to this covenant measure is classified as current at year end. The Group obtained a waiver for any breach of the interest coverage ratio post year end up to and including 30 November 2015. Management has been in a process of negotiations with the bank and anticipates to put a debt service facility in place for any breach which may occur once the waiver ceases. The group has also obtained a letter of support from the intermediary parent Shanghai Pengxin Group Co. Limited (Shanghai Pengxin) that Shanghai Pengxin will continue to provide financial support to the group for the foreseeable future to enable the companies within the group to pay their debts as they fall due.

18 Derivative financial instruments

	Group 2015 \$	Group 2014 \$
Derivative financial liability - mark to market interest rate swap	(55,002)	-
Derivative financial asset - cash flow hedging (current)	-	545,472
Derivative financial asset - cash flow hedging (non-current)	-	134,367
	(55,002)	679,839

Interest rate swap (mark to market)

The fair value of the Group's interest rate swap derivatives is based on quoted market prices for equivalent instruments at balance date. This contract is not designated as a hedging instrument. Changes in the fair value of non-hedging currency derivatives have been charged to the Statement of Comprehensive Income during the year.

Interest rate hedges

In the prior financial year ended 30 June 2014, the Group had a policy of ensuring between 10 and 85 percent of its exposure to changes in interest rates on borrowings was on a fixed rate basis, depending on the term of exposure. As at 30 June 2014, the Group had effective interest rate swaps with a notational contract amount of \$106,300,000 (effective date of 30 October 2014 and maturity date of 31 October 2015). The subsidiary within the Group that held the interest rate hedges was transferred out of the Group upon restructure during the current financial year.

Notes to the financial statements (continued)

19 Financial instruments

Assets	Group 2015					Total carrying amount
	Loans and receivables	Fair value asset through profit and loss	Available for-sale	Fair value liability through profit and loss	Other financial liabilities	
	\$				\$	\$
Cash and cash equivalents	2,673,326	-	-	-	-	2,673,326
Trade and other receivables	13,989,519	-	-	-	-	13,989,519
Due from related parties	748,603	-	-	-	-	748,603
Non-financial assets						1,315,789
Total current assets	17,411,448	-	-	-	-	18,727,237
Investments	-	19,074,322	-	-	-	19,074,322
Non-financial assets						198,555,965
Total non-current assets	-	19,074,322	-	-	-	217,630,287
Total assets	17,411,448	19,074,322	-	-	-	236,357,524
Liabilities						
Bank overdraft	-	-	-	-	5,914,904	5,914,904
Trade and other payables	-	-	-	-	1,716,635	1,716,635
Interest bearing loans and borrowings	-	-	-	-	94,767,054	94,767,054
Due to related parties	-	-	-	-	6,810,967	6,810,967
Derivatives	-	-	-	55,002	-	55,002
Total current liabilities	-	-	-	55,002	109,209,560	109,264,562
Total liabilities	-	-	-	55,002	109,209,560	109,264,562

Assets	Group 2014					Total carrying amount
	Loans and receivables	Fair value asset through profit and loss	Available for-sale	Fair value liability through profit and loss	Other financial liabilities	
	\$				\$	\$
Cash and cash equivalents	2,394,860	-	-	-	-	2,394,860
Trade and other receivables	25,686,230	-	-	-	-	25,686,230
Due from related parties	1,424,295	-	-	-	-	1,424,295
Derivatives	-	545,472	-	-	-	545,472
Non-financial assets						8,448,619
Total current assets	29,505,385	545,472	-	-	-	38,499,476
Investments	-	23,008,400	2,850,009	-	-	25,858,409
Derivatives	-	134,367	-	-	-	134,367
Non-financial assets						430,895,565
Total non-current assets	-	23,142,767	2,850,009	-	-	456,888,341
Total assets	29,505,385	23,688,239	2,850,009	-	-	495,387,817
Liabilities						
Bank overdraft	-	-	-	-	5,995,483	5,995,483
Trade and other payables	-	-	-	-	7,772,018	7,772,018
Interest bearing loans and borrowings	-	-	-	-	-	-
Due to related parties	-	-	-	-	5,678,347	5,678,347
Total current liabilities	-	-	-	-	19,445,848	19,445,848
Interest bearing loans and borrowings	-	-	-	-	191,876,124	191,876,124
Non-financial liabilities	-	-	-	-	-	2,544,324
Total non-current liabilities	-	-	-	-	191,876,124	194,420,448
Total liabilities	-	-	-	-	211,321,972	213,866,296

Notes to the financial statements (continued)

20 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group 2015 \$	Group 2014 \$
Less than one year	252,148	218,828
Between one and five years	997,792	815,011
More than five years	495,566	563,781
	<u>1,745,506</u>	<u>1,597,620</u>

The Group's lease commitments include:

- lease for office premises, expiring in June 2022. The lease base rent is subject to review every two years based on market rates.
- lease of land, expiring in December 2021.
- lease of a photocopier, expiring in September 2017.
- lease of car parks, expiring in June 2022. The lease base rent is subject to review every two years based on market rates.

Some non-cancellable operating leases included in the Group 2014 comparatives were transferred to a related Group upon restructure.

21 Related parties

a) Subsidiaries and jointly controlled entities

The identity and relationship of related parties are below:

Nantong Yingxin Investment Co. Limited (China)	Ultimate parent
Shanghai Pengxin Group Co. Limited	Intermediary parent
An Yuan Dairy Limited (HK)	Parent
Pure 100 Farm Limited (NZ)	Fully owned subsidiary
Milk New Zealand Management Limited	Fully owned subsidiary
Pengxin New Zealand Farm Group Limited	Fully owned subsidiary
Pengxin New Zealand Farm Management Limited	50% owned

Transferred out of Group on restructure of wider Group 14 September 2014:

	<i>Previous relationship:</i>
Milk New Zealand Dairy Limited	Fully owned subsidiary
Theland Farms Limited	Fully owned subsidiary
Theland Limited	Fully owned subsidiary
Theland Farm Group Limited	Fully owned subsidiary
New Zealand Standard Farm Limited	Fully owned subsidiary
SFL Holdings Limited	Entity with controlling interest
Synlait Farms Limited	Entity with controlling interest
Synlait Farms Finance Limited	Entity with controlling interest

Notes to the financial statements (continued)

21 Related parties (continued)

	Group 2015 \$	Group 2014 \$
Due from related parties:		
Pengxin New Zealand Farm Management Limited	23,617	727,470
Shanghai Pengxin Group Co. Limited	345,470	17,570
New Zealand Standard Farm Limited	219,783	-
Entities under common control:		
Milk New Zealand Dairy Limited	19,432	-
Dakang New Zealand Farm Group Limited	140,201	-
Milk New Zealand Investment Limited	100	100
Other related party:		
Synlait Milk Limited	-	679,155
Total due from related parties	748,603	1,424,295
Due to related parties:		
	Group 2015 \$	Group 2014 \$
Pengxin New Zealand Farm Management Limited	1,207,699	1,074,160
Shanghai Pengxin Group Co. Limited	48,696	48,696
Entities under common control:		
Milk New Zealand Holding Limited (HK)	4,553,485	4,553,485
Milk New Zealand Dairy Limited	1,087	-
Dakang New Zealand Farm Group Limited	1,000,000	-
Other related party:		
Synlait Milk Limited	-	2,006
Total	6,810,967	5,678,347

Balances due to and from related parties are interest free, unsecured, and payable on demand. There has not been any other transactions with related parties during the period except for those with the joint venture (Pengxin New Zealand Farm Management Limited) and related party balances as mentioned below and on page 26.

Other related parties under common control

Synlait Milk Limited is considered a related party to the Group through the association of J Penno, as a director of Purata Farming Limited (controlling interest subsidiary up to 14 September 2014) and as Executive Director and minority shareholder holding 5,423,817 shares in Synlait Milk Limited.

During the 2015 financial year Purata Farming Limited paid Synlait Milk Limited for Management services and sundry purchases. Purata Farming Limited also sold liquid milk to Synlait Milk Limited (2014: \$601,376). On 14 September 2014, Purata Farming Limited was transferred out of the Group on restructure.

Other related party transactions

During the period J Penno, Director was invoiced for transport of carry-over cows totalling \$676, purchased from Purata last season.

Purchase of goods and services	Description	2015 \$	2014 \$
Synlait Milk Limited	Management services	1,937	11,937
Synlait Milk Limited	Other	417	4,069
Sale of goods and services			
Synlait Milk Limited	Sale liquid milk	9,555,546	9,127,376
Synlait Milk Limited	Other	-	214,780
J Penno	Carry over cows	-	45,712
J Penno	Transport	676	-

Notes to the financial statements (continued)

21 Related parties (continued)

Transactions with Joint Venture

Pengxin New Zealand Farm Group Limited accounts for its share of the revenue and expenses incurred by Pengxin New Zealand Farm Management Limited as agreed with Landcorp Farming Limited, in light of the Joint Venture Shareholders' Agreement, Farm Operation Agreement and Property Management Agreement. These revenue and expenses are reflected in the consolidated financial statements of the Group.

22 Investment in subsidiaries

<u>Subsidiaries</u>	Country of incorporation	Ownership interest	
		2015	2014
Milk New Zealand Management Limited	New Zealand	100%	100%
Pengxin New Zealand Farm Group Limited	New Zealand	100%	100%
Pure 100 Farm Limited (NZ)	New Zealand	100%	100%
Milk New Zealand Dairy Limited	New Zealand	0%	100%
Theland Farms Limited	New Zealand	0%	100%
Theland Limited	New Zealand	0%	100%
Theland Farm Group Limited	New Zealand	0%	100%
New Zealand Standard Farm Limited	New Zealand	0%	100%
SFL Holdings Limited	New Zealand	0%	74%
Purata Farming Limited (formerly Synlait Farms Limited)	New Zealand	0%	74%
Synlait Farms Finance Limited	New Zealand	0%	74%

Joint venture entity

Pengxin New Zealand Farm Management Limited	New Zealand	50%	50%
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23 Capital and reserves

<i>Number of ordinary shares</i>	Quantity	Company 2015 \$	Company 2014 \$
Balance at 1 July		167,911,162	100
Issue of ordinary shares		-	167,911,062
Shares repurchased on restructure		(81,835,775)	-
Balance at 30 June	86,075,387	86,075,387	167,911,162

At 30 June 2015, share capital comprised 86,075,387 ordinary shares. In 2014 the Company converted \$167,911,162 of intercompany debt to share capital by way of further share issue to increase share capital to \$167,911,162. During the 2015 year 81,835,775 shares were repurchased on restructure. All issued shares are fully paid and have no par value. The holders of ordinary shares are entitled to dividends as declared from time to time and all shares have equal voting rights at meetings of the Company, and rank equally with regard to the Company's residual assets on winding up.

	Group 2015 \$	Group 2014 \$
Property, plant and equipment revaluation reserve	43,761,667	40,889,955
Share revaluation reserve	-	16,999
Hedging reserve	-	(57,842)
	43,761,667	40,849,112

Property, plant and equipment revaluation reserve

The property, plant and equipment revaluation reserve relates to the revaluation of land and buildings, and includes the portion of deferred tax on buildings recognised directly in equity.

Share revaluation reserve

The share revaluation reserve related to the revaluation of Balance Agri-Nutrient shares and Central Plains Water Limited (transferred out of the Group in the current financial year on restructure).

Hedging reserves

The hedging reserve comprised the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred (cash flow hedges were transferred out of the Group in the current financial year on restructure).

Notes to the financial statements (continued)

24 Capital commitments

Landcorp Farming Limited is joint venture partner which owns 50% of Pengxin New Zealand Farm Management Limited. During the year Landcorp Farming Limited, Pengxin New Zealand Farm Management Limited and Pengxin New Zealand Farm Group Limited agreed to exit the Farm Operating Agreement and Property Management Agreement concerning the Taharua Farm, subject to Overseas Investment Office (OIO) approving the modification of the original consent which required the farms owned by Pengxin New Zealand Farm Group Limited to be managed through the joint venture vehicle. At 30 June 2015 Pengxin New Zealand Farm Group Limited agreed to purchase plant, machinery, livestock, take on agreed staff, and reimburse the counter parties for operating costs on Taharua Farm from 1 June 2015, subject to OIO approving the modification. OIO approval was given post balance date.

As part of the Group's development of its land and farming assets it has contractually committed itself to \$1,403,000 (2014:\$1,426,000) of capital expenditure to be incurred in the next financial year.

25 Contingencies

There are no contingent liabilities at balance date (2014: nil).

26 Subsequent events

Subsequent to balance date, the consent pending the approval from the OIO relating to taking control of the land for the Taharua transaction was approved.

Subsequent to balance date, the secured ANZ bank facility number 92 (note 17) was repaid, following cancellation of the agreement to purchase Lochinver Station and refund of the associated deposit.