# AUSTRALIAN DAIRY FARMERS CO-OPERATIVE ANNUAL REPORT 2013

PERIOD ENDED 30 JUNE 2013
ABN 80 456 117 281

# Contents



## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Australian Dairy Farmers Co-operative Limited (ADFC) is a co-operative incorporated and domiciled in Australia.

**CHAIRMAN**

**Scott Sieben**

**DIRECTORS**

**John Bastian (Independent)**
**James Geraghty**
**Peter Ness – Resigned 26/6/13**
**Rick Gladigau – Appointed 26/6/13**
**Duncan McInnes (Deputy Chairman)**
**Michael Roache**
**Ian Zandstra**

**BANKERS**

**Australia and New Zealand Banking Group**

**AUDITORS**

**Grant Thornton Audit Pty Ltd**

**SOLICITORS**

**Addisons Lawyers**

**EXECUTIVE OFFICER & SECRETARY**

**Greg Griffith**

# Directors' Report

In accordance with a resolution of Directors, the Directors of Australian Dairy Farmers Co-operative Limited ('ADFC' or the 'Co-operative') present their report on the Co-operative for the period from incorporation on 23 August 2012 until 30 June 2013.

### DIRECTORS

The following persons were directors during the financial year and up to the date of this report:

- Scott D Sieben - Chairman (Appointed 23rd August 2013)
- J J Bastian (Appointed 23rd August 2013)
- J B Geraghty (Appointed 23rd August 2013)
- R T Gladigau (Appointed 26th June 2013)
- D A McInnes - Deputy Chairman (Appointed 23rd August 2013)
- P C Ness (Resigned 26th June 2013)
- M P Roache (Appointed 23rd August 2013)
- I H Zandstra (Appointed 23rd h August 2013)

### PRINCIPAL ACTIVITIES

ADFC is a Co-operative incorporated under the *Co-operatives Act 1992 (as amended)* and is domiciled in Australia.

The principal activities of the Co-operative during the course of the financial year were to dispose of milk acquired from suppliers for processing. There were no significant changes in the nature of ADFC's activities during the year.

### RESULTS OF OPERATIONS

Loss from continuing operations after income tax amounted to $110,701. The Co-operative did not generate any revenues from operations for the financial period disclosed.

### SUBSEQUENT EVENTS

ADFC has secured a Milk Supply Agreement with a processor and as such will be in the market to secure milk to meet its contractual obligations. No other matters or circumstances have arisen since the end of the financial year which significantly altered or may significantly affect the operations of the Co-operative, the result of those operations, or the state of affairs of the Co-operative in future financial years.

### FUTURE DEVELOPMENTS

The Co-operative expects to continue operating as an ongoing entity and hence there are no likely developments in the Co-operatives operations.

### DIVIDENDS

There were no dividends paid or declared for the period ended 30 June 2013.

## DIRECTOR INFORMATION

**Scott Sieben - Chairman**

Scott Sieben was elected to the ADFC board on its inception in 2012,

Mr Sieben is a member of the AICD (Australian Institute of Company Directors) and a director of Dairy Farmers Milk Cooperative. Mr Sieben and wife Jade and two children Lincoln and Georgia farm in Northern Victoria on the Murray River milking 250 cows off 250 hectares.

**John Bastian**

John Bastian joined the Co-operative's board on its inception in 2012 and brings to the Co-operative extensive experience in commercial and management consulting including being the Business Review Weekly's Business Leader of the Year in 1990.

From 1983 to 1998 Mr Bastian held senior positions with Sola Optical, a company started in Adelaide and which became a major world player in the spectacle lens market.

He was responsible for a major manufacturing plant in Adelaide and extensive international markets. The Company was acquired by private equity and management in 1993 and listed on the New York stock exchange in 1995.

Since 1998 Mr Bastian has been a professional company director in a variety of agribusinesses including grains, wine, grapes, meat and agricultural engineering and is an independent director with Dairy Farmers Milk Co-operative. He has a degree in Business Administration from the University of South Australia.

**Duncan McInnes**

Duncan McInnes was appointed to the Co-operative's board on its inception on 2012. Mr McInnes has been a director of a number of dairy Co-operative boards since 1982 and is a director with Australian Dairy Farmers Co-operative, as well as involvement with other local community based organisations. He has previously served as District Secretary and Councillor with the Queensland DairyFarmers' Organisation for ten years.

With more than 40 years' experience as a dairy farmer, having originally purchased his dairy farm at age 19, Mr McInnes, in partnership with his two brothers, has increased milk production from 100,000 litres in 1980 to more than 4 million litres in 2012 from two farms.

Duncan is currently also a Councillor of the Royal National Association (Brisbane EKKA); he is a director of Dairy Farmers Milk Co-operative and in April 2012 was elected as a councillor on the Scenic Rim Regional Council.

**James Geraghty**

James Geraghty was appointed to the Co-operative's board on its inception on 2012. Mr Geraghty is a third generation dairy farmer from Millaa Millaa on the Atherton Tablelands in Far North Queensland. Mr Geraghty has been a District Councillor with Queensland Dairy farmers Organisation since 1996; a State Councillor since 2000 and he is a director of Dairy Farmers Milk Co-operative

His dairy farm milks about 250 cows year round in a climate that delivers an average rainfall of 3.5 metres a year. He and his family have been on their current farm since 1981.

**Rick Gladigau**

Richard Gladigau joined the Co-operative board on the 26th June 2013. Richard and wife Tania have a dairy farm near Mt Torrens.

Mr Gladigau is currently on the board of SADA; he is a director of Dairy Farmers Milk Co-operative and involved in local Land management organisations.

**Peter Ness**

Peter Ness was appointed to the Co-operative's board on its inception on 2012 and retired on the 26th June 2013. Mr Ness farms at Mt. Compass, South Australia, in partnership with his wife Wendy, and has been involved in the dairy industry for over 40 years.

Mr Ness is currently President of Jersey Australia and a Vice President of the World Jersey Cattle Bureau. He is also passionate member and supporter of the Adelaide Crows.

**Michael Roache**

Michael Roache was appointed to the Co-operative's board on its inception on 2012. Mr Roache is a third generation dairy farmer at Nalangil, Victoria, where he and his family currently run the oldest original dairy farm in the district. The business was purchased from his father in 1979, then milking 130 cows and producing 400,000 litres per year. It has now grown to 550 cows and produces above 4 million litres per year.

Mr Roache has over 40 years of hands on experience in dairy farming and the broader industry. He is married to his wife, Loretta, and they have 3 children with strong interests in dairy farming, who currently work in the food and beverage, finance and international business sectors.

Mr Roache is currently a director with Dairy Farmers Milk Co-operative.

**Ian Zandstra**

Ian Zandstra was appointed to the Co-operative's board on its inception on 2012. Mr Zandstra is a director and Chairman of Dairy Farmers Milk Co-operative and was also a director on the Australian Co-operative Foods (ACF) board from 1998 to 2004. Mr Zandstra holds a Bachelor of Arts and with his wife Cheryl, have two share farming dairy operations.

## COMPANY SECRETARY

Mr Gregory Griffith is the Co-operative's Company Secretary and was appointed to this position on 6 August 2012. Mr Griffith is the Executive Officer & Company Secretary of Dairy Farmers Milk Co-operative and previously held the position of Chief Executive Officer of Destination Melbourne and the Executive Manager of Marketing at the Victorian Farmers Federation.

## INDEMNIFICATION AND INSURANCE

During the financial year, the Co-operative paid a premium to insure past and present directors and officers. The insurance contract prohibits further disclosure.

In addition, pursuant to its Rules, the Co-operative has indemnified past and present directors and officers of the Co-operative. The indemnity covers legal and other costs incurred in defending certain civil or criminal proceedings that may be brought against the directors or officers while acting in that capacity.

## PROCEEDINGS ON BEHALF OF THE ENTITY

No person has applied for leave of court to bring proceedings on behalf of the Co-operative or intervene in any proceedings to which the Co-operative is a party for the purpose of taking responsibility on behalf of the Co-operative for all or any part of those proceedings.

The Co-operative was not a party to any such proceedings during the year.

## MEETINGS OF DIRECTORS

The number of board and committee meetings held and attended by each director during the year was:

| | Board Meetings | |
|---|---|---|
| | A | B |
| Scott D Sieben | 5 | 5 |
| John J Bastian | 5 | 5 |
| James B Geraghty | 5 | 5 |
| Duncan A McInnes | 4 | 5 |
| Peter C Ness | 3 | 5 |
| Michael P Roache | 4 | 5 |
| Ian H Zandstra | 4 | 5 |

Column A – The number of meetings attended.

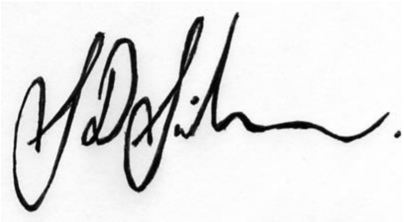
Column B – Indicates the number of meetings the directors were eligible to attend.

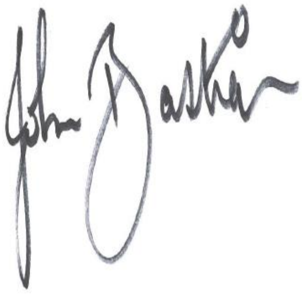
In addition to formal board and committee meetings, the directors attended numerous other sub-committee and informal meetings relating to milk price negotiations, the development of ADFC's new supply model, monitoring ADFC's investments, industry meetings, corporate governance and communications meetings including ward meetings. The chairman of the board attends committee meetings by invitation.

**AUDITORS' INDEPENDENCE DECLARATION**

The lead auditors' independence declaration for the period ended 30 June 2013 as required by section 307C of the *Corporations Act 2001* is set out on page number 6.

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





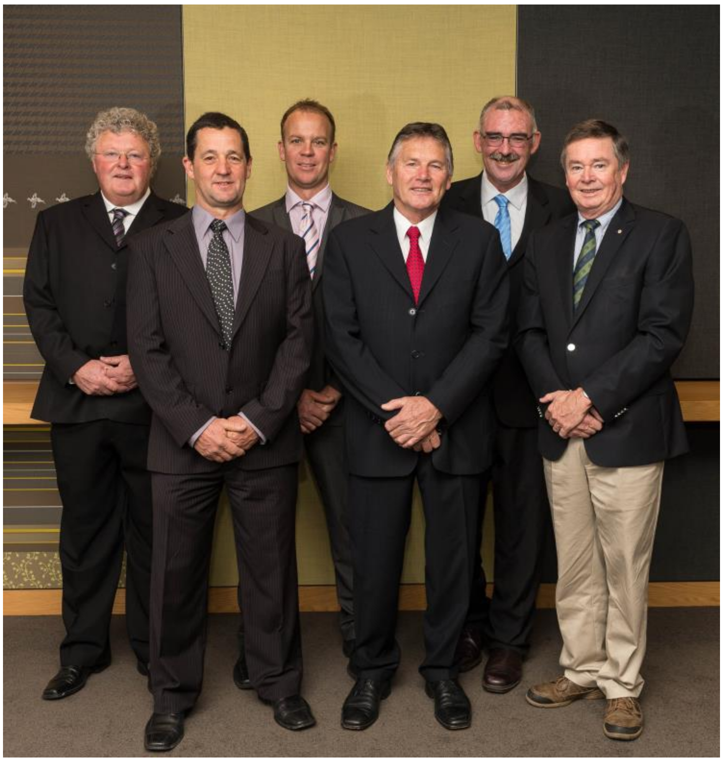
**Scott D Sieben**

Chairman

**J Bastian**

Director

Sydney, 31 October 2013



Directors, left to right: Michael Roache, Rick Gladigau, Scott Sieben, Ian Zandstra, James Geraghty and John Bastian.
Note that Director Duncan McInnes was not in attendance.

## AUDITORS' INDEPENDENCE DECLARATION

Still to Come

# Corporate Governance

## THE BOARD OF DIRECTORS

**Board composition**

The board comprises 7 directors being 6 farmer directors and one independent director.

The chairman is elected by the board in the first Board meeting following the AGM. Directors are generally subject to re-election every four years.

**Board responsibilities**

The board is responsible to members for the overall governance of the Co-operative and aims to carry out its responsibilities to create and build value for the benefit of all members.

The board recognises its responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of the Co-operative's members. Directors and members of board committees have access to the advice of external experts when required. Requests for advice are approved by the board and advice, when obtained, is made available to the whole board.

The board is responsible to members for the overall governance of the Co-operative and aims to carry out its responsibilities to create and build value for the benefit of all members.

The board typically meets on a monthly basis. In addition, the board has established the following committees to assist with the execution of its duties as well as allow for more detailed consideration of issues. Each committee has a charter which has been approved by the board. Details of board and committee meetings are provided in the Directors' report

## AUDIT, FINANCE AND GOVERNANCE COMMITTEE

The committee is comprised of two directors appointed by the board, and is chaired by a director who is not the chairman of the board.

The chairman attends all committees by invitation.

**Composition**

The committee currently comprises:

John Bastian (Chair)

James Geraghty

**Access and reporting**

The committee maintains direct, unfettered access to the external auditor.

Representatives of the external audit firm attend meetings of the committee as and when required. The committee has full access to the Co-operative's records. The key issues and reports discussed at each committee meeting are reported to the board by the chairman of the committee at DFMC Board meetings.

**Responsibilities**

The role of the committee is to assist the board of directors to fulfil its responsibility relating to the financial management and governance of the Co-operative. To fulfil this role, the committee endeavours to:

- Consider the financial implications of future major decisions including policies of the board.
- Research, prepare and present fiscally responsible recommendations to improve the attractiveness of members' investment in the Co-operative.
- Ensure the existence of procedures to manage and mitigate major risks and exposures.
- Improve the quality of financial reporting and increase credibility and objectivity by reviewing the financial statements on behalf of the board.
- Strengthen the position of the external auditor by providing a channel of communication and a forum in which to raise specific issues of concern.

**External Audit Appointment and Supervision**

(a) Appointment: The committee nominates the external auditor to the board for appointment by members.

(b) Independence: The Co-operative will not invite any ex-audit partners to be appointed as directors.

(c) Audit plans: The committee reviews and approves the overall scope and plans for audit activities, including staffing and fees.

(d) Audit reports: The committee reviews all reports provided by the external auditor

## MILK PRICE AND AFD NEGOTIATION COMMITTEE

The committee is comprised of four directors appointed by the board, and is chaired by the chairman of the board.

**Composition**

The committee currently comprises:

Scott Sieben (Chair)

Rick Gladigau

Ian Zandstra

Duncan McInnes

Mick Roache

**Access**

The committee maintains detailed records on competitive milk pricing, utilises pricing spreadsheets and engages in negotiations with processors to establish the milk price. Additionally the committee has access to independent industry analysis and retail sales data in establishing the commercial needs of the processor.

**Responsibilities**

The role of the committee is to negotiate on behalf of the Board and our members the milk price for the coming financial year. The committee reports back the board and makes recommendations for Board consideration and approval. To fulfil this role, the committee:

- Collates competitive milk prices paid in each region.
- Considers market supply and demand conditions including seasonal weather conditions.
- Tracks farm costs of production trends. Seeks independent counsel and monitors closely retail market share trends.
- Monitors historical production data taking into account the processors entire milk intake.

# Statement of Profit or Loss and Other Comprehensive Income

| For the period ended 30 June 2013 | Notes | 2013 |
|---|---|---|
| | | $ |
| Sales Revenue | | - |
| Cost of Sales | | - |
| **Gross profit** | | - |
| Other revenue | 2 | 553 |
| General expenses | 2 | (104,483) |
| Payroll Expenses | 2 | (5,321) |
| Motor Vehicle Expenses | 2 | (1,450) |
| **Total Expenses** | | (111,254) |
| **Loss before tax from continuing operations before income tax** | | (110,701) |
| Income tax expense | | - |
| **Loss after tax from continuing operations after income tax** | | (110,701) |
| Other comprehensive income | | - |
| **Total comprehensive income for the year attributable to members of the co-operative** | | (110,701) |

The above statement of profit or loss & other comprehensive income should be read in conjunction with the accompanying notes.

# Statement of Financial Position

| As at 30 June 2013 | Notes | 2013 $ |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 4 | **194,060** |
| Trade receivables | 5 | **231** |
| **Total current assets** | | **194,291** |
| | | |
| **Non-current assets** | | |
| Intangibles | 6 | **50,000** |
| **Total non-current assets** | | **50,000** |
| | | |
| **Total assets** | | **244,291** |
| | | |
| **Current liabilities** | | |
| Payables | 7 | **154,984** |
| **Total current liabilities** | | **154,984** |
| | | |
| **Non-current liabilities** | | |
| Payables | 7 | **200,000** |
| Members' capital | 16 | **8** |
| **Total non-current liabilities** | | **200,008** |
| | | |
| **Total liabilities** | | **354,992** |
| | | |
| **Net assets** | | **(110,701)** |
| | | |
| **Equity** | | |
| Retained Earnings | 8 | **(110,701)** |
| | | |
| **Total equity** | | **(110,701)** |

The above statement of financial position should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

## For the period ended 30 June 2013

| | Retained profits $ | Total $ |
|---|---|---|
| **Balance at 23 August 2012*** | - | - |
| Loss attributable to the co-operative | (110,701) | (110,701) |
| Total other comprehensive loss for the year | - | - |
| **Balance at 30 June 2013*** | (110,701) | (110,701) |

* Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Accordingly, net assets are presented after deducting members' share capital and total equity is presented excluding members' share capital.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# Statement of Cash Flows

## For the period ended 30 June 2013

| | Notes | 2013 $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Payments to suppliers and employees | | (7,501) |
| Interest received | | 553 |
| **Net operating cash flows** | 13 | (6,948) |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of intangibles | 6 | (50,000) |
| **Net investing cash flows** | | (50,000) |
| | | |
| **Cash flows from financing activities** | | |
| Share subscriptions received | 16 | 8 |
| Loans from related entities | 7 | 251,000 |
| | | 251,008 |
| **Net decrease in cash** | | |
| Cash at the beginning of the financial year | | - |
| **Cash at the end of the year** | 4 | 194,060 |

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial report includes separate financial statements for Australian Dairy Farmers Co-operative Limited ('ADFC' or the 'Co-operative'), a not-for-profit entity.

**(a) Basis of preparation**

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, the Co-operatives Act 1992 (as amended) and the applicable sections of the Corporations Act 2001.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the Co-operative's financial statements and notes comply with International Financial Reporting Standards (IFRS).

These financial statements have been prepared on an accrual basis and are based on historical cost modified where applicable by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**(b) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts.

**(c) Receivables**

**(i) Other receivables**

Other receivables are recognised initially at fair value, which is typically the invoice value, and are subsequently measured at amortised cost less provision for impairment. Other receivables are generally due for settlement within 30 days.

**(ii) Collectability**

The collectability of other receivables, subordinated loans and farmer loans are reviewed on an ongoing basis and a provision for impairment is established when there is objective evidence that the Co-operative will not be able to collect all amounts due according to the original terms of the receivables.

**(d) Intangible assets**

Acquired intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

Subsequent measurement

All intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. The following useful lives are applied:

Software: 4 years

No amortisation has occurred during the period as software was not ready for use at balance date.

Subsequent expenditures on the maintenance of computer software and brand names are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

**(e) Payables**

Trade creditors and accruals typically represent liabilities for goods and services provided to the Co-operative prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition

**(f) Borrowings**

Borrowings are classified as current liabilities unless the Co-operative has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(g) Reporting period**

The Co-operative was incorporated on the 23 August 2012 and the 11 month period has been reflected in these financials statements. The financial report has been prepared for the financial period ended 30 June 2013.

**(h) Foreign currency translation**

The financial statements are presented in Australian dollars, which is the Co-operative's functional and presentation currency.

# Notes to the Financial Statements

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

**(i) Revenue recognition**

**Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from or payable to the taxation authority is included with other receivables or trade creditors and accruals in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the taxation authority are presented in operating cash flows.

**(j) Members' share capital**

Ordinary shares are initially recorded at fair value and are subsequently measured at amortised cost. As a result, the liability is measured at $1.00 per share. When ordinary shares are repurchased, the consideration of $1.00 per share is deducted from members' share capital.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Co-operative's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Revenue is recognised for the major business activities as follows:

**(i) Sale of goods**

A sale is recorded when the goods have been delivered to and accepted by the customer or its agent and collectability of the related receivable is probable.

**(ii) Interest revenue**

Interest income is recognised on a time proportion basis using the effective interest method.

**(k) Income tax**

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, the Australian Taxation Office (ATO) and other fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Co-operative's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

**(l) Comparative figures**

The Co-operative was incorporated on 23 August 2012 and accordingly no comparative period has been presented.

**(m) Going Concern**

At 30 June 2013 the Co-operative's total liabilities exceeds its assets by $110,701 and incurred negative cash outflow from operations of $6,948. The Co-operative is still in its early stages of operations and subsequent to year end, secured a Milk Supply Agreement with a processor. This agreement is expected to generate operating income as well as further agreements currently being pursued.

# Notes to the Financial Statements

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

**(m) Going Concern (cont)**

The Co-operative relies on the on-going funding and support from a related party Dairy Farmers Milk Co-operative. Based on this, the directors are of the opinion that the Co-operative will be able to continue as a going concern and accordingly, the financial statements have been prepared on this basis. Should such support not be available the Co-operative may have to realise its assets and discharge its liabilities other than in the normal course of business and in amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

**(n) Financial instruments**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as: (i) the amount at which the financial asset or financial liability is measured at initial recognition, (ii) less principal repayments, (iii) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and (iv) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Co-operative does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

**I. Financial assets at fair value through profit or loss**

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

**II. Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period, which will be classified as non-current assets.

**III. Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Co-operative's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period, which will be classified as current assets.

If during the period, the Co-operative sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire category of held-to-maturity investments would be tainted and would be reclassified as available-for-sale.

# Notes to the Financial Statements

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

**(n) Financial instruments (cont)**

**IV. Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period, which will be classified as current assets.

**V. Financial liabilities**

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**(o) New accounting standards**

**1. Changes in accounting policies**

**1.1 Overall Adoption of improvements to AASBs 2010 – AASB 2010-4 and 2010-52**

The AASB has issued AASB 1054 *Australian Additional Disclosures* and 2011-11 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Conveyance Project* and made several minor amendments to a number of AASBs. These standards eliminate a large portion of the differences between the Australian and New Zealand accounting standards and IFRS and retain only additional disclosures considered necessary. These changes also simplify some current disclosures for Australian entities and remove others.

**1.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Groups**

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group’s financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

**AASB 9 Financial Instruments (effective from 1 January 2013)**

The AASB aims to replace AASB 139 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed. Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

**AASB 13 Fair Value Measurements (AASB 13)**

AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group’s management have yet to assess the impact of this new standard.

# Notes to the Financial Statements

| | 2013 $ |
|---|---|
| **NOTE 2: REVENUE AND EXPENSES** | |
| **Revenue** | |
| Interest revenue – other corporations | 553 |
| **Expenses** | |
| General expenses | |
| Legal Fees | 102,353 |
| Other | 2,130 |
| Total General Expenses | 104,483 |
| Payroll Expenses | 5,321 |
| Motor Vehicle Expenses | 1,450 |
| Total Expenses | 111,254 |

**NOTE 3: INCOME TAX**

| | |
|---|---|
| Loss from ordinary activities | (110,701) |
| Prima facie tax benefit on the loss from ordinary activities calculated at 30% | (33,210) |
| Temporary differences and tax losses not recognised | (33,210) |
| Income tax expense | - |
| Tax losses not brought to account | 8,516 |
| Temporary differences not brought to account | 24,694 |
| | 33,210 |

**NOTE 4: CASH AND CASH EQUIVALENTS**

| | |
|---|---|
| Cash and cash equivalents | 194,060 |

**NOTE 5: RECEIVABLES**

| | |
|---|---|
| GST paid | 231 |

**NOTE 6: INTANGIBLES**

| | |
|---|---|
| **Computer software at cost** | |
| Balance at beginning of period | - |
| Purchase during the period | 50,000 |
| Closing balance at period end | 50,000 |

No amortisation has been applied to the software as it was not ready for use at 30 June 2013

# Notes to the Financial Statements

| | 2013 $ |
|---|---|
| **NOTE 7: PAYABLES** | |
| Current | |
| Superannuation Payable | 431 |
| Trade Creditors | 1,200 |
| Related Party Payable | 153,353 |
| Total Current Liabilities | 154,984 |
| Non-current | |
| Related Party Loan | 200,000 |

**NOTE 8: RETAINED PROFITS**

| | |
|---|---|
| Balance at the beginning of the period | - |
| Current Year Earnings | (110,701) |
| Balance at the end of the period | (110,701) |

**NOTE 9: COMMITMENTS FOR EXPENDITURE**

The Co-operative had $nil commitments at the end of the financial period.

**NOTE 10: CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

The Co-operative does not have any contingent liabilities or assets as at 30 June 2013

**NOTE 11: AUDITORS' REMUNERATION**

| | |
|---|---|
| Amount received, or due and receivable by Grant Thornton for audit of the financial report | 8,000 |
| Amount received, or due and receivable by Grant Thornton for other services | 2,000 |

**NOTE 12: KEY MANAGEMENT PERSONNEL DISCLOSURES**

**(a) Directors**

The directors of the Co-operative during the year and up to the date of the Directors' Report were:

J J Bastian, J B Geraghty, D A McInnes (Deputy Chairman), P C Ness, M P Roache, S D Sieben (Chairman), Rick T Gladigau and I H Zandstra.

**(b) Principles used to determine the nature and amount of remuneration**

ADFC Directors are not remunerated. ADFC has entered into a management services agreement with Dairy Farmers Milk Co-operative.

**(c) Key management personnel compensation**

| | |
|---|---|
| Short-term employment benefits | - |
| Post-employment benefits (superannuation) | - |
| Total key management personnel compensation | - |

# Notes to the Financial Statements

| NOTE 13: CASH FLOW RECONCILIATION | 2013<br>$ |
|---|---|
| Loss attributable to members | (110,701) |
| *Movement in assets and liabilities* | |
| Increase in payables | 103,984 |
| Increase in receivables | (231) |
| Net cash outflow from operating activities | (6,948) |

## NOTE 14: FINANCIAL RISK MANAGEMENT

**Financial Risk Management Policies**

The directors' overall risk management strategy seeks to assist the Co-operative in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Co-operative's Board of Directors on a regular basis. These include the credit risk policies and future cash flow requirements.

**Specific Financial Risk Exposures and Management**

The main risks the Co-operative is exposed to through its financial instruments are credit risk and liquidity risk.

At 30 June 2013 the Co-operative's financial assets and liabilities are as follows:

| | Note | 2013<br>$ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 4 | 194,060 |
| Loans and receivables | 5 | 231 |
| **Total financial assets** | | 194,291 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost: | | |
| — trade and other payables | 5 | 354,984 |
| **Total financial liabilities** | | 354,984 |

**Liquidity risk**

Liquidity risk arises from the possibility that the Co-operative might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year-end could become repayable within 12 months.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

# Notes to the Financial Statements

**NOTE 14: FINANCIAL RISK MANAGEMENT (continued)**

*Financial liability and financial asset maturity analysis*

| | Within 1 Year 2013 $ | 1 to 5 Years 2013 $ | Over 5 Years 2013 $ | Total 2013 $ |
|---|---|---|---|---|
| **Financial liabilities due for payment** | | | | |
| Trade and other payables (excluding est. annual leave) | 154,984 | 200,000 | - | 354,984 |
| Total expected outflows | **154,984** | **200,000** | - | **354,984** |

**Financial assets — cash flows realisable**

| | Within 1 Year 2013 $ | 1 to 5 Years 2013 $ | Over 5 Years 2013 $ | Total 2013 $ |
|---|---|---|---|---|
| Cash and cash equivalents | 194,060 | - | - | 194,060 |
| Trade, term and loan receivables | 231 | - | - | 231 |
| Total anticipated inflows | 194,291 | - | - | 194,291 |
| Net (outflow)/inflow on financial instruments | 39,307 | (200,000) | - | (160,693) |

**Net Fair Values**

**Fair value estimation**

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the company. Most of these instruments which are carried at amortised cost (ie trade receivables, loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the company.

# Notes to the Financial Statements

**NOTE 14: FINANCIAL RISK MANAGEMENT (continued)**

| | Footnote | 2013 Net Carrying Value $ | 2013 Net Fair Value $ |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | (i) | **194,060** | **194,060** |
| Trade and other receivables | (i) | **231** | **231** |
| **Total financial assets** | | **194,291** | **194,291** |
| **Financial liabilities** | | | |
| Trade and other payables | (i) | **354,984** | **354,984** |
| Members' share capital | (iv) | **8** | **8** |
| **Total financial liabilities** | | **354,992** | **354,992** |

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

(i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts relating to the provision of annual leave which is not considered a financial instrument.

**Interest rate sensitivity**

At 30 June 2013, the Group is exposed to changes in market interest rates through cash at bank at variable interest rates.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 1%. The calculations are based on a change in the average market interest rate, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

| | **Profit for the year** **$'000** +1%/ -1% | **Equity** **$'000** +1% /-1% |
|---|---|---|
| 30 June 2013 | 1,941 /(1,941) | 1,941 /(1,941) |

**NOTE 15: RELATED PARTY TRANSACTIONS**

Dairy Farmers Milk Co-operative is a related party as it has common directors.

During the period, the Co-operative received a cash loan of $251,000 from Dairy Farmers Milk Co-operative which remains outstanding at 30 June 2013. Furthermore, legal fees of $102,353 were paid by Dairy Farmers Milk Co-operative on behalf of Australian Dairy Farmers Co-operative and this has been recognised as a trade payable in the current period.

# Notes to the Financial Statements

### NOTE 16: MEMBERS CAPITAL

| | Number of Shares | Nominal Value |
|---|---|---|
| | # | $ |
| Opening balance – shares of $1 each (fully paid) | - | - |
| Share issue | 8 | 8 |
| Closing Balance | 8 | 8 |

#### Ordinary shares

Note that in accordance with AIFRS, members' share capital ('ordinary shares') is treated as a liability. Classification in this manner occurs because the Co-operative must forfeit and ultimately repay share capital that is forfeited under the inactive membership rules contained in the Co-operatives Act 1992 (as amended) and the Rules of the Co-operative.

Ordinary shares entitle the holder to participate in dividends of the Co-operative in proportion to the number of shares held

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each shareholder is entitled to one vote.

#### Capital management

The Co-operative's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to members and for other stakeholders and to maintain an optimal structure to reduce costs of capital.

In order to maintain or adjust the capital structure the Co-operative may reduce its share capital, adjust the amount of dividends paid to shareholders including through the dividend re-investment plan (currently suspended) or may guarantee capital through deductions from payments to members of milk supplies under the terms of its share acquisition program (currently suspended).

The board of directors and the audit, finance and governance committee monitor the capital needs of the Co-operative.

### NOTE 17: EVENTS AFTER THE REPORTING PERIOD

ADFC has secured a Milk Supply Agreement with a processor and as such will be in the market to secure milk to meet its contractual obligations. No other matters or circumstances of significance have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Co-operative, the result of those operations, or the state of affairs of the Co-operative in future financial years.

### NOTE 18: CO-OPERATIVE DETAILS

The registered office and principal place of business is:

12/60 Carrington Street
SYDNEY NSW 2000

# Directors' Declaration

The directors of the Co-operative declare that:

(a) the financial statements and notes set out on pages 9 to 22 are in accordance with the Co-operatives Act 1992 (as amended) and the Corporations Act 2001, including:

   (i) complying with Accounting Standards, the Co-operatives Act 1992 (as amended) the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Co-operative's financial position as at 30 June 2013 and of its performance for the period ended on that date; and

   (iii) complies with International Financial Reporting Standards as disclosed in Note 1; and

(b) there are reasonable grounds to believe that the Co-operative will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

| | |
|---|---|
| **Scott D Sieben** | **J Bastian** |
| Chairman | Director |

Sydney, 31 October 2013

# Independent Auditor's Report

**Page 1**

# Independent Auditor's Report

**Page 2**

# Independent Auditor's Report

**Page 3**