

NZX Announcement

1 March 2010

Allied Farmers Announces Half Year Result

Allied Farmers Limited today announced an unaudited operating loss after tax of \$15.68 million (2008: \$3.91 million loss) for the six month period ended 31 December 2009. After accounting for non-operating and non-cash items, including the \$3.84 million impairment of goodwill in its investment in subsidiary Allied Nationwide Finance, the Group result was a loss of \$11.84 million (2008: \$4.76 million loss). Corporate expenses for the period included acquisition costs of \$5.12 million, directly related to the purchase of the Hanover Finance and United Finance assets.

Table 1	31 Dec 2009		31 Dec 2008	
	Revenue NZD '000	NPAT NZD '000	Revenue NZD '000	NPAT NZD '000
Financial Services	21,700	(1,212)	19,742	(1,631)
Rural Services	32,943	(905)	48,523	2,704
Asset Management Services	559	362	0	0
Corporate	759	(13,922)	(54)	(5,831)
Discontinued Operations				849
Consolidation Adjustment	(2,223)	0	(1,333)	0
	53,738	(15,677)	66,878	(3,909)

Chairman John Loughlin said "The Company has been through a challenging time, in which we have witnessed the failure of many businesses. This result is largely in line with expectations, and the acquisition of Hanover and United assets has clearly strengthened our position. This will allow us to take advantage of any opportunities which might arise short to medium term".

Managing Director Rob Alloway said that while core business performance has started showing signs of improvement in 2010, the first half year had been extremely difficult for the company. Key rural and financial services sectors have not yet normalized following the global financial crisis, although there were positive signs in sectors such as dairy and asset finance.

Finance subsidiary, Allied Nationwide Finance, contributed a group unaudited net loss after tax of \$1.21 million for the period. The operating surplus before tax and loan provisioning was \$2.91 million with the bottom line result impacted by impaired asset expenses of \$4.62 million and the costs of holding surplus cash reserves. The result was also before the recognition of \$1.54 million of after tax gains on the revaluation of interest rate derivatives for the period, resulting in an underlying group surplus attributable to the parent of \$0.33 million. "Pleasingly arrears levels have remained steady signaling a strengthening position in the market and the number of participants in the segment has declined therefore we are starting to enjoy the benefits of less competition" said Alloway.

Rural services subsidiary, Allied Farmers Rural continued to be effected by the significant reduction in farm income in the dairy sector in the prior period resulting in a net loss after tax of \$0.90 million (2008: \$2.70 million profit) for the period. Revenue in the rural business was down 32% on the same period last year, predominantly due to weak sales in the merchandising and livestock divisions.

Third quarter trading conditions are however exceeding expectations with livestock trading particularly buoyant due to increasing export schedules, good rainfall in some regions, and an improved outlook for dairy commodity prices.

Internet trading of livestock through the portal mylivestock.co.nz continues to grow with steady increases in membership numbers resulting in strong interest for listings. This month the company will launch an extension to the service allowing farmers to trade feed such as maize and hay, an industry first in New Zealand.

As part of the half year process, the assets of Hanover Finance and United Finance, acquired by Allied Farmers in December 2009 through a share for debenture swap, have been consolidated into the balance sheet at an IFRS accounting fair value of \$175.52 million.

“The Allied Farmers board with guidance from external advisors has undertaken a provisional fair value assessment on what we still consider to be a challenging group of assets. Since settlement of the transaction, a number of positions have softened further than expected. We have taken the opportunity to review each position incorporating any new developments which have come to hand, when assessing fair value” Alloway said.

While we are confident a number of realisations can be achieved in the medium term, there is uncertainty attached to some positions. For the purposes of 2010 year end financial statements, the company will complete further fair value assessments which may result in changes to the provisional fair values stated as at 31 December 2009.

In the period leading up to settlement, the value of assets transferred was decreased by a net amount of \$20.71 million. This decrease related to asset realisations, loan advances, asset restructures, provisioning, and bad debt write offs approved by the board and management of Hanover Finance and United Finance. The initial transaction value was calculated on a gross realisation basis; however the New Zealand International Financial Reporting Standards (IFRS) require acquired assets and liabilities to be recorded at acquisition date fair values. This is done with reference to net present value, after discounting the expected realisation cash flows at applicable interest rates. The IFRS interest adjustment to recognise the period of expected realisation of the loans transferred, results in a \$55.95 million net decrease in the value of the acquired assets.

Subsequent to these decreases, further fair value adjustments of \$27.86 million have been attributed to property assets (held for resale), \$16.83 million to investments, and \$99.30 million to finance loans, the latter heavily impacted by uncertainties associated with stage 1 of the Kawerau Falls Station project in Queenstown. This in turn has affected prospects for further development on Kawerau Falls Station stages 2 & 3 where the company has major exposures.

Table 2	NZD '000
Attributed Value ¹	396,177
Pre-settlement Adjustments	
Asset movements including; realisations, advances, restructures, provisioning, bad debt write offs	(20,708)
Interest Adjustment (IFRS)	(55,953)
Fair Value Adjustments (IFRS)	
Property Assets	(27,861)
Investments	(16,827)
Loans	(99,308)
Provisional Fair Value (IFRS)	175,520

¹ Gross realisation basis

The Hanover Finance and United Finance assets are now contained within a new subsidiary, Allied Farmers Investments, which has been fully resourced with a very experienced legal and finance team. We have moved quickly to commence litigation against a number of borrowers and in some instances formally issued notice to call up guarantees.

ENDS

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