# Coldstream Downs Dairy Farm Limited

# Annual Report 2018/2019

DIRECTORS ANNUAL REPORT

The 2018/2019 season saw our variable order sharemilkers, Dave & Erin Bradley, achieve production of 263,266 kgMS. This was behind our target of 300,000 kgMS and 20,260kgMS behind last year's production. The final payout announced by Fonterra was $6.35/kgMS, slightly lower than last year's payout of $6.70.

We are in a period of change, a huge example of this is the new "Essential Freshwater Package" which will have nationwide implications for our water ways. Farming now and in the future will change. The government's action plan for Healthy Waterways aims to stop the degradation of our rivers and lakes, achieve a noticeable improvement in five years and restore our waterways within a generation. This package aims to reduce nitrogen and phosphorous use, will grandfather land use without resource consent from local councils and exclude stock from wetlands by 2023. More information about this package can be found online.

Coldstream has taken important steps toward cleaning up water ways through measures such as starting riparian planting and excluding stock from the waterways.

The *Mycoplasma bovis* disease is still being monitored closely by MPI through Nait movements. The government has levied each farm 2.9 cents a kilogram commencing September 2019. This levy will continue until further notice, presumed to be 3 – 5 years until this is reviewed.

Dave & Erin have had a difficult season with problems with herd production and fertility also battling with a fluctuating somatic cell count. At first thought to be a BVD problem, towards the end of the season, it was discovered that the herd had a problem with Johnes and the whole herd was tested by herd test. We discovered that the problem was extensive. The 50 positive cows were culled as a result of the herd test.

As at balance date, the term loan had a balance of $1,013,000 with an interest rate of 3.87%. As well there is an overdraft facility available at 7.67%. The directors resolved to operate at a zero balance and take advantage of the more favourable term loan interest rate, by drawing down on the term loan as required. Taking this approach has meant that Coldstream Downs does not utilise the available overdraft facility.

A valuation of all land and buildings was completed by Logan Stone Limited and PGG Wrightson Limited valued the stock, summary documents are included in this report. Coldstream Downs was given a total estimated value of $9,629,702. This is made up of land and buildings of $8,270,000 and stock at $1,359,702. This is a decrease in value of $484,355 from the previous financial year. The worry about stock and Mycoplasma Bovis has had a huge impact on all stock and values in the South Island. A decrease in value of $319,355 from the previous season was expected as MPI continue to monitor stock. I believe the stock prices will return to previous values in the future. The balance owing on Protrack as of 31st May, 2019 was $7,895. As the dairy industry continues to recover we are confident that our asset value will increase in the coming seasons.

The share value for Coldstream, from the current accounts, gives a net asset backing value of $2.28 per share, a decrease on last season of 19 cents per share. The total capital expenditure for the year was $18,090. This was comprised largely of the power upgrade for the cowshed.

The directors had to embark on major repairs and maintenance in regard to the houses, dairy plant and platform drives. For the 2018/2019 season the farm working expenses (FWE) were 5.13 kgMS (Excluding interest). With a drop in production Coldstream has finished the season with a cash trading surplus of $408,134, which shows how difficult the season was. The directors will pay a cash dividend of $135,000 to shareholders in December 2019. This equates to 3 cents per share plus imputation credits (Please note imputation credits only apply to New Zealand shareholders).

The directors are confident the farm can consistently produce close to 300,000 KgMS per season. This is where we have been aiming to get production, and it is good to see the continued drive towards this for the future of the farm and herd.

After 26 years of working for RDNZ we were sad to see Richard Bourne retire. Grant Morris is our Sales & Marketing Coordinator. Grant accompanied William Dickie and Dot McDermott to host the biennial shareholders visit to the farms in Southland in March 2019.

I would like to take this opportunity to thank my fellow Directors Jeff Whitlock and Stephen Barr, our variable order sharemilkers, Dave and Erin Bradley and farm consultant, Jack Ballam for their contributions over the past year. It is with sadness that we accept Stephen Barr's resignation as a Director. Stephen's knowledge and expertise has been greatly appreciated at Coldstream. This matter will be discussed at the AGM.

**Current Season Update**

The production forecast for the 2019/2020 season has been set at 300,000 kgMS. The season is off to a good start. The cows look well after their winter break off the farm. Our graziers have done an excellent job. We have currently purchased 96 cows to replace the earlier culled cows and the cows are currently ahead of last season. The cows are milking well and are currently producing 2.2kg per cow daily and are currently 3.9% ahead of last season. For the current season, Fonterra has forecast a milk price of $6.55 to $7.55 updated on the 22nd of October.

The Protrack system installed in 2017 by Livestock Improvement Corporation has now been paid off in full. Updates to the Protrack system, in the form of new computer hardware, will be required in the coming years and LIC have notified us of these changes.

In a move to minimise the impact on the farm business, the directors have agreed to principal and interest payments for the 2019/2020 season. We had also refinanced the loan with a new interest rate of 3.40% a drop from the 3.87% offered in previous seasons.

At the AGM last year, we said we would bring three options to next year's AGM – to stay, to sell or for the company to buy back shares. After deliberation the directors have decided that there was not a fair way to determine a buy back price that acts in the best interest of the shareholders. The main considerations taken into account are the volatility in the Net Asset Backing. In recent years there have been no historical dairy farms sales of comparable size in the same location, also there have been big fluctuations in the price we have been paid for our milk from season to season. These have significant impact on the Net Asset Backing and subsequent buy back price. For these reasons the directors have decided not to proceed with a share buy back option. This decision was circulated with the Shareholders Farm Visit Report on the 6th June, 2019.

The farm ownership is up for review at the end of the coming season and this will be discussed at this year's AGM.

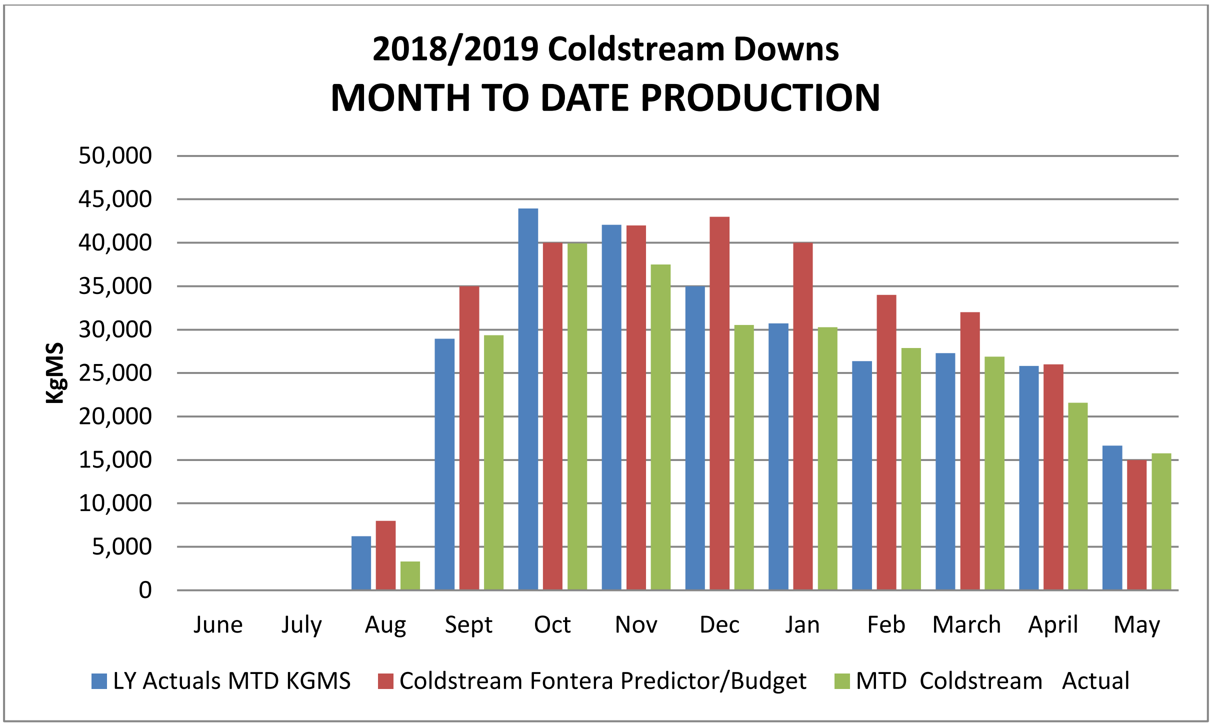
I look forward to seeing you at the AGM.

Kind Regards,

Roger Dickie Director

Coldstream Downs Dairy Farm Limited

ROGER DICKIE
NEW ZEALAND
PO Box 43, Waverley 4544 PH: (06) 346 5329 www.rogerdickie.co.nz




| KGMS 315,000kgms | June | July | Aug | Sept | Oct | Nov | Dec | Jan | Feb | March | April | May |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Coldstream Fontera Predictor/Budget | 0 | 0 | 8,000 | 35,000 | 40,000 | 42,000 | 43,000 | 40,000 | 34,000 | 32,000 | 26,000 | 15,000 |
| MTD Coldstream Actual | | | 3,313 | 29,356 | 39,930 | 37481 | 30534.2 | 30292 | 27879 | 26869.5 | 21593.6 | 15771 |
| MTD Variance % | | | -58.6% | -16.1% | -0.2% | -10.8% | -29.0% | -24.3% | -18.0% | -16.0% | -16.9% | 5.1% |
| LY Actuals MTD KGMS | 0 | 0 | 6220 | 28956 | 43953 | 42059 | 34996 | 30725 | 26383 | 27286 | 25808 | 16646 |
| STD Actuals KGMS | 0 | 0 | 3,313 | 32,669 | 72,599 | 110,080 | 140,614 | 170,906 | 198,785 | 225,655 | 247,248 | 263,019 |
| STD Fonterra Predictor/Budget | 0 | 0 | 8,000 | 43,000 | 83,000 | 125,000 | 168,000 | 208,000 | 242,000 | 274,000 | 300,000 | 315,000 |
| STD Variance % | | | -58.6% | -24.0% | -12.5% | -11.9% | -16.3% | -17.8% | -17.9% | -17.6% | -17.6% | -16.5% |
| LY STD Actuals KGMS | | | 6,220 | 35,176 | 79,129 | 121,188 | 156,184 | 186,909 | 213,292 | 240,578 | 266,386 | 283,032 |

**SHAREMILKERS REPORT**

As we reflect on this first quarter rebuilding and off to a good start come to mind for the 2019/20 dairy season.

We have worked on some issues restricting the farm. This has been a costly process but one we had to go through.

We are off to a very good start this season, production, feed on hand, staff and wintering of cows are all in a very good state.

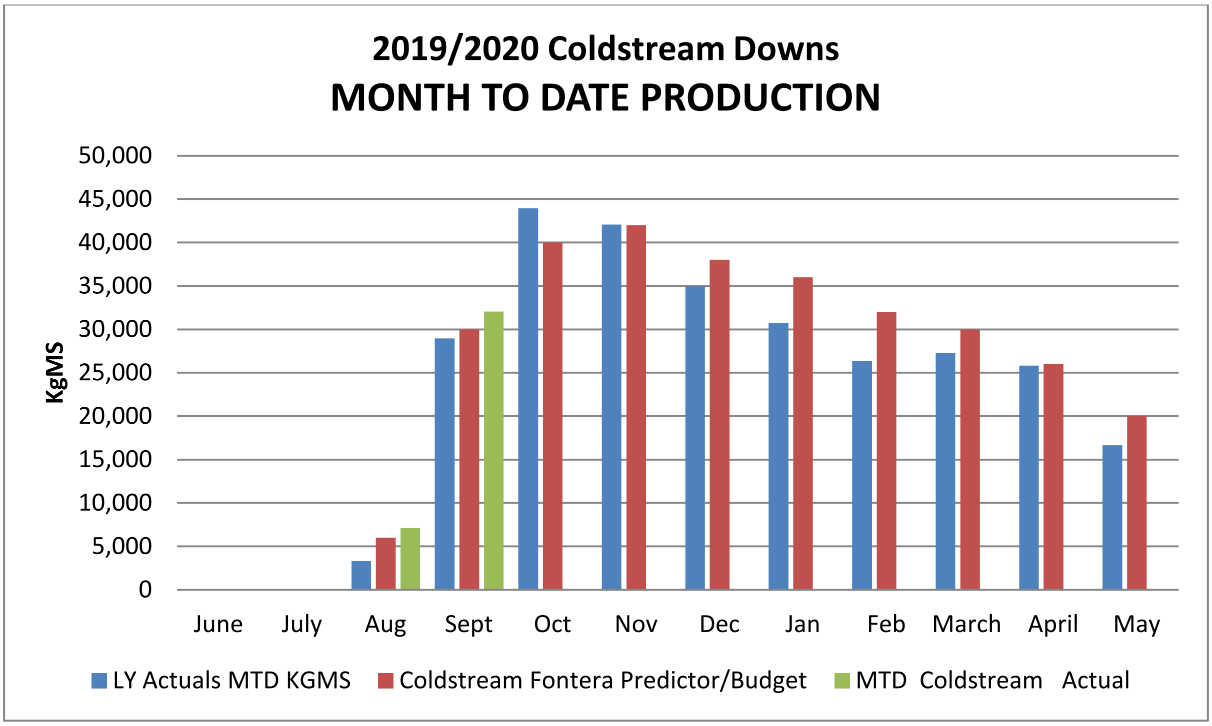
Our Graziers the Orr family, have done a great job of our young stock and some of our cows wintering. Hopefully all our cows can be wintered there next winter.

We currently have 182 replacement heifers born this year that Erin has reared.  Our staff are working well, a real tri nations theme this year. Robin, 2IC India, Redan, Herd Manger, Philippines, Keith, Casual, Ireland, Dhanku, Herd Manager, Sri Lanka, Bianca, Casual Calf Rearer.

The Cone Dose system will be in place soon, allowing us to give magnesium and calcium to the cows with molasses. This will be great for preventing cows going down and getting them to a better pre mating state earlier.

Hopefully with some luck on our side and Mother Nature playing her part we can expect a much improved season all around.

Dave and Erin Bradley




| KGMS 300,000kgms | June | July | Aug | Sept | Oct | Nov | Dec | Jan | Feb | March | April | May |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Coldstream Fontera Predictor/Budget | 0 | 0 | 6,000 | 30,000 | 40,000 | 42,000 | 38,000 | 36,000 | 32,000 | 30,000 | 26,000 | 20,000 |
| MTD Coldstream Actual | | | 7,100 | 32,063 | | | | | | | | |
| MTD Variance % | | | 18.3% | 6.9% | -100.0% | -100.0% | -100.0% | -100.0% | -100.0% | -100.0% | -100.0% | -100.0% |
| LY Actuals MTD KGMS | 0 | 0 | 3313 | 28956 | 43953 | 42059 | 34996 | 30725 | 26383 | 27286 | 25808 | 16646 |
| STD Actuals KGMS | 0 | 0 | 7,100 | 39,163 | 39,163 | 39,163 | 39,163 | 39,163 | 39,163 | 39,163 | 39,163 | 39,163 |
| STD Fonterra Predictor/Budget | 0 | 0 | 6,000 | 36,000 | 76,000 | 118,000 | 156,000 | 192,000 | 224,000 | 254,000 | 280,000 | 300,000 |
| STD Variance % | | | 18.3% | 8.8% | -48.5% | -66.8% | -74.9% | -79.6% | -82.5% | -84.6% | -86.0% | -86.9% |
| LY STD Actuals KGMS | | | 3,313 | 29,356 | 39,830 | 37,481 | 30,534 | 30,292 | 27,879 | 26,870 | 21,594 | 283,019 |

PGG Wrightson

**Dairy Valuation with Inspection, Stock & Supplement Count**

46 Medway Street
Gore
P O Box 64, Gore
Telephone (03) 209 0300
Facsimile (03) 209 0188

**31/5/2019**
**Roger Dickie New Zealand Ltd**
**A/C ColdStream Downs Ltd**

Re: Valuation of Livestock

In accordance with the agreement to value livestock dated 13th May 2019, and subject to the terms of that agreement, we are pleased to provide a valuation of the livestock described below to establish their market value on 31st May 2019.

We report as follows:

| Tally | Age | Description | Value Ex. Gst | Total Ex. Gst |
|---|---|---|---|---|
| 172 | R1 | Fri. & Fri.X, heifers - BW111, PW129, RA90% | $800.00 | $137,600.00 |
| 118 | R2 | Fri. & Fri.X heifers - BW 102, PW113, RA93% | $1,500.00 | $177,000.00 |
| 437 | 2-8yr | Fri. & Fri.X Cows | $1,600.00 | $699,200.00 |
| 28 | 9yr+ | Fri. & Fri.X Cows | $900 | $25,200.00 |
| 29 | 3 Titters | Fri. & Fri.X cows | $650 | $18,850.00 |
| 20 | 2-8yr | Incalf Carryovers | $1,300 | $26,000.00 |
| 24 | 2-8yr | Carryovers - Empty | $800 | $19,200.00 |
| 50 | 2-8yr | Cull Cows | $650 | $32,500.00 |
| 39 | 2-8yr | Fri. & Fri.X cows - Late Calvers(Oct. calving) | $1,200 | $46,800.00 |

| | | |
|---|---|---|
| Totals | Ex GST | $1,182,350.00 |
| GST | 15% | $177,352.50 |
| Total | Incl. GST | $1,359,702.50 |

**Supplements**

| Tally | | Description |
|---|---|---|
| 51 | | Large Round Bales Straw |
| 336 | | Large Round Bales Balage |
| 1 | | Silage pit - Measured at 135,196 kgs DM |

**Summary Stock Count – ColdStream Downs Ltd**

172 R1 Heifers

118 R2 Heifers

627 M/A Cows

**Herd Details** – PTPT Code: LXDB, Herd Code: 6/9254

Mixed aged cows – BW59, PW82, RA92%,

Herd calving from 14th August 2019 – 6 weeks A.I – LIC – Xbred, Tailed Hereford & Jersey Bulls, removed 20/1/19, calving ends 29/10/19.

Herd Production, 373 m/s average per/cow, Average SCC 168,000.

**NB:** No Profile's supplied for InCalf & Empty Carryover Cows (Tallies are approx.) – Information supplied solely by the Farm Manager pertaining to this Valuation.

**Late Calving Cow's:** From 15th October 2019

**R2 Heifers PTIC**

Naturally mated Jersey Bull 5/11/18, Removed 15/1/19. Calving from 14th August 2019, calving ends 24/10/19.

**Tallies**

NB: 50 cull cows from 2-8yr was instructed by Roger Dickie LTD

Tallies verified by the Independent Stock Count as of 14/5/19.

Silage stack verified by independent consultant 30/5/19.

All Stock are in Good condition and Health at time of inspection.

*Data pertaining to this valuation supplied to the valuers by the above clients and or their representatives and form the basis of this valuation. The valuers accept no responsibility for the accuracy of the supplied data.*

*In arriving at our opinion as to market value, consideration has been given to recent sales of comparable livestock. This valuation has been prepared for the sole use of the addressee only. Thank you for your instructions in this matter. Should any portion of this report require further description or discussion, please contact the undersigned directly.*

Yours faithfully

J. Rawcliffe

**John Rawcliffe**

**Dairy Representative**
**PGG WRIGHTSON LTD**

Disclaimer:

All details and descriptions as to livestock and/or chattels referred to have not been independently verified by PGG Wrightson. PGG Wrightson takes reasonable care to ensure accuracy and reliability in the information we provide you. However PGG Wrightson does not warrant that the information will be technically correct, reliable or accurate or that such information will satisfy any industry practice or statutory, regulatory or prudential requirements. PGG Wrightson, its employees and agents give no representation or warranty concerning the information's accuracy (including, but not limited to the accuracy or completeness of details and descriptions of livestock and chattels), quality or fitness for any purpose. PGG Wrightson is not responsible for the results of any action taken either by you or any third party in reliance on the information, or on the basis of calculations performed by PGG Wrightson, nor for errors or omissions however occurring. Buyers, advisers and all other persons viewing or dealing with the livestock and chattels must make their own assessment and judgement on the livestock and chattels.

PGG Wrightson is not liable in any way (including negligence, tort and equity) to you or any other person in connection with this valuation for any loss, costs, loss of income, profits, savings or goodwill or for any indirect or consequential loss or special or exemplary damages. To the full extent permitted by law, PGG Wrightson expressly excludes all representations and warranties, express or implied.

**Coldstream Downs Limited**
**1741 Waimea Valley Road**
**SOUTHLAND**

Desktop Market Valuation prepared for:

Roger Dickie Limited

As at 31 May 2019

LOGANSTONE
PROPERTY ▪ SOLUTIONS ▪ VALUATION

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**APPENDICES**

## 1.0 INTRODUCTION

1.0.1 Further to instructions from Dot McDermott we have undertaken a 'Desktop' market valuation appraisal on the above property in order to assess the market value for financial reporting purposes. As per instructions we have been advised not to re-inspect the property and have therefore relied on an inspection undertaken on 4 May 2015 and described in our previous full report dated 12 June 2015. We have been advised expenditure is mostly maintenance based in the past financial year. Otherwise there is no substantial changes to the property since this date and we base our assessment on the property being in similar physical condition.

1.0.2 Due to not re-inspecting the property and not providing a full report this report does not comply with International Valuation Standards.

1.0.3 The report complies with NZ IAS 16 and can be relied upon by Silks Audit for financial reporting purposes.

1.0.4 Your instructions, as per our scope of work agreement, require us to make the following valuation assessments;

- Market Value as at 31 May 2019.

## 2.0 PROPERTY CONCLUSIONS

2.0.1 An estate in fee simple 349.9645 hectare dairy milking platform situated in the Nine Mile district of Northern Southland which has been converted some 17 years. Currently milking approximately 718 cows and producing circa 263266 kg milk solids this season. From a dairying perspective location is regarded as fair. Climate is suited for seasonal supply dairy land use although summer dry spells are common. The land is mostly of undulating to rolling contour with predominantly deep soils showing good fertility levels. Overall layout is good being well subdivided into 50 paddocks, reticulated water supply and well raced. Housing includes three good quality dwellings with a further dwelling being warranted. The milking shed is of good capacity and condition. There are adequate supporting farm buildings. Overall a medium quality dairy platform due to location being tidily presented and achieving slightly below Southland average production based on a low supplement import system. We estimate average efficient production to be 314,000 kilograms of milk solids (1,003 kg ms / effective ha).

## 3.0 VALUATION CONCLUSIONS

3.0.1 The appropriate valuation approaches for estimating the market value of a dairy unit (where a dairy platform is deemed the highest and best land use) are the market approach and income approach.

3.0.2 Under the market approach umbrella we use two main methodologies;

i) A summation approach on a per hectare basis. In this approach we determine the relevant classes of land at a land value level and add the added value of improvements, and chattels and plant as appropriate. This is then compared at a market value per hectare level.

ii) A summation approach on a per kilogram of milk solids based on estimated average efficient production.

3.0.3 Under the income approach umbrella the two methodologies used are;

i) A capitalisation of the Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) under average efficient management after an allowance for Wages of Management. This capitalized sum provides an estimate of the Total Farm Capital required to operate the business as a standalone unit. Deduction for stock, plant and Fonterra shares are required to arrive at the appropriate realty basis that as dairy units normally transact in the market. The milk price is based on the average past five year actual and current forecast under average efficient management production levels.

ii) A multiplier of the milk price which is based on the average past five year actual and current forecast under average efficient management production levels.

3.0.4 The above approaches are supported by analysed benchmark levels from sales deemed most comparable in the market.

3.0.5 Our opinion of the quality of market evidence available is outlined in the below table:

| Factor | Quality |
|---|---|
| Number of comparable sales | Poor |
| Recent time frame | Poor |
| Direct Comparability | Poor |

3.0.6 When assessing the market value of the subject property we have considered the property features and compared the sales of other properties that have transacted recently and have adjusted those sales to reflect the location, standard of improvements, plantings, mixed age of plants and productive capacities compared to the subject property.

3.0.7 There have only six unconditional dairy unit sales for 2019 to date. This is a reflection of the low confidence in the dairy sector at present. From the limited recent sales evidence there appears to be a slight softening in dairy farm sale prices over the 2018 year. In general the value drop is less for well-located and good quality dairy units with dairy units of lower quality, inferior locations and larger scale impacted greater.

3.0.8 While farm gate returns have improved for the 2018/19 season this has yet to flow through in improved sale prices.

3.0.9 The threat of an oversupply of dairy units coming to the market remains, but so long as financiers view their clients positions to be not deteriorating, it is probable most will be given further time to improve their financial positions.

3.0.10 The impacts on the farm market of recently announced Southland Regional Council rules and Mycoplasma Bovis are yet to be seen.

3.0.11 Our income based valuation methodologies are based on a an average of the five past seasons milk prices and the current forecast milk price which currently gives an average milk price of $5.98 per kg milk solids.

3.0.12 In the Southland dairy property market it is our observation that there are generally three categories of dairy unit which have broad ranges of value bands. These bands are mostly influenced by quality of property and infrastructure, location and production per hectare. We have graded these properties as A, B, and C. 'A' type properties are quality, good soil and contour units in the Central Southland and Southland Plains districts which generally show good consistent production per hectare. 'B' type units are basic, reasonably well located properties with Southland average type production. 'C' type units are poorer dairy units which may have issues with buildings, location, contour and shape etc.

3.0.13 In our opinion we assess the subject property as a B category.

3.0.14 Below is a summary of our market analysis and market value estimates under each approach:

| Valuation Approach | Market Value Estimate |
|---|---|
| **Per Hectare** | $8,270,000 |
| **Per kg Milk Solids. Average Efficient** | $8,478,000 |
| **Income Capitalisation** | $8,317,000 |
| **Multiplier of Milk Income** | $8,262,000 |

3.0.15 Our preferred valuation approach is the summated valuation approach based on establishing the land value and summating the added value of improvements and associated chattels and plant as outlined as we consider this a more accurate approach to factor all the attributes of the subject property.

3.0.16 In assessing the value of the property we have undertaken an analysis of the property in the market particularly looking at the strengths and weaknesses specific to this property and how this relates to the wider market and economic conditions prevailing at date of the valuation and over the short term that may influence the demand and value levels.

| Strengths & Opportunities | Weaknesses & Threats |
|---|---|
| • Well laid out. Good shelter | • One dwelling short |
| • Good soil fertility | • Northern Southland location |
| • Good pastures | • Climate has summer dry risk |
| • Low input production system | • Environmental regulations |
| • Good centrally sited milking shed | • Volatile milk price pay-out |
| • More supplementary feeding for production | • Soft Real Estate Market |

## 4.0 MARKET VALUATION

4.0.1 After examining all factors and subject to the overriding conditions we conclude the market value of the property as at 31 May 2019 is:

**EIGHT MILLION TWO HUNDRED AND SEVENTY THOUSAND DOLLARS**
**($8,270,000)**

| | | |
|---|---|---|
| Apportioned as follows: | | |
| Value of Improvements | | |
| – Residential Improvements | $461,000 | |
| – Productive Buildings | $744,000 | |
| – Other Improvements | $540,000 | |
| | | $1,745,000 |
| Land Value | | $6,270,000 |
| Realty Value – Land & Buildings | | $8,015,000 |
| Household & Farm Chattels | | $20,000 |
| Milking & Effluent Plant & Equipment | | $235,000 |
| Market Value | | $8,270,000 |

*The above valuation assessment is plus Goods and Services Tax (if any).*

4.0.2 Unit analysis

| | | |
|---|---|---|
| **Area** | 349.9645 ha | (313ha effective pasture) |
| **Ave Efficient Production** | 314,000 kg milk solids | (1003 kg ms / effective ha) |
| **Land Value** | $17,916 /ha | $19.97 /kg ms |
| **Market Value (*net of shares*)** | $23,631 / ha | $26.34 / kg ms |

4.0.3 Fonterra Shares are not included.

### 4.1 Certification

***Experience***

4.1.1 'The principal signatory has a minimum of five years' experience in valuing the subject class of asset, has all appropriate qualifications and registrations enabling them to practice as a Valuer and has not been subject at any stage to disciplinary action by the relevant professional governing body to prevent them acting as a Registered Valuer.'

***Independence***

4.1.2 The signatories have no direct or indirect pecuniary or other interests in the property being valued and are not aware of any other potential conflicts of interest.

***Professional Indemnity Cover***

4.1.3 We certify that Logan Stone Limited hold professional indemnity insurance for an amount of up to $5 million and note this may be less than the requirement for insurance cover as set by the lender.

## 5.0 OVERRIDING CONDITIONS

- Our valuation is subject to the attached Statement of General Valuation Policies.
- This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of three months from the date of the valuation, or such earlier date if you become of aware of any factors that have any effect on the valuation. Unless otherwise stated our assessments are made in New Zealand Dollar currency.

## 6.0 DISCLAIMER

6.0.1 Logan Stone Ltd prohibits the publication of this report in whole or in part, or any reference thereto, or to the valuation figures contained therein, or to the names and professional affiliations of the valuer, without the written approval of the valuer as to the form and context in which it is to appear.

6.0.2 Our valuation has been completed in compliance with International Valuation Standard framework. International Valuation Standards IVS 101 – *Scope of Work,* International Valuation Standard IVS 102 – *Implementation*, International Valuation Standard IVS 103 – *Reporting*. We confirm that:

- The statements of fact presented in the report are correct to the best of the Valuer's knowledge;
- The analysis and conclusions are limited only by the reported assumptions and conditions;
- The Valuer has no interest in the subject property;
- The Valuer's fee is not contingent upon any aspect of this report;
- The valuation was performed in accordance with an ethical code and performance standards;
- The Valuer has satisfied professional educational requirements;
- The Valuer has experience in the location and category of the property being valued;
- The Valuer has made a personal inspection of the property; but not re-inspected for the purpose of this report.
- The Valuer holds an Annual Practicing Certificate; and
- No one except those specified in the report, has provide professional assistance in preparing the report.

6.0.3 Should you require any further advice, do not hesitate to contact us.

Yours faithfully
**LOGAN STONE LTD**


**Grant Barron**
B Com (Ag) VFM, MBA, ANZIV, MPINZ
*Mob: 027 2789 663*
*E-Mail: grant.barron@loganstone.co.nz*


Reviewed by:


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## 7.0 VALUATION METHODOLOGY

7.0.1 The report complies with (but excluding re-inspection and full report);

**International Valuation Standards (IVS 2017)**

- International Valuation Standards – Framework
- International Valuation Standards IVS 101 – Scope of Work
- International Valuation Standards IVS 102 – Investigation and Compliance
- International Valuation Standards IVS 103 – Reporting
- International Valuation Standards IVS 104 – Bases of Value
- International Valuation Standards IVS 105 – Valuation Approaches and Methods
- International Valuation Standards IVS 200 – Businesses and Business Interests
- International Valuation Standards IVS 210 – Intangible Assets
- International Valuation Standards IVS 300 – Plant and Equipment
- International Valuation Standards IVS 400 – Real Property Interests

**API & PINZ Valuation Guidance Notes (ANZVGN)**

- Property Institute of New Zealand ANZVGN1 – Valuation Procedures – Real Property
- Property Institute of New Zealand ANZVTIP9 – Market Value of Rural and Agribusiness Properties

**PINZ Valuation Guidance Notes (NZVGN)**

- Property Institute of New Zealand NZVGN1 – Valuations for use in New Zealand Financial Reports

**API & PINZ Real Property Guidance Notes (ANZRPGN)**

- Property Institute of New Zealand ANZRPGN1 – Disclaimer Clauses & Qualification Statements

**IFRS (NZIAS Accounting Standards)**

- IFRS 13 – Fair Value Measurement
- IFRS 16 – Property, Plant and Equipment

**Highest and Best Use**

7.0.2 Under the Market Value definition to establish the value of the asset consideration must first be given to the highest and best use of those assets. Also consideration and then determination of the marketing period in the present market conditions considering the wider economic and more specific market drivers that are occurring in this and the wider primary sectors at date of the valuation report to determine the likely realisation period. This is summarised as follows:

| Asset | Highest and Best Use | Realisation Period Months | Alternate Highest and Best Use |
|---|---|---|---|
| 1741 Waimea Valley Road | Dairy milking platform | 6 to 8 | Dairy support |

**Market value is defined as:**

7.0.3 "Market Value is the estimated amount for which a property should be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeable, prudently and without compulsion."

7.0.4 In considering the willing buyer/willing seller definition we have determined that the marketing period in the present market conditions would be six to eight months. This time period considers the wider economic and more specific market drivers that are occurring in this and the wider primary sectors at date of the valuation report.

7.0.5 Most dairy unit sales are made including land and improvements, Fonterra shares, farm and household chattels, milking shed plant and equipment, effluent plant and supplements for a 1 June delivery. It is on this basis that we will assess the fair market value of the subject property (but excluding Fonterra shares and supplements).

**Plant and Equipment**

7.0.6 The valuation of the property includes the following items of plant and equipment:

1. Milking shed, plant and equipment.
2. Effluent plant equipment.
3. Farm chattels i.e. electric fence units.
4. Household chattels - normal.

### 7.1 Shares

7.1.1 This property has been assessed excluding any Fonterra shareholding held by the owner (if any).

## 8.0 EMISSION TRADING SCHEME

8.0.1 Our valuation is made on the following basis in relation to ETS obligations based on information supplied:

- There are no pre 1990 forests associated with the property which will attract deforestation liabilities
- The property is not registered as a participant under the Climate Change Response Act 2002
- If, on the provision of further information, confirming areas, status or liabilities are different from our above assessments, Logan Stone reserves the right to alter the valuation assessment accordingly.

## 9.0 MARKET COMMENTARY

### New Zealand Dairy Industry

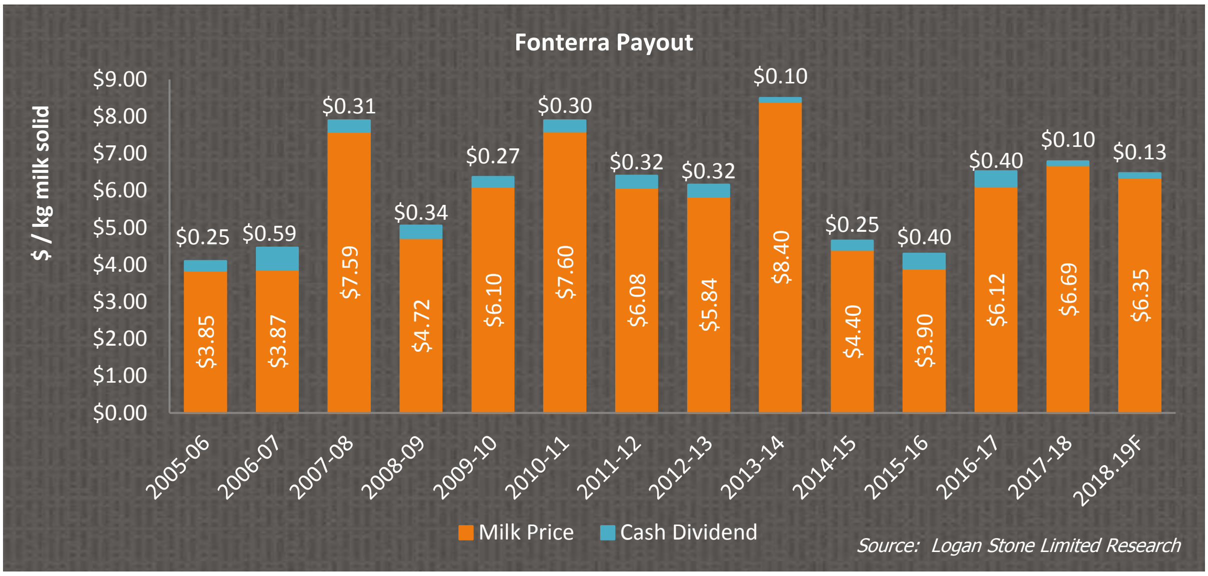
9.0.1 The New Zealand dairy industry produces circa 19 million tonnes of milk and exports some 95% of milk produced. This accounts for approximately 33% of cross border traded dairy products globally yet New Zealand's production only accounts for 2% of total global dairy production. As a consequence shifts in the supply / demand equation of global dairy commodities can cause considerable farm gate milk price volatility both up and down. While dairy unit sale prices do not necessarily immediately reflect changes to current farm gate milk prices, any investor in a dairy unit should be aware of the volatility of farm income that can occur in the industry.

9.0.2 The New Zealand dairy industry is dominated by Fonterra which is a supplier owned co-operative. Fonterra was formed in 2001 with the objective of maximising returns to its supplier owners through economies of scale and the ability to be a dominant participant in the global dairy trade. At the time of formation Fonterra processed around 96% of the New Zealand milk supply and is currently siting at approximately 82%.

9.0.3 Since the formation of Fonterra there have been several start up processing companies enter the market in addition to the existing companies such as Open Country Dairy, Westland Dairy Co-op and Tatua. Most of these companies operate in geographically isolated areas.

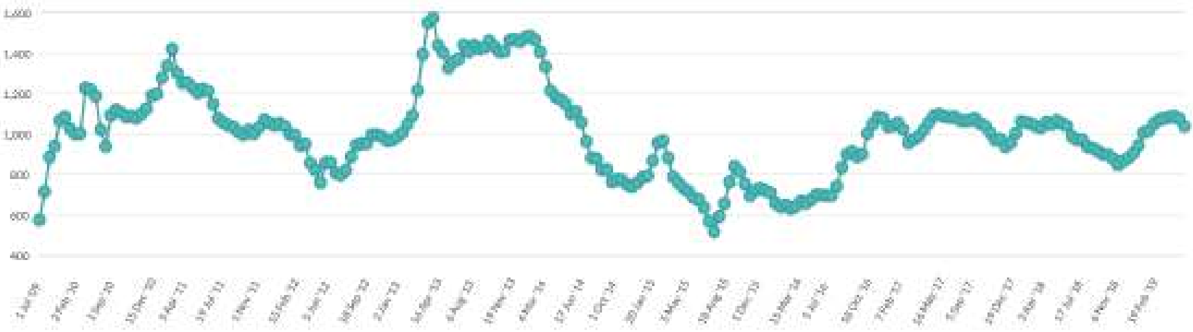
9.0.4 With Fonterra being the dominant processor/ marketer, together with their willingness to publically release actual and forecast farm gate payout information, disclose results of their global dairy trade auction and comment on the state of the dairy industry and factors' affecting their performance, their commentary is relevant to the dairy real estate market. Their pay out is consistent across New Zealand to supplier shareholders.

9.0.5 The below graph outlines Fonterra's historical and the current forecast for milk price and cash dividend;




9.0.6 At the time of writing, Fonterra's current forecast payout projection for the 2018/19 season for the milk price as announced at the 23 May 2019 is $6.30 to $6.40 / kg milk solids. This announcement was a 10 cent per kilogram milk solids decrease on previous season forecast announcements due to weaker dairy commodity sale prices. Industry commentators suggest the outlook remains uncertain due to global economic conditions as supply and demand factors rebalance.

9.0.7 Recent 'global Dairy Trade' auctions have shown an upward swing following a period of falling levels through 2018 but in recent times have begun a declining trend. Volatility in dairy commodity prices has been a theme of many commentators over recent seasons. This is shown in the below Global Dairy Trade Price Index over 10 years as provided by Global Dairy Trade.




**The Southland Dairy Industry**

9.0.8 The number of dairy farms in Southland has grown dramatically over the past seventeen years from 602 in 2002 to 982 in 2018 and now represents around 11.7% of the national herd and 12.6% of the national milk solids production. The effective hectares in dairy production have risen from 100,658 ha in 2002 to 221,343 ha in 2018 (Source: LIC 2017/18 statistics).

9.0.9 However the rate of conversions has plateaued in recent years attributable to economics and the Southland Regional Council wishing to limit further land use intensification to dairy.

| Year | Effective Dairy Platform ha – Southland | Annual Change |
|---|---|---|
| 2007/08 | 130,073 | |
| 2008/09 | 155.436 | 19% |
| 2009/10 | 169,749 | 9% |
| 2010/11 | 184,498 | 9% |
| 2011/12 | 185,592 | 1% |
| 2012/13 | 194,322 | 5% |
| 2013/14 | 198,417 | 2% |
| 2014/15 | 206,936 | 4% |
| 2015/16 | 210,915 | 2% |
| 2016/17 | 209,133 | -1% |
| 2017/18 | 221,343 | 6% |

9.0.10 The majority of dairy units are seasonal supply. The average effective property size is 225 ha with most platforms milking around 2.64 cows per effective hectare. Average production is 1,074 kg milk solids per effective hectare with average cow production 408 kg milk solids / cow (Source: LIC 2017/18).

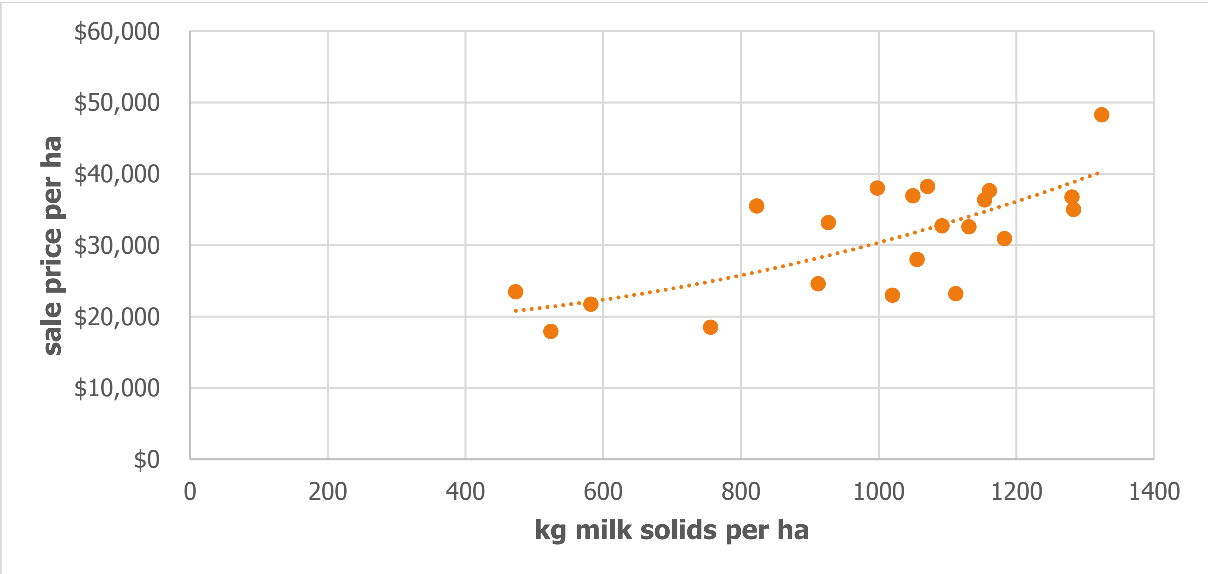
9.0.11 Features of dairying in Southland are;

- Shorter growing season requiring supplement feeding at the beginning and end of season to extend lactation
- General heavy soils requiring sub surface drainage to improve utilisation. These heavy soils need careful management when waterlogged to avoid soil and pasture damage.
- Relatively high wintering costs, with many cows and dry stock wintered off farm
- Strict environmental protection of waterways requiring good effluent storage and discharge systems.
- Preferred locations within region based on climate, contour, soil type and proximity to services.
- Larger average herd size allowing economy of scale for off farm investors to invest and allow managers or share-milkers to operate.
- Currently Southland dairy farmers can supply Fonterra, Open Country Dairy and Mataura Valley Milk (if they can secure supply contracts).

**Key Factors which influence dairy farm sale prices**

## 9.1 Production

9.1.1 Production per hectare is a key influence on sale price. The below graph demonstrates the relationship between per hectare sale price net of shares and the production per hectare. The graph sample is from the Southland dairy units sold in 2018 and to date.




9.1.2 Care needs to be taken when analysing sales as production per hectare is influenced by how properties are utilised (i.e. platforms or degree of self-containment), managed (e.g. good or bad), the amount of supplement feeding for lactation (i.e. are supplements grown on the property or brought in, N fertiliser use) and the suitability / reliability of climate and soils.

## 9.2 Farm Gate Returns

9.2.1 Dairy farm transactions are largely based on the outlook for farm gate returns. For a seasonal supply dairy milking platform circa 90 to 95% of income is derived from milk sales (expressed as per kilogram of milk solids). The payout is mainly determined by world commodity dairy prices, the exchange rate, and the downstream processor and marketer's performance. The most influential determinant is world commodity dairy prices.

## 9.3 Availability of Credit

9.3.1 Most dairy property transactions involve some degree of debt financing with many leveraging to maximum levels. The attitude and lending criteria of the main rural financiers has a strong influence on the strength of the property market. The current lending environment is more controlled than pre the global financial crisis. Emphasis is now placed on viability, positive cash flows and a degree of interest cover. With a larger proportion of equity required to meet viability, equity partnerships have been noticeably more predominant as purchasers especially for larger scale units.

## 9.4 Location

9.4.1 Location has a strong influence on sale price per hectare in Southland. While there are exceptions the location differences are mainly related to climate, contour and soil type factors. Preference is given to flat to undulating well set up units with good infrastructure in the Central Southland Plains and districts between Edendale and Riverton which have reliable summer rainfall and productive soils. These units tend to have higher production per hectare as a result of good climate and soils. Areas outside the above transact at lower levels per hectare depending on quality of unit. Historically Eastern Southland, Northern Southland and Western Southland do not achieve the sale prices enjoyed by the Central Southland areas mentioned above.

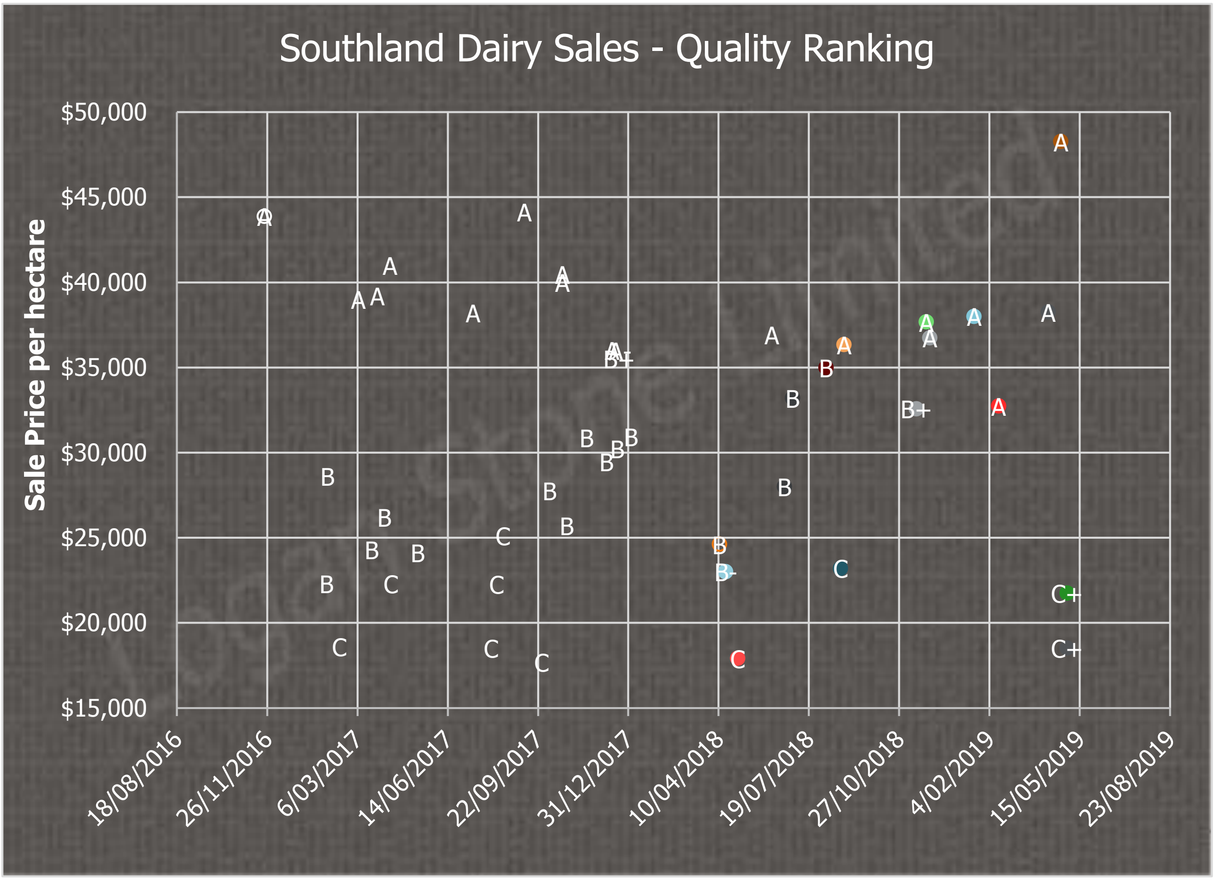
## 9.5 Recent Dairy Real Estate Market History in Southland

9.5.1 The below table is our mean analysis of dairy units sales in Southland over recent years which shows the annual variation of the mean sale price net of shares on both a per hectare and per kilogram of milk solids (average efficient production) metrics.

| Year | No Sales | Ave SP/ha net of shares | Variation | Ave SP/kg ms average efficient net of shares | Variation |
|---|---|---|---|---|---|
| 2007 | 46 | $25,071 | | $25.42 | |
| 2008 | 33 | $37,261 | 49.0% | $36.29 | 43.0% |
| 2009 | 14 | $30,639 | (18.0%) | $28.92 | (20.0%) |
| 2010 | 17 | $30,172 | (2.0%) | $28.86 | – |
| 2011 | 37 | $30,647 | 1.5% | $30.57 | 6.0% |
| 2012 | 15 | $29,623 | (3.0%) | $30.34 | (2.0%) |
| 2013 | 37 | $35,389 | 19.0% | $31.01 | 2.0% |
| 2014 | 33 | $38,914 | 10.0% | $34.45 | 11.0% |
| 2015 | 19 | $37,795 | (2.9%) | $33.00 | (4.2%) |
| 2016 | 13 | $34,257 | (9.4%) | $35.56 | 4.7% |
| 2017 | 26 | $30,476 | (11.0%) | $30.53 | (14.1%) |
| 2018 | 16 | $29,900 | (1.9%) | $31.50 | 3.2% |
| 2019 | 6 | $32,925 | 10.1% | $32.61 | 3.5% |

9.5.2 The average sale price per hectare has continued a downward trend during the 2018 year compared to 2017. There are only 16 sales for 2018 which is a low number to give any reliable trend.

9.5.3 The six sales for 2019 are and insufficient number to give any meaningful trend. The below graph provides a better indication of the trends of differing quality dairy units;




9.5.4 The volume of dairy farm sales remains below historical averages, with sale volumes in 2019 currently showing low turnover levels, which reflects dairy farm sales are in challenging times with poorer liquidity.

**Current Market Observations**

9.5.5 The below table is a summary of the market and wider economic conditions impacting on the dairy real estate market in Southland and relevant to the subject property;

| Item | Comment |
|---|---|
| Number of sales | Low by historic levels. Indicates a gap between buyers and seller expectations. |
| Number properties listed for sale | High. Trend for properties to be listed with asking price. |
| Buyers in market | Limited, especially for large scale operations. Limited overseas interest. Limited syndication / off farm investor / corporate interest. Limited owner operator unless buying and selling in same market to |

| Item | Comment |
|---|---|
| | improve land holding scale. NZSF has been active. |
| Property supply and demand | Unless strong, sustainable viability returns, high probability of property supply exceeding demand |
| Dairy profitability | Improving outlook with profitability returning. Some restoration of balance sheets still required to make up for previous years' debt funded losses. In the absence of capital growth in recent times market participants have found it challenging to accumulate wealth for business expansion. |
| Mortgage interest rates | At low levels. Steady. Risk of rate rises being factored in. |
| Availability of credit | Banks showing greater caution and requiring borrowers to show ability to pay principal from cash-flow. |
| Higher land use opportunities | None obvious on large scale. |
| Lower supporting land use | Dairy support. Value gap as some dairy infrastructure would be obsolete. Sheep and beef still below dairy support. |
| Impact of New Environmental Rules | Limiting for new dairy. Impacts still unclear. |

9.5.6 Conclusion: The market value over the short to medium term is likely to reflect the supply / demand of property on the market and the profitability of dairy farm businesses. Until dairy returns can show a sustainable, satisfactory return on capital commensurate with the risks associated with this type of investment, it is difficult to envisage dairy farm values improving. Given the number of dairy units currently on the market compared with the low sale volumes being experienced it is likely to take some considerable time to clear the backlog. In the absence of any significant improvement in profitability, we consider there is a bias for dairy unit sale prices to further weaken in the short to medium term.

## 10.0 MARKET EVIDENCE

10.0.1 The valuation has been determined by comparison to known sales of similar properties initially in this locality but also further afield if required. These sales have been fully analysed into the various components that they contain with adjustments then made for size, floor areas, age and condition of improvements, location and date of sale.

10.0.2 From the available market evidence, the transactions highlighted red in the below comparable sales analysis summary are those considered to be the most relevant to the subject property. The sale information is information that is publicly available. We have applied our own estimates of average efficient production as these may alter from production levels as advertised with the property. Further information is likely to be held by Logan Stone on the analysed property. This information often collected from inspections and valuations has been provided to us on a confidential basis and is not deemed to be public and therefore cannot be reproduced within this document. The Net Sale Price includes land and improvements, household and farm chattels and milking shed plant and equipment but excludes Fonterra shares, the Net Sale Price per hectare is the Net Sale Price divided by the title area, while the Productive Land Value per hectare is the productive land value exclusive of the lifestyle component, if any, over the total area.

### 10.1 Comparable Sales

10.1.1 The below comparable sales summary are recent sales that we have relied on in establishing the market value of the subject property. We have placed more weighting on those sales highlighted red.

| Location | Sale date | Sale Price | Area (ha) | Production per ha | Sale Price per ha net of Shares | SP / ave eff kg ms | Land value per ha | LV/ave eff kg ms | Comments | Quality Ranking | Relationship to subject property | ROTFC (ave efficient) rolling ave payout | MV Net as multiplier of Milk Price - ave eff. 5 yr ave plus forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 247 Mataura Island Road | 3/01/2018 | $2,800,000 | 90.5 | 1183 | $30,933 | $27.72 | $23,277 | $20.86 | Small scale platform boundering Mataura River. Mataura, Riversdale and Fleming soils. Riverine Physiographic zone. 1960s B&R dwelling, 18 aside herring bone milking shed. Good supporting farm buildings. | B | | 4.8% | 4.70 |
| 231 Mokotua Road, Mokotua | 21/12/2017 | $3,450,000 | 97.1 | 823 | $35,512 | $32.58 | $27,762 | $25.47 | Well presented smaller scale dairy unit. Waikiwi, woodlands and Mokotua soils. Oxidising and Gleyed physiographic zones. Three bedroom dwelling, 30 aside herringbone milking shed, implement shed and calf shed. | B+ | | 4.5% | 5.60 |
| 2237 Winton Hedgehope Road, Hedgehope | 18/04/2018 | $2,075,000 | 90.2 | 1020 | $23,008 | $24.36 | $16,865 | $17.85 | Mostly Pukemutu soils. Undulating to hill at back. Older 3 bedroom dwelling, Upgraded 18 aside herringbone milking shed. Fair other farm buildings. New 200 cow feed pad. Currently wintering on. | B- | | 5.7% | 4.10 |
| 136 Selbie Road, Lowther | 1/05/2018 | $5,472,000 | 305.2 | 524 | $17,926 | $30.66 | $11,332 | $19.38 | Inferior shape dairy unit converted in 2015. Not all milked off with circa 20 ha non effective river bed and part cut and carry. Access issue with one block. Gore, Oreti, Lumsden and Riversdale soils. Mostly Oxidising Physiographic zone with some Riverine. Two dwellings. High specification 54 bail rotary milking shed with 3,000m2 feed pad attached. Large range farm buildings. | C | | 4.5% | 5.20 |
| 599 Lumsden Mossburn Road, Castle Rock | 11/04/2018 | $10,800,000 | 438.8 | 912 | $24,613 | $26.62 | $19,855 | $21.48 | Larger scale Northern Southland unit. 60 ha irrigated by centre pivot. Mostly near flat contour. Three dwellings. 70 bail rotary milking shed. Basic range of farm buildings. Analysed LV Pivot $25,250/ha incl irrig plant; dryland $19,000/ha. | B | Better | 6.0% | 4.40 |
| Boag Road | 1/07/2018 | $2,682,000 | 79.3 | 927 | $33,198 | $35.31 | $23,034 | $24.50 | Part of a larger unit which also leased land next door. Rolling medium soils. Purchased by lessor. Two dwellings, 40 aside herringbone milking shed and fair farm buildings | B | | 4.1% | 5.80 |
| 1075 Mossburn Lumsden Road | 22/06/2018 | $11,923,326 | 425.8 | 1056 | $28,002 | $28.91 | $21,817 | $22.53 | Part irrigated Northern Southland platform. Approx 130 hectares under pivot irrigation. Flat to easy sloping contour. Mostly Oreti and Dipton soils. Three dwellings. Rotary Milking shed. Large calf shed and supporting buildings. | B | Better | 5.8% | 4.80 |
| 1671 Lorne Dacre Road, Mabel Bush | 8/06/2018 | $9,500,000 | 257.2 | 1050 | $36,936 | $30.65 | $29,160 | $24.20 | Sold to new equity syndicate. Good quality Waikiwi and Woodlands soils. Undulating. Three dwellings. 50 aside herringbone milking shed. Good farm buildings. Two herd homes wintering 300 cows. | A | | 5.5% | 5.10 |
| 658 Pahia Wakapatu Road, | 23/08/2018 | $5,675,000 | 244.6 | 1112 | $23,211 | $26.25 | $16,804 | $19.00 | Coastal location dairy platform. Two dwellings. 50 bail rotary milking shed. Fair farm buildings. | C | | 5.7% | 4.30 |
| 581 Plains Station Road | 7/08/2018 | $6,000,000 | 167.6 | 1283 | $35,000 | $32.87 | $26,819 | $24.62 | High performing Northern Southland mid scale dairy unit with average imports. River flats with some higher terraces. Some non-effective terrace faces. Good main dwelling plus cottage. 40 bail rotary. Good farm buildings. | B | Better | 4.6% | 5.40 |
| 276 Drain Road, Northope | 27/08/2018 | $5,511,000 | 151.6 | 1154 | $36,347 | $33.70 | $27,617 | $25.61 | Converted 2009. Flat mostly Braxton soils with Otanamomo (developed peat) and Pukemutu soils. Character homestead. Second dwelling for two staff. 44 aside herringbone milking shed. 300 cow feed pad and silage pad. Good farm buildings. New water system. | A | | 4.5% | 5.60 |
| 756 Island Edendale Road, Menzies Ferry | 15/11/2018 | $7,200,000 | 221.6 | 1131 | $32,579 | $29.14 | $25,182 | $22.53 | Well set up larger scale dairy platform. Has been leasing adjoining 40 ha. Three dwellings. 50 bail rotary with in shed feeding. Gore, Jacobstown and Charlton soils. Mostly flat. Significant flood risk. | B+ | | 5.4% | 4.90 |
| 79 Wilson Road, Ryal Bush | 26/11/2018 | $5,355,000 | 142.1 | 1161 | $37,675 | $32.50 | $30,109 | $25.98 | Flat with Waikiwi, Woodlands and Pukemutu soils. Well laid out. Two dwellings. 36 aside herringbone milking shed. Eight bay calf shed and hay shed. | A | | 4.5% | 5.40 |
| 83 Fraser Road, Flints Bush | 30/11/2018 | $9,665,000 | 262.9 | 1281 | $36,751 | $31.89 | $27,878 | $24.19 | Flat. Mostly Braxton and Pukemutu soils with some Otahuti, Edendale and Otanamomo. Well set up larger scale. Three dwellings, 60 bail rotary with ACRs, auto drafting and inshed feeding. Large range farm buildings | A | | 4.8% | 5.30 |
| Wreys Bush | 4/09/2018 | $31,900,000 | 1362.5 | 473 | $23,491 | $49.38 | $17,363 | $36.52 | Very large scale self-contained. 1600 cows, 645,250kg ms. Flat. 249 paddocks. Seven dwellings, 80 bail rotary, calf sheds for 820 calves. Two wintering barns for 1700 cows. Purchased by NZSF. | B | | 5.2% | 8.20 |
| 555 Collinson Road, Tussock Creek | 18/01/2019 | $5,406,900 | 142.3 | 998 | $38,000 | $34.17 | $29,570 | $26.59 | Flat. Mostly Pukemutu soils. Two dwellings. 40 aside herringbone milking shed. Good supporting farm buildings Good layout. | A | | 4.0% | 5.70 |
| 259 Teviotdale Road, Isla Bank | 14/02/2019 | $9,800,000 | 299.3 | 1092 | $32,739 | $29.28 | $25,555 | $22.86 | Flat to easy undulating with Aparima, Pukemutu and Isla bank soils. Fair layout with two underpasses. Three dwellings plus worker unit. 50 bail high spec rotary. Full range good farm buildings. | A | | 5.4% | 4.90 |
| 86 Forbes Rd, Woodlands | 24/04/2019 | $7,839,000 | 162.4 | 1324 | $48,269 | $39.04 | $36,697 | $29.68 | Sold on lease back basis. Purchased by Bulb interest as Waikiwi soils. Flat rectangular farm. Two dwellings. High spec 64 bail rotary milking shed. Large range farm buildings. Converted 2009. Production adjusted as milks off 23 ha lease. | A | | 4.1% | 6.50 |
| 793 Edendale Woodlands Hwy, Dacre | 10/04/2019 | $3,300,000 | 86.2 | 1071 | $38,263 | $33.89 | $29,100 | $25.78 | Undulating, mostly Waikiwi / Woodlands soils. 2008 3 bedroom dwelling. 43 herringbone milking shed. Good farm buildings | A | | 3.9% | 5.60 |

| Location | Sale date | Sale Price | Area (ha) | Production per ha | Sale Price per ha net of Shares | SP / ave eff kg ms | Land value per ha | LV/ave eff kg ms | Comments | Quality Ranking | Relationship to subject property | ROTFC (ave efficient) rolling ave payout | MV Net as multiplier of Milk Price - ave eff. 5 yr ave plus forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2360 Orepuki Riverton Highway | 1/05/2019 | $9,000,000 | 413.7 | 582 | $21,751 | $33.61 | $16,742 | $25.87 | Self-contained coastal dairy unit. Flat to rolling with gully. Mokatua soils. Three dwellings. 50 bail rotary milking shed. Good range farm buildings. | C+ | Inferior | 5.1% | 5.60 |
| 2422 Orepuki Riverton Highway | 1/05/2019 | $5,000,000 | 269.8 | 756 | $18,528 | $25.68 | $12,977 | $17.96 | Rolling platform of circa 200 hectares with the balance as support. Mokatua and Riverton soils. Two dwellings. 50 bail rotary milking shed. Fair farm buildings. | C+ | Inferior | 4.9% | 4.30 |
| | | | | **Average** | **$30,725** | **$31.82** | **$23,251** | **$23.97** | | | | **4.9%** | **5.30** |

## 11.0 VALUATION APPROACHES

11.0.1 We consider the following four valuation approaches the most appropriate for estimating the market value under current market sentiments.

### 11.1 Summation Valuation per Hectare

11.1.1 When assessing the market value of the subject property under this approach the land value for the appropriate range of land classes is established and the assessed added value of improvements is calculated. Chattels, milking plant and equipment, effluent plant and Fonterra shares are added on a similar basis if appropriate. The final summated figure is then compared with the comparable sales evidence at a similar benchmarked level.

**Land Value**

11.1.2 Land Value is determined by sales of property that have no or limited improvements contained on them. Where sales of this type are low in volume, sales of partially or fully developed properties, or listings, are analysed to derive a base land value. When there is a paucity of sales information from specific locations information is drawn from other locations to allow analysis to occur to derive a base land value. This base land value is then further analysed to the varying land classes or soil types, whichever approach the market is using to determine the value of the land at that time for the sector and location where the market activity is occurring. Further analysis is undertaken at a more cursory level on productive based measures i.e. stock units, kg milk solids, per hectare or by total property. This consideration has less weighting placed upon it due to the large variation that can occur due to management capability and capital utilised. Consideration is given to the deemed "average efficient" production levels that have been analysed for each sale and the subject property.

11.1.3 Based on the above approach the sales analysis indicates that properties in this locality have land values within the following range as a base land value. These land values are for the productive component only and exclude any lifestyle or building right premium that may be paid above the underlying productive component. If the property contains any lifestyle or building right premium this is then added to these underlying productive values. This approach is consistent with the approach adopted when analysing sales.

| Land Type | Sale Value Range | Subject Property |
|---|---|---|
| Undulating to rolling Eastern / Northern Southland dairy | $15,000 - $23,000/ha | $18,500/ha |
| Steeper dry stock | $5,000 to $15,000/ha | $10,000/ha |
| Scrub and waste | $1,000 to $5,000/ha | $2,500/ha |

11.1.4 We have adopted a value at the mid to upper range due to the current production levels, location and general appearance and presentation of the land at inspection.

## 11.2 Improvements

11.2.1 When undertaking the assessment of the improvements contained on the property we have considered two methodologies:

**Replacement Cost Approach**

11.2.2 We have summated our estimate of the cost to replace the buildings and other improvements less an appropriate allowance for depreciation to reflect the unexpired portion of the economic life due to physical depreciation, functional obsolescence and any relevant external or environmental factors so as to arrive at a value. This approach is termed the Cost or Depreciated Replacement Cost Approach. This approach is often used as a fall back approach or for specialised assets when sales or other market derived information is not available.

**Sales Approach**

11.2.3 The Added Value Approach is derived from analysis of sales with apportionment of the improvement value based on the various improvement components or individual building values. It is a variation of the sales approach. This approach determines the added value of the buildings and other improvements to the property as determined by the current market situation and completed sales. It considers the value of the building improvements and other improvements based on utility and functionality they add to the property and how the market is reflecting those features at that time.

11.2.4 The Net Rate approach is based on the analysis of sales. The analysis considers the component parts of the improvements i.e. rate per $m^2$ of building, rate per metre of fencing, rate per tree/vine etc. These rates are then applied back to the subject property and the various improvements contained on that property to provide an additional approach to value of the improvements.

11.2.5 The combination of these approaches forms the basis of the improvement value assessment, with priority and more weighting placed on market based information.

**Improvements Comment**

11.2.6 Housing: Fair to good quality owners / managers residence. Two good worker accommodation units. The number of dwellings and accommodation numbers are inadequate. A further accommodation facility for staffing levels of this size property is warranted.

11.2.7 Milking shed: Well sited and in good condition with good capacity and appropriate plant.

11.2.8 Productive farm buildings: Adequate range and condition

11.2.9 Fencing and subdivision: Good

11.2.10 Farm water supply: Good

11.2.11 Races and layout: Good.

11.2.12 Effluent: Good

11.2.13 The below outlines our summation valuation worksheet under this approach:

| **Land** | **Description** | | **Area** | **Unit Price** | **Provisional** | **Final** | | | |
|---|---|---|---|---|---|---|---|---|---|
| Rolling Platform | | | 329 | 18500 | 6086500 | | | | |
| Dry stock grazing | | | 17 | 10000 | 170000 | | | | |
| Scrub, waste etc | | | 3.9 | 2500 | 9750 | | | | |
| | | | | | 0 | | | | per ha |
| **Total Land** | | | **349.9** | | **6266250** | **6270000** | | **$6,270,000** | **$17,916** |
| Improvements | | | | | | | | | |
| **Fencing** | **No Pdks** | **Av pdk size** | **Area** | **Rate** | | **VTP** | | | |
| | 50 | 7.0 | 349 | 350 | 122150 | | | | |
| Water Supply | | | 349 | 300 | 104700 | | | | |
| Races & Lanes | | | 5800 | 25 | 145000 | | | | |
| Effluent | | | 1 | 150000 | 150000 | | | | |
| Bridges | | | | | 0 | | | | |
| Underpass | | | | | 0 | | | | |
| Shelter | | | 1 | 20000 | 20000 | | | | |
| Other | | | | | 0 | | | | |
| Total Paddock Improvements | | | | | 541850 | 540000 | | $540,000 | |
| Paddock Value | | | | | | | | $6,810,000 | $19,459 |
| **Building** | **Age** | **Condition** | **Quantity** | **Rate** | | **VTP** | | | |
| Dwelling | 1970s | G | 216 | 1000 | 216000 | $216,000 | | | |
| Surrounds | | | 1 | 25000 | 25000 | $25,000 | | | |
| Dwelling | 2001 | G | 87 | 1350 | 117450 | $117,000 | | | |
| Car Port | 2001 | G | 18 | 150 | 2700 | $3,000 | | | |
| Surrounds | | | 1 | 10000 | 10000 | $10,000 | | | |
| Dwelling | 2001 | G | 57 | 1350 | 76950 | $77,000 | | | |
| Car port | | G | 18 | 150 | 2700 | $3,000 | | | |
| Surrounds | | | 1 | 10000 | 10000 | $10,000 | $461,000 | | |
| Milking Shed | 2001 | G | 60 | 11000 | 660000 | $660,000 | | | |
| Calf Shed | 1980s | G | 108 | 70 | 7560 | $7,000 | | | |
| Hay Barn | 1980s | G | 108 | 30 | 3240 | $3,000 | | | |
| Hay Barn | 1980s | G | 204 | 30 | 6120 | $6,000 | | | |
| Hay Barn | 1980s | G | 108 | 30 | 3240 | $3,000 | | | |
| Calf Shed | 1980s | G | 605 | 80 | 48400 | $48,000 | | | |
| Woolshed | 1980s | F | 150 | 75 | 11250 | $11,000 | | | |
| Fert Bin | Mixed | F | 111 | 50 | 5550 | $6,000 | $744,000 | | |
| Total Buildings | | | | | 1206160 | $1,205,000 | | $1,205,000 | |
| **Total Improvements** | | | | | | | | **$1,745,000** | |
| **Total Land & Improvements** | | | | | | | | **$8,015,000** | **$22,902** |
| Household Chattels | | | | | | | | $10,000 | |
| Farm Chattels | | | | | | | | $10,000 | |
| Milking and Effluent Plant & equipment | | | | | | | | $235,000 | |
| Supplement | | | | | | | | | |
| | | | | | | | | | per ha |
| **Market Value net of Shares** | | | | | | | | **$8,270,000** | **$23,631** |

## 11.3 Summation Valuation per kilogram Milk Solids

11.3.1 The common benchmark of analysis for dairy unit sales is the sale price per kilogram of milk solids (kg ms) produced. Caution needs to be taken with this approach as levels of production can vary significantly between properties as some are partly or totally self-contained and / or significant supplements can be brought onto the property which are used for lactation and can distort the property's underlying pasture based productive ability. In our opinion it is more appropriate to analyse sales and assess the property on an 'average efficient level of management' as this provides a better reflection of market sentiments and reduces the variability of benchmark range.

11.3.2 Most dairy platforms managers import supplementary feed to some degree as a tool to lengthen the milking season, improve herd condition scores, help with returning cows to get in calf and attain peak milk production. Other managers supplementary feed all season which is mostly determined by economics and the relationship between the milk price and cost of feed. In high payout years it is common for more supplementary feeding to be done. When determining average efficient production we do include some supplementary feeding. This is dependent on how we consider the market would likely manage the property based on many factors including feeding systems and facilities available, along with other physical characteristics of the property.

11.3.3 From the sales analysis summary the market reflects the below range and average:

| Range per kg Milk Solids | Adopted Level for Subject Property |
|---|---|
| $24 to $35 | $26 |

11.3.4 We have adopted the level at the lower end of the range of the comparable sales due to the location, production and quality of the property.

11.3.5 We can now estimate the market value as;

| Average Efficient Production | Market Value per kg Milk Solids | Estimated Market Value |
|---|---|---|
| 314,000 kg ms | $26 | $8,164,000 |

## 11.4 Income Valuation Approach – Income Capitalisation Approach

11.4.1 This approach estimates the market value by capitalising the earnings before interest, tax depreciation and amortisation (EBITDA) after calculating Gross Farm Income, Farm Working Expenses and making an allowance for Wages of Management based on average efficient production. From the market evidence we analyse and determine an appropriate capitalisation rate. On capitalising the EBITDA we arrive at an estimate of Total Farm Capital required to run the property as a standalone unit. We then need to deduct the capital required for Fonterra shares, stock and plant if appropriate. The remainder is the estimate of market value of the subject property of land and improvements, chattels and plant consistent with our other approaches adopted. This approach is the same as applied to our analysis of the market sales evidence.

11.4.2 Under this approach requires a number of key assumptions to be made. A key assumption is the milk price used in determining the gross farm income. We prefer the adoption of an average of the previous five year actuals and the Fonterra forecast at the time of valuation or sale. This allows a smoothing of volatility that can be shown with milk payouts but more importantly is a better fit for the description of a knowledgeable seller / buyer in the market value definition. The resultant milk price under this formula is also more in line with major rural financiers' long term payout projections when assessing credit applications.

11.4.3 The capitalisation rate, being the market analysed return on total farm capital, is determined from our sales analysis and is provided below:

| Capitalisation Rate Range | Adopted for Property |
|---|---|
| 3.9% to 6.0% | 5.5% |

11.4.4 We have adopted a capitalisation rate at slightly below the average due to the good location of the property and potential to improve production via supplementary feeding if desired.

11.4.5 Our workings of this methodology to estimate the market value are shown below.

| | | Av Eff ms | | (6 yr ave at agreement date) | | Total |
|---|---|---|---|---|---|---|
| Gross Farm Income | | 314,000 | Milk Price | $5.98 | per kg ms | $1,877,720 |
| | | 314,000 | Dividend | $0.20 | per kg ms | $62,800 |
| | | 314,000 | Stock | $0.35 | per kg ms | $109,900 |
| Other Income | | | | | | $- |
| | | | | | GFI Total | $2,050,420 |
| Farm Working Expenses | | 314,000 | | $4.20 | per kg ms | $1,318,800 |
| Other | | | | | | $- |
| | | | | | Total Expenses | $1,318,800 |
| Wages of Management | | | | $100,000 | | $100,000 |
| EBITDA | | | | | | $631,620 |
| Market analysed capitalisation rate range | | | | | | 3.9 % to 6.0% |
| Adopted capitalisation rate | | | | | | 5.5% |
| Total Farm Capital | | | | | | $11,484,000 |
| | | | **Number** | **Price** | | |
| less | Shares | | 314,000 | $3.99 | | $1,252,860 |
| | Cows | | 800 | $1,800 | | $1,440,000 |
| | R1 Heifers | | 200 | $800 | | $160,000 |
| | Plant | | 314,000 | $1.00 | | $314,000 |
| Land and Improvements, Chattels and Milking Plant | | | | | | $8,317,140 |

## 11.5 Income Approach – Multiplier of Milk Price

11.5.1 This approach is a high level approach which enables the market value of land and improvements to be assessed as a multiplier of the milk income for the property. To establish the milk price we adopt of an average of the previous five year actuals and the Fonterra forecast at the time of valuation or sale. We prefer to use a milk price multiplier as this enables some comparison with other milk supply companies other than Fonterra. Milk price is also a better reflection of the trend in global dairy commodity prices.

11.5.2 The below is our estimate of market value using this approach;

| | |
|---|---|
| Average Efficient production - kg milk solids | 314,000 |
| Average of 5 year historic plus Fonterra Forecast Milk Price at date of valuation | $5.98 |
| Total Milk Income | $1,877,720 |
| Market Analysed Range of Multiplier | 4.1 to 6.5 |
| Adopted Multiplier | 4.4 |
| Estimated Market Value of Land and Improvements, Chattels and Milking Plant Equipment | $8,261,968 |
| Say | $8,262,000 |

## 11.6 Valuation Approach Summary

11.6.1 Below is a summary of our market analysis and market value estimates under each approach:

| Valuation Approach | Market Value Estimate |
|---|---|
| **Per Hectare** | $8,270,000 |
| **Per kg Milk Solids. Average Efficient** | $8,478,000 |
| **Income Capitalisation** | $8,317,000 |
| **Multiplier of Milk Income** | $8,262,000 |

11.6.2 While all the above approaches arrive at a reasonable range, our preferred valuation approach is the summated valuation approach based on establishing the land value and summating the added value of improvements and associated chattels and plant as outlined as we consider this a more accurate methodology.

11.6.3 We therefore adopt the market value at $8,270,000.

## 12.0 PROPERTY DETAILS

### 12.1 Legal Description

12.1.1 We refer to the attached Record of Title ("titles") at Appendix B contained within the Southland Land Registration District. To summarise:

| Registered Proprietor | Description | Title Identifier | Area (ha) |
|---|---|---|---|
| Coldstream Downs Limited | Lot 18 Deposited Plan 502 | SL7D/78 | 169.1586 ha |
| Coldstream Downs Limited | Lot 19 Deposited Plan 502 | SL4A/1035 | 94.1223 ha |
| Coldstream Downs Limited | Lot 20 Deposited Plan 502 | SL7D/79 | 86.6836 ha |
| | | **Total Land Area** | **349.9645 ha** |
| **Tenure** | Freehold – Fee Simple | | |

12.1.2 The following interest or registration is deemed to be of relevance when considering the property from a valuation perspective. Any material impact of these interests has been taken into account in our valuation assessment.

Title Identifier SL7D/78:

- Land Improvement Agreement pursuant to the Soil Conservation and Rivers Control Amendment Act 1959
- Subject to a right to convey water over part marked A, C on DP 355638 created by Easement Instrument 6512246.6
- Subject to a right to convey water over part marked A, B on DP 355638 created by Easement Instrument 6512246.8
- Subject to a right to convey water over part marked A, B on DP 355638 created by Easement Instrument 6512246.9
- Mortgage to Bank of New Zealand

Title Identifier SL4A/1035:

- Land Improvement Agreement pursuant to Section 30A Soil Conservation and Rivers Control Act 1941
- Mortgage to Bank of New Zealand

Title Identifier SL7D/79:

- Land Improvement Agreement pursuant to the Soil Conservation and Rivers Control Amendment Act 1959
- Mortgage to Bank of New Zealand

12.1.3 In our opinion the above registrations of interests have no material impact on the value of the property under current land use.

12.1.4 We note a 'paper road' dissects the property which forms part of the effective area. We base our assessment on the paper road remaining unopened.

### 12.2 Rating Valuation

| *The Rateable Values assessed as at 1 September 2018:* | | | | |
|---|---|---|---|---|
| ***Property*** | ***Land Area (ha)*** | ***Value of Improvements*** | ***Land Value*** | ***Capital Value*** |
| 1741 Waimea Valley Rd | 349.9645 | $1,900,000 | $6,600,000 | $8,500,000 |

### 12.3 Rates

| *For the 2017/2018 Year (GST inclusive):* | | | |
|---|---|---|---|
| ***Property Address*** | ***Land Area (ha)*** | ***Southland District Council*** | ***Environment Southland Regional Council*** |
| 1741 Waimea Valley Rd | 349.9645 | $13,578.35 | $3,980.79 |

### 12.4 Resource Consents

12.4.1 The below resource consents have been provided from the Regional Council. Our market value assessment is based on these consents transferring with the property to enable the property to transact at its highest and best use as outlined in this report.

| | | |
|---|---|---|
| **Owner** | Coldstream Downs Limited | Coldstream Downs Limited |
| **Consent No** | 201629 | 300572 |
| **Type** | Water Permit | Discharge Permit |
| **Source** | To dam water and to take water from North Peak Stream at Waimea Valley Road at above normal flows, to put into a storage reservoir | Discharge of dairy shed effluent to land. Excludes effluent from winter milking, or any feedlot or wintering pad. |
| **Rate** | The abstraction shall not reduce the rate of flow in North Peak Stream to less than 25 litres per second | Maximum 1200 cows. 5,400$m^3$ effluent storage pond. |
| **Expires** | 13 December 2037 | 6 October 2021 |

### 12.5 Production

12.5.1 The property was converted to dairy in 2001 and production for the past five seasons has been:

| Year | kg ms | Area (total) | Eff ha | per ha | per eff ha | Cows | cows/eff ha | kg ms / cow |
|---|---|---|---|---|---|---|---|---|
| 2013.14 | 325183 | 349 | 313 | 932 | 1039 | 800 | 2.56 | 406 |
| 2014.15 | 300458 | 349 | 313 | 861 | 960 | 800 | 2.56 | 376 |
| 2015.16 | 315456 | 349 | 313 | 904 | 1008 | 800 | 2.56 | 394 |
| 2016.17 | 314000 | 349 | 313 | 900 | 1003 | 800 | 2.56 | 393 |
| 2017.18 | 281500 | 349 | 313 | 807 | 899 | 660 | 2.11 | 427 |
| 2018.19 | 263266 | 349 | 313 | 754 | 841 | 718 | 2.29 | 367 |

12.5.2 The current cows are breed is mainly Jersey Friesian Cross.

12.5.3 The following is our assessment of the production under an average efficient operator:

| | |
|---|---|
| Effective Platform Ha | 313 |
| Peak Cows | 800 |
| Cows / ha | 2.56 |
| Base pasture production - kg DM per ha | 11,000 |
| Utilisation | 85% |
| kg DM : kg ms conversion | 10.8 |
| Base pasture production - kg MS | 270,977 |
| N Fert - kg N per eff ha | 110 |
| kg DM Response per kg N | 10 |
| Production from N - kg MS | 27,098 |
| Production from Pasture Grown -kg MS | 298,075 |
| Supplement Imports % Total Production | 5.0% |
| Production Attributable to supplement imports -kg MS | 14,904 |
| Total Ave Efficient Production -kg MS | 312,978 |
| Say | **314,000** |
| kg MS per ha | 1,003 |
| kg MS per cow | 393 |

# Appendix A

## Statement of General Valuation Policies

**STATEMENT OF GENERAL VALUATION POLICIES**

1. Our responsibility in connection with this valuation report is limited to the person to whom the report is addressed and we disclaim all responsibility to any other party without reference to us.
2. This report may not be reproduced, in whole or in part, without our prior written approval.
3. This report has been prepared for the purpose stated in the report and may be relied upon for that purpose only. Assumptions made in the preparation of the report are as expressly stated in the report or set out below.
4. Where it is stated in the report that information has been supplied to us by another party, this information is believed to be reliable but we cannot accept responsibility if this should prove not to be so. Where information is given without being attributed directly to another party, this information has been obtained by our search of records and examination of documents or by enquiry from Government or other appropriate departments.
5. We have made no survey of the property and unless otherwise stated assume that all improvements lie within the Computer Freehold Register boundaries. No guarantee is given that the land is not subject to statutory rights not recorded on the relevant Computer Freehold Register and not apparent from normal inspection of the property. We assume no responsibility in connection with such foregoing matters.
6. We do not carry out investigations on site in order to determine the suitability of ground conditions and services, nor do we undertake environmental or geotechnical surveys. Unless notified to the contrary, our valuations are on the basis that these aspects are satisfactory and also that the site is clear of underground mineral or other workings, methane gas or other noxious substances.
7. Unless otherwise stated our report is subject to there being no detrimental registration(s) affecting the land other than those appearing on the Computer Freehold Register(s) valued in this report. Such registrations may include Wahi Tapu registrations and Historic Places Trust registrations.
8. We have not obtained from the territorial authority a Land Information Memorandum. Our valuation has been made on the basis that such Memorandum if obtained would not have disclosed information which would have affected adversely our opinion of the market value of the property.
9. No environmental audit has been undertaken, although contaminants present on the site and obvious to us on inspection may have been noted in the report. No warrant is given, or is to be implied, in this report that the property is free from contaminants.
10. While in the course of inspection due care is taken to note building defects, no structural survey has been made and no undertaking is given about the absence of rot, termite or pest infestation, deleterious substances such as asbestos or calcium chloride or other hidden defects. We can give no guarantee as to outstanding requisitions in respect to the subject building.
11. In preparing the valuation it has been assumed hot and cold water systems, electrical systems and other devices, fittings and conveniences as are in the building to be in proper working order and functioning for the purpose for which they were designed.
12. Where a property is leased, this report records the nature of the information supplied. That information has been accepted and relied upon at face value. It has been assumed that the information supplied is complete and accurate, and that the lease is fully enforceable.
13. Unless otherwise stated in our report our valuation is on the basis that the property complies with the Building Act 1991, Health and Safety in Employment Act 1992, Evacuation of Buildings Regulations 1992 and Disabled Persons Community Welfare Act 1975 or that the legislation has no significant impact on the value of the property.
14. We certify that Logan Stone Limited holds professional indemnity insurance.
15. Unless otherwise stated our valuation assessment is expressed in New Zealand Dollar currency.

# COLDSTREAM DOWNS DAIRY FARM LIMITED

## FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 MAY 2019

COLDSTREAM DOWNS DAIRY FARM LIMITED

**FINANCIAL STATEMENTS**

*FOR THE YEAR ENDED 31 MAY 2019*

SILKS AUDIT CHARTERED ACCOUNTANTS LTD SA

# Coldstream Downs Dairy Farm Limited

## DIRECTORY

| | |
|---|---|
| **Nature of Business** | Dairy Farming in the South Island of New Zealand |
| **I R D Number** | 90-631-691 |
| **Date of Incorporation** | 19/06/2002 |
| **Company Number** | 1629645 |
| **Registered Office** | 87 Weraroa Road<br>Waverley |
| **Securities Registrar** | Roger Dickie (N Z) Limited<br>S H 3<br>Waverley |
| **Directors** | R R Dickie<br>S J Barr<br>J H Whitlock |
| **Accountants** | Markhams Waverley Limited<br>Waverley |
| **Solicitors** | Kensington Swan<br>Wellington<br>Horsley Christie<br>Wanganui |
| **Auditors** | Silks Audit Chartered Accountants Limited<br>Wanganui |
| **Bankers** | Bank of New Zealand<br>Wanganui |

# Coldstream Downs Dairy Farm Limited

## DIRECTORS REPORT

*FOR THE YEAR ENDED 31 MAY, 2019*

The business of the company through its subsidiaries Coldstream Downs Ltd and Coldstream Downs Sharemilking Ltd is dairy farming.

| | THIS YEAR | LAST YEAR |
|---|---|---|
| The operating surplus (deficit) of the company for the year ended 31st May 2018 was | (566,863) | 421,799 |
| Taxation charge for the year was | (18,153) | (193,306) |
| Dividends Paid & Provided were | (135,000) | (315,000) |
| Capital Repaid to Minority was | - | - |
| Retained Earnings at 1st June 2018 were | 1,190,365 | 1,276,872 |
| Retained Earnings at 31 May 2019 | $ 468,299 | $ 1,190,365 |

It is not proposed to make any transfer to reserves.

The state of the company's affairs at 31st May 2019 was:-

| | | |
|---|---|---|
| Assets totalled | $ 7,006,337 | $ 7,726,385 |
| and were financed by | | |
| Shareholders equity of | 5,513,024 | 6,235,090 |
| and liabilities of | 1,493,313 | 1,491,295 |
| | $ 7,006,337 | $ 7,726,385 |

The Board of Directors present their annual report, including the financial statements of the Company for the year ended 31 May 2019.

Directors Interests;

Directors holding office during the year were R R Dickie, S J Barr and J H Whitlock

There were no company shares acquired or disposed of by directors during the year

No entries were made into the company's interest register during the year

Administration Services amounting to $3,565 were provided to the Group by Roger Dickie (NZ) in which Roger Dickie, a director, has a controlling interest. The services were provided on normal commercial terms.

Accounting Services amounting to $7,881 were provided to the Group by Markhams Waverley Ltd in which Jeff Whitlock, a director, is also a director. The services were provided on normal commercial terms.

No directors fees were paid to directors during the year, and no other remuneration was paid to directors during the year.

There were no donations made by the company during the year

No employees or former employees were paid in excess of $100,000 in the year

For and on behalf of the Board of Directors

Director
28 September 2019

Director
28 September 2019

SILKS AUDIT CHARTERED ACCOUNTANTS LTD SA

## STATEMENT OF COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 MAY, 2019*

| | Notes | GROUP 2019 $ | PARENT 2019 $ | GROUP 2018 $ | PARENT 2018 $ |
|---|---|---|---|---|---|
| **Operating Revenue** | | | | | |
| Stock Proceeds | | 149,152 | - | 140,007 | - |
| Less Stock Purchases | | (32,633) | - | (96,100) | - |
| Change in Livestock Values | | (277,700) | - | 34,275 | - |
| Gross Income from Livestock | | (161,181) | - | 78,182 | - |
| Milk Proceeds | | 1,670,691 | - | 1,883,700 | - |
| Dividends Received | | 253 | - | 95,541 | - |
| Interest Received | | - | - | - | - |
| Sundry Revenue | | 10,467 | | 1,409 | |
| Revaluation of Investments - Fonterra | 16 | - | | - | |
| Revaluation of Investments - Other | | 1,904 | - | 1,617 | - |
| | | 1,522,134 | - | 2,060,449 | - |
| **Operating Expenses** | | | | | |
| Rates & Insurance | | 31,216 | - | 32,085 | - |
| Interest & Finance Charges | | 40,248 | - | 49,244 | - |
| Animal Health | | 62,341 | - | 56,436 | - |
| Audit Fees | | 11,574 | - | 10,950 | - |
| Feed, Hay & Silage | | 105,083 | - | 132,068 | - |
| Grazing Fees | | 364,392 | - | 267,864 | - |
| Sharemilker Payments | | 329,283 | - | 366,320 | - |
| Other Farm Working Expenses | | 238,196 | - | 178,898 | - |
| Pasture Maintenance | | 139,784 | - | 145,836 | - |
| Repairs & Maintenance | | 67,679 | - | 57,811 | - |
| Depreciation | 8 | 72,076 | - | 77,405 | - |
| Revaluation of Investments - Fonterra | 16 | 629,145 | - | 263,733 | - |
| Revaluation of Investments - Other | | - | - | - | - |
| | | 2,091,017 | - | 1,638,650 | - |
| **Operating Surplus (Deficit) before Tax** | | (568,883) | - | 421,799 | - |
| Income Tax Expense | 4 | 18,183 | | 193,306 | |
| **Operating Surplus (Deficit) after Taxation** | | (587,066) | - | 228,493 | - |
| Other Comprehensive Income | | - | - | - | - |
| **Total Comprehensive Income** | | (587,066) | - | 228,493 | - |
| | | | | | |
| Attributable to Owners of the parent company | | (587,066) | - | 228,493 | - |
| Attributable to Minorities | | - | - | - | - |
| | | (587,066) | - | 228,493 | - |



SILKS AUDIT CHARTERED ACCOUNTANTS LTD SA

## STATEMENT OF CHANGES IN EQUITY
*FOR THE YEAR ENDED 31 MAY, 2019*

| | SHARE CAPITAL $ | RETAINED EARNINGS $ | TOTAL EQUITY $ |
|---|---|---|---|
| **31 May 2019 - Group** | | | |
| Total Comprehensive Income for Year | - | (587,066) | (587,066) |
| Capital Contributed (Repaid) | - | - | - |
| | - | (587,066) | (587,066) |
| Less Dividends Paid & Provided | - | 135,000 | 135,000 |
| Total Movement in Equity | - | (722,066) | (722,066) |
| Equity at Beginning of Year | 4,400,000 | 1,835,090 | 6,235,090 |
| Equity at End of Year | 4,400,000 | 1,113,024 | 5,513,024 |
| **31 May 2019 - Attributable to Owners of Parent Company** | | | |
| Total Comprehensive Income for Year | - | (587,066) | (587,066) |
| Less Dividends Paid & Provided | - | 135,000 | 135,000 |
| Total Movement in Equity | - | (722,066) | (722,066) |
| Equity at Beginning of Year | 4,400,000 | 1,835,090 | 6,235,090 |
| Equity at End of Year | 4,400,000 | 1,113,024 | 5,513,024 |
| **31 May 2019 - Attributable to Minorities** | | | |
| Total Comprehensive Income for Year | - | - | - |
| Capital Contributed (Repaid) | - | - | - |
| | - | - | - |
| Less Dividends Paid & Provided | - | - | - |
| Total Movement in Equity | - | - | - |
| Equity at Beginning of Year | - | - | - |
| Equity at End of Year | - | - | - |
| **31 May 2019 - Parent** | | | |
| Total Comprehensive Income for Year | - | - | - |
| Less Dividends Paid & Provided | - | - | - |
| Total Movement in Equity | - | - | - |
| Equity at Beginning of Year | 4,400,000 | (226,399) | 4,173,601 |
| Equity at End of Year | 4,400,000 | (226,399) | 4,173,601 |

## STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED 31 MAY, 2019*

| | SHARE CAPITAL $ | RETAINED EARNINGS $ | TOTAL EQUITY $ |
|---|---|---|---|
| **31 May 2018 - Group** | | | |
| Total Comprehensive Income for Year | - | 228,493 | 228,493 |
| Capital Contributed (Repaid) | - | - | - |
| | - | 228,493 | 228,493 |
| Less Dividends Paid & Provided | - | 315,000 | 315,000 |
| Total Movement in Equity | - | (86,507) | (86,507) |
| Equity at Beginning of Year | 4,400,000 | 1,921,597 | 6,321,597 |
| Equity at End of Year | 4,400,000 | 1,835,090 | 6,235,090 |
| **31 May 2018 - Attributable to Owners of Parent Company** | | | |
| Total Comprehensive Income for Year | - | 228,493 | 228,493 |
| Less Dividends Paid & Provided | - | 315,000 | 315,000 |
| Total Movement in Equity | - | (86,507) | (86,507) |
| Equity at Beginning of Year | 4,400,000 | 1,921,597 | 6,321,597 |
| Equity at End of Year | 4,400,000 | 1,835,090 | 6,235,090 |
| **31 May 2018 - Attributable to Minorities** | | | |
| Total Comprehensive Income for Year | - | - | - |
| Capital Contributed | - | - | - |
| | - | - | - |
| Less Dividends Paid & Provided | - | - | - |
| Total Movement in Equity | - | - | - |
| Equity at Beginning of Year | - | - | - |
| Equity at End of Year | - | - | - |
| **31 May 2018 - Parent** | | | |
| Total Comprehensive Income for Year | - | - | - |
| Less Dividends Paid & Provided | - | - | - |
| Total Movement in Equity | - | - | - |
| Equity at Beginning of Year | 4,400,000 | (226,399) | 4,173,601 |
| Equity at End of Year | 4,400,000 | (226,399) | 4,173,601 |



SILKS AUDIT CHARTERED ACCOUNTANTS LTD

## Coldstream Downs Dairy Farm Limited

### STATEMENT OF FINANCIAL POSITION

*AS AT 31 MAY, 2019*

| | Note | GROUP 2019 $ | PARENT 2019 $ | GROUP 2018 $ | PARENT 2018 $ |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Cash and Cash Equivalents | 6 | 281,228 | - | 142,467 | - |
| Accounts Receivable | | 483,724 | - | 517,413 | - |
| Prepayments | | 20,000 | - | 22,940 | - |
| Feed on Hand | | 50,859 | - | 36,200 | - |
| Provision for Taxation | | 120,386 | - | - | - |
| Cattle on Hand | 7 | 1,182,350 | - | 1,460,050 | - |
| Loan to Subsidiary | | | 4,173,600 | | 4,173,600 |
| **Total Current Assets** | | 2,138,547 | 4,173,600 | 2,178,070 | 4,173,600 |
| **Non Current Assets** | | | | | |
| Shares in Fonterra | 16 | 1,013,622 | - | 1,642,767 | - |
| Shares in Sundry Companies | | 23,943 | - | 21,337 | - |
| Shares in Subsidiary | | - | 1 | - | 1 |
| Property, Plant & Equipment | 8 | 3,830,225 | - | 3,884,211 | - |
| **Total Non-Current Assets** | | 4,867,790 | 1 | 5,548,315 | 1 |
| **Total Assets** | | 7,006,337 | 4,173,601 | 7,726,385 | 4,173,601 |
| **Current Liabilities** | | | | | |
| Provision for Taxation | | - | - | 109,279 | - |
| Current Portion of Term Liabilities | 9 | 8,431 | - | 253,947 | - |
| GST Payable | | 22,554 | - | 35,244 | - |
| Accounts Payable | | 224,726 | - | 171,732 | - |
| **Total Current Liabilities** | | 255,711 | - | 570,202 | - |
| **Non-Current Liabilities** | | | | | |
| Deferred Tax | 4 | 224,602 | - | 280,508 | - |
| Fonterra Support Advance | 9 | - | | - | |
| Hire Purchase - Protrack | 9 | - | | 7,585 | |
| Bank of New Zealand Term Loan | 9 | 1,013,000 | - | 633,000 | - |
| **Total Non-Current Liabilities** | | 1,237,602 | - | 921,093 | - |
| **Equity** | | | | | |
| Attributable to Owners of parent company | | 5,513,024 | 4,173,601 | 6,235,090 | 4,173,601 |
| Attributable to Minorities | | - | - | - | - |
| | | 5,513,024 | 4,173,601 | 6,235,090 | 4,173,601 |
| **Total Liabilities & Equity** | | 7,006,337 | 4,173,601 | 7,726,385 | 4,173,601 |

For and on behalf of the board

Director
26 September 2019

Director
26 September 2019



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## CASHFLOW STATEMENT

*FOR THE YEAR ENDED 31 MAY, 2019*

| | Notes | GROUP 2019 $ | PARENT 2019 $ | GROUP 2018 $ | PARENT 2018 $ |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash was provided from: | | | | | |
| Receipts from Customers | | 1,743,213 | - | 1,850,112 | - |
| Tax Refunded | | | | - | |
| GST received | | - | | (6,275) | |
| Dividends | | 253 | - | 95,541 | - |
| Interest | | - | | - | |
| | | 1,743,466 | - | 1,939,378 | - |
| Cash was applied to: | | | | | |
| Operating Expenses | | (1,258,038) | - | (1,200,054) | - |
| Interest Paid | | (40,689) | - | (45,553) | - |
| GST paid | | (9,586) | - | - | - |
| Taxation Paid | | (264,241) | - | (122,941) | - |
| | | (1,572,554) | - | (1,368,548) | - |
| Net cash inflow (outflow) from operating activities | 11 | 170,912 | - | 570,830 | - |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Cash was provided from: | | | | | |
| Sale of Fixed Assets | | - | - | - | - |
| Sale of Investments | | - | - | - | - |
| | | - | - | - | - |
| Cash was applied to: | | | | | |
| Minority's shares in Subsidiary | | - | - | - | - |
| Loan to Subsidiary | | - | - | - | - |
| Purchase of Fixed Assets | | (23,347) | - | (72,452) | - |
| Purchase of Investments | | (702) | - | (27) | - |
| | | (24,049) | - | (72,479) | - |
| Net cash inflow (outflow) from investing activities | | (24,049) | - | (72,479) | - |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Cash was provided from: | | | | | |
| Share Capital Subscribed | | - | - | - | - |
| Loan Advances | | 200,000 | - | - | - |
| | | 200,000 | - | - | - |
| Cash was applied to: | | | | | |
| Dividends Paid | | (135,000) | - | (315,000) | - |
| Loan Repayment | | (73,101) | - | (494,667) | - |
| | | (208,101) | - | (809,667) | - |
| Net cash inflow (outflow) from financing activities | | (8,101) | - | (809,667) | - |
| Net increase (decrease) in cash held | | 138,762 | - | (311,316) | - |
| Balance at beginning of year | | 142,467 | - | 453,783 | - |
| Balance at end of year 31 May 2019 | 6 | 281,229 | - | 142,467 | - |

These Statements should be read in conjunction with the notes to the financial statements

## 1. Summary of Significant Accounting Policies

**Reporting Entity**

Coldstream Downs Dairy Farm Ltd is a company registered under the Companies Act 1993.

The group consists of the Parent company Coldstream Downs Dairy Farm Ltd, which is an Issuer, and its wholly owned subsidiary Coldstream Downs Ltd, and 100% subsidiary Coldstream Downs Sharemilking Ltd.

These financial statements are for a scheme registered under the Financial Markets Conduct Act 2013, and the have been prepared in accordance with the Financial Markets Conduct Act 2013
The Board authorise the release of these financial statements on 26 September 2019.

**Measurement Base**

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed by the group, with the exception that certain assets as specified below have been revalued.

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and comply with New Zealand equivalents to International Financial Reporting Standards. The financial statements also comply with International Financial Reporting Standards. For this purpose the company has designated itself as profit-oriented.

The financial statements comprise the consolidated financial statements of the group and the separate financial statements of the parent company.

The information is presented in New Zealand dollars which is the functional and presentation currency.

All figures in the Financial Statements have been rounded to the nearest dollar.

**Basis of Preparation**

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2019 or later periods, but the group has not early adopted them:

*NZ IFRS - Leases (Effective from 1 January 2019)*
NZ IFRS 16 Leases will replace NZ IAS 17 leases. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for all leases, with the optional exception of short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted, if IFRS 15 Revenue from Contracts with Customers has also been adopted. This is not expected to have a material impact on the group's financial statements.

**Specific Accounting Policies**

The following specific accounting policies which materially affect the measurement of profit and the financial position have been applied.

**(a) Basis of Consolidation**

The consolidated financial statements include the parent company and its subsidiaries accounted for using the purchase method. All significant inter-company transactions are eliminated on consolidation. In the parent company's separate financial statements investments in subsidiaries are stated at cost less any impairment losses.

***(b) New and amended standards adopted by the Group***

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 June 2018. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.
The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 June 2018.

- NZ IFRS 9 Financial Instruments
- NZ IFRS 15 Revenue from Contracts with Customers

The Group had to change its accounting policies following the adoption of NZ IFRS 9 and NZ IFRS 15. These are disclosed in Note 1(f) and Note 1(j). The adoption of the standards and amendments listed above did not have any impact on the amounts recognised in prior periods and did not significantly affect the current of future periods.

**(c) Property, Plant and Equipment**

The company has these classes of property, plant and equipment:

- Freehold Land;
- Freehold Buildings;
- Plant, equipment & Motor Vehicles;

All property plant and equipment is initially recorded at cost.
When an item of property, plant and equipment is disposed of, any gain or loss is recognised in the income statement and is calculated as the difference between the sale price and the carrying value of the item.

Depreciation is provided for on a Diminishing Value basis on all tangible property, plant and equipment other than freehold land and capital work in progress, at depreciation rates calculated to allocate the assets' cost over their estimated useful lives.

Major Depreciation Periods are:

| | |
|---|---|
| - Land Development | 25 years |
| - Freehold Buildings | 50 years |
| - Plant, equipment & Motor Vehicles | 5 to 15 years |

(d) Impairment

At each reporting date, the carrying amount of tangible and intangible assets are reviewed to determine whether there is any indication of impairment. If any such indication exists for an asset, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cashflows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.
A cash generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cashflows 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 for which the estimates of future cashflows have not been adjusted.
If a revalued asset is determined to be impaired, the impairment if firstly applied against the related component of the revaluation reserve, with any remaining impairment loss expensed in the income statement. If the impairment loss is subsequently reversed, the reversal is firstly applied to the income statement to the extent of previously expensed impairment losses relating to that asset, with any further increase taken to the revaluation reserve. For assets which are not revalued, an impairment loss is expensed immediately to the income statement. 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, if no impairment loss had been recognised.

(e) Share Capital

Ordinary shares are classified as equity. Direct costs of issuing shares are shown as a deduction from the proceeds of the issue.

(f) Taxation

The income tax expense charged to the income statement includes both the current year's provision and the income tax effect of:
- Taxable temporary differences, except those arising from initial recognition of goodwill and other assets that are not depreciated; and
- Deductible temporary differences to the extent that it is probable that they will be utilised.

Temporary differences arising from transactions, other than business combinations, affecting neither accounting profit nor taxable profit are ignored.

Tax effect accounting is applied on a comprehensive basis to all timing differences using the liability method. A deferred tax asset is only recognised to the extent that it is probable there will be future taxable profit to utilise the temporary differences.

(g) Financial Instruments

*(i) Recognition, initial measurement and derecognition*
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

*(ii) Classification and subsequent measurement of financial assets*
For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:
- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

*(iii) Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an activeinstruments. market. After initial recognition, these are measured at amortised cost using the effective interest method, less an allowance for credit losses. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents and accounts receivable fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

*(iv) Financial assets at FVTPL*
Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

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*(v) Classification and subsequent measurement of financial liabilities*
The Group's financial liabilities include borrowings and accounts payable.
Financial liabilities are measured subsequently at amortised cost using the effective interest method.

**(h) Receivables and Payables**

Receivables and payables are initially recorded at fair value and subsequently carried at amortised cost using the effective interest method. Due allowance is made for impaired receivables (doubtful debts). The resulting amount for receivables is not materially different from estimated realisable value.

**(i) Investments**

Investments are recorded at fair value.

**(j) Borrowings**

Borrowings are initially recorded at fair value net of transaction costs incurred, and subsequently at amortised cost using the effective interest method.

All borrowing costs are recognised as an expense in the period they are incurred.

**(k) Revenue**

**Operating Revenue**
(a) Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, gross of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(b) The company has disaggregated revenue into livestock category types in the table below, this depict how the nature, amount, timing and uncertainty of revenue and cashflows are affected by economic data.

**(l) Cashflows**

For the purpose of the cash flow statement, cash includes cash on hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts.

**(m) Goods and Services Tax**

These accounts have been prepared exclusive of Goods and Services Tax, except for accounts payable and accounts receivable, which are GST inclusive.

**(n) Biological Assets**

Biological assets managed for producing into agricultural produce or for transforming into additional biological assets are measured at fair value, with unrealised gains or losses reported in the statement of financial performance as part of operating revenue. The livestock is valued at market value by an independent livestock agent at balance date.

**(o) Feed on Hand**

Feed on Hand is valued at the lower of cost and net realisable value. Feed harvested by the Farm is valued at fair value at the time of harvest and subsequently valued at the lower of cost and net realisable value at Balance Date. Cost is calculated by determining the purchase price of feed.

**Changes in Accounting Policies**

There has been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

| 2. **Issued Shares** | Group 2019 | Parent 2019 | Group 2018 | Parent 2018 |
|---|---|---|---|---|
| Ordinary Shares Issued | 4,500,000 | 4,500,000 | 4,500,000 | 4,500,000 |
| Opening Paid Up Capital | 4,400,000 | 4,400,000 | 4,400,000 | 4,400,000 |
| Further Capital Paid Up | - | - | - | - |
| Closing Paid Up Capital | 4,400,000 | 4,400,000 | 4,400,000 | 4,400,000 |

All ordinary shares have been issued. There are 100,000 unpaid ordinary shares (2018: 100,000). All shares have equal voting rights and share equally in dividends and surplus on winding up. The shares have no par value.

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## 3. Retained Earnings

| | Group 2019 | Parent 2019 | Group 2018 | Parent 2018 |
|---|---|---|---|---|
| Balance as at 1 June 2018 | 1,835,090 | (226,399) | 1,921,597 | (226,399) |
| Operating surplus (deficit) attributable to the shareholders of the parent company | (587,066) | - | 228,493 | - |
| Operating surplus (deficit) attributable to minorities | - | - | - | - |
| | 1,248,024 | (226,399) | 2,150,090 | (226,399) |
| Dividends Paid - Shareholders of Parent | 135,000 | - | 315,000 | - |
| Dividends Paid - Minorities | - | - | - | - |
| Purchase of Minority Shareholding | - | | - | |
| Balance as at 31 May 2019 | 1,113,024 | (226,399) | 1,835,090 | (226,399) |

## 4. Taxation

| | Group 2019 | Parent 2019 | Par | Group 2018 | Parent 2018 |
|---|---|---|---|---|---|
| Net profit for the year | (568,883) | - | | 421,799 | - |
| Prima facie income tax at 28% | (159,287) | - | | 118,104 | - |
| Add (subtract) taxation effect of permanent differences | 1,913 | | | 1,913 | |
| Revaluation of Investments | 175,627 | - | | 73,392 | - |
| Herd Scheme Value non-taxable adjustment | - | - | | - | - |
| Recognition of tax losses not previously recognised | - | - | | - | - |
| Dividend Received from Subsidiary | - | - | | - | - |
| Imputation Credits Received | (71) | - | | (103) | - |
| Income Tax Expense | 18,182 | - | | 193,306 | - |
| The income tax expense is represented by: | | | | | |
| Current Tax | 74,088 | - | | 185,223 | - |
| Deferred Tax | (55,906) | - | | 8,083 | - |
| Income Tax Expense | 18,182 | - | | 193,306 | - |

There are no unrecognised income tax losses and timing differences carried forward (2018 Nil) for set-off against future assessable income subject to Inland Revenue Department Assessment.

## 5. Imputation Credit Account

| | Group 2019 | Parent 2019 | Par | Group 2018 | Parent 2018 |
|---|---|---|---|---|---|
| Balance as at 1 June 2018 | 493,624 | - | | 493,041 | - |
| Tax Refunded | - | - | | - | - |
| Tax Paid | 294,223 | - | | 122,915 | - |
| RWT & Imputation Credits on Dividends Received | 116 | - | | 168 | - |
| Imputation Credits attached to Dividends Paid | (82,500) | - | | (122,500) | - |
| Balance as at 31 May 2019 | 705,463 | - | | 493,624 | - |

## 6. Cash and Cash Equivalents

| | Group 2019 | Parent 2019 | Par | Group 2018 | Parent 2018 |
|---|---|---|---|---|---|
| Bank of New Zealand Cheque Accounts | 281,229 | - | | 142,467 | - |
| Bank of New Zealand Call Accounts | - | - | | - | - |
| Balance as at 31 May 2019 | 281,229 | - | | 142,467 | - |

The Coldstream Downs Ltd overdraft is secured by a first mortgage over the farm property and perfected security interest in all present and after acquired property, including livestock, of Coldstream Downs Limited and Mortgage over Dairy Company Shares in Fonterra Co-Operative Ltd. The limit is $300,000 and the interest rate at year end is 7.46%.

## 7. (a) Stock on Hand

| | No. | Group 2019 | Parent 2019 | Par No. | Group 2018 | Parent 2018 |
|---|---|---|---|---|---|---|
| R1 Heifers | 172 | 137,600 | - | 124 | 105,400 | - |
| R2 Heifers and Mixed Age Cows | 745 | 1,044,750 | - | 807 | 1,354,650 | - |
| | | | | | | - |
| | 917 | 1,182,350 | - | 931 | 1,460,050 | - |

## Coldstream Downs Dairy Farm Limited



***Fair value measurement of the Group's stock on hand***

The Groups stock on hand is stated at market value, being the fair value at the date of valuation. The fair value measurements of the Groups stock on hand as at 31 May 2019 and 31 May 2018 were performed by PGG Wrightson Limited, Gore, independent valuers not related to the Group. PGG Wrightson Limited are specialist livestock agents and they have appropriate qualifications and recent experience in the fair value measurement of livestock in the relevant location.

The fair value of the stock on hand was determined based on the market comparable approach that reflects transaction prices for similar livestock. There has been no change to the valuation technique during the year.

| Reconciliation of Numbers: | No. | $ | No. | $ |
|---|---|---|---|---|
| Opening Stock | 931 | 1,460,050 | 920 | 1,425,775 |
| Purchases | 15 | 32,633 | 50 | 96,100 |
| Sales | -617 | -149,152 | -571 | -140,007 |
| Increase/decrease in values of cattle | | -161,181 | | 78,182 |
| Natural Increase | 603 | 0 | 541 | 0 |
| Deaths & Missing | -15 | 0 | -18 | 0 |
| Closing Stock | 917 | 1,182,350 | 931 | 1,460,050 |

(b) The Group recognises revenue from the following major sources:

| | 2019 $ | 2019 Number | 2018 $ | 2018 Number |
|---|---|---|---|---|
| • Sale of livestock: | | | | |
| Sales - Cows | 66,031 | 134 | 73,376 | 107 |
| Sales - R1yr Heifers | 1,066 | 3 | 3,728 | 6 |
| Sales - Bulls | - | - | 21,653 | 14 |
| Sales - Calves | 63,066 | 480 | 41,052 | 444 |
| | $ | Kgs of Milk Solids | $ | Kgs of Milk Solids |
| • Sale of milk | 1,670,691 | 263,266 | 1,883,700 | 283,033 |

## 8. Property, Plant & Equipment

| | Land | Buildings | Development Expenditure | Plant & Equipment | Motor Vehicles | Total |
|---|---|---|---|---|---|---|
| 1 June 2018: | | | | | | |
| Cost Price | 2,888,612 | 716,317 | 214,721 | 614,510 | 136,726 | 4,570,886 |
| Accumulated Depreciation | - | (192,953) | (83,624) | (330,659) | (79,439) | (686,675) |
| Net Book Value | 2,888,612 | 523,364 | 131,097 | 283,851 | 57,287 | 3,884,211 |
| Additions | | | - | 18,090 | - | 18,090 |
| Disposals | - | - | - | | - | - |
| | 2,888,612 | 523,364 | 131,097 | 301,941 | 57,287 | 3,902,301 |
| Depreciation | - | 14,833 | 7,348 | 42,322 | 7,573 | 72,076 |
| Loss/(Gain) on Sale | - | - | - | - | - | - |
| Net Book Value | 2,888,612 | 508,531 | 123,749 | 259,619 | 49,714 | 3,830,225 |
| 31 May 2019: | | | | | | |
| Cost Price | 2,888,612 | 716,317 | 214,721 | 632,600 | 136,726 | 4,588,976 |
| Accumulated Depreciation | - | (207,786) | (90,972) | (372,981) | (87,012) | (758,751) |
| Net Book Value | 2,888,612 | 508,531 | 123,749 | 259,619 | 49,714 | 3,830,225 |
| 1 June 2017: | | | | | | |
| Cost Price | 2,888,612 | 716,317 | 214,721 | 457,951 | 136,726 | 4,414,327 |
| Accumulated Depreciation | - | (178,333) | (75,345) | (284,885) | (70,707) | (609,270) |
| Net Book Value | 2,888,612 | 537,984 | 139,376 | 173,066 | 66,019 | 3,805,057 |
| Additions | - | - | - | 156,559 | - | 156,559 |
| Disposals | - | - | - | - | - | - |
| | 2,888,612 | 537,984 | 139,376 | 329,625 | 66,019 | 3,961,616 |
| Depreciation | - | 14,620 | 8,279 | 45,774 | 8,732 | 77,405 |
| Loss/(Gain) on Sale | - | - | - | - | - | - |
| Net Book Value | 2,888,612 | 523,364 | 131,097 | 283,851 | 57,287 | 3,884,211 |
| 31 May 2018: | | | | | | |
| Cost Price | 2,888,612 | 716,317 | 214,721 | 614,510 | 136,726 | 4,570,886 |
| Accumulated Depreciation | - | (192,953) | (83,624) | (330,659) | (79,439) | (686,675) |
| Net Book Value | 2,888,612 | 523,364 | 131,097 | 283,851 | 57,287 | 3,884,211 |

The parent company does not own any property, plant or equipment

## 9. Non Current Liabilities

| | Group 2019 | Parent 2019 | Par | Group 2018 | Parent 2018 |
|---|---|---|---|---|---|
| B N Z Term Loan - Current | - | - | | 180,000 | - |
| B N Z Term Loan - Term | 1,013,000 | - | | 633,000 | - |
| Fonterra Price Support Loan - Current | - | | | 44,189 | |
| Fonterra Price Support Loan - Term | - | - | | - | - |
| Hire Purchase - Protrack - Current | 8,431 | | | 29,758 | |
| Hire Purchase - Protrack - Term | - | | | 7,585 | |
| | 1,021,431 | - | | 894,532 | - |
| Repayable as follows: | | | | | |
| Less than 1 Year | 8,431 | - | | 253,947 | - |
| Between 1 - 2 Years | 1,013,000 | - | | 640,585 | - |
| Between 2 - 5 Years | - | - | | - | - |
| Greater than 5 years | - | - | | - | - |
| | 1,021,431 | - | | 894,532 | - |

a) The bank loans and overdraft are secured by a first mortgage over the farm property and perfected security interest in all present and after acquired property, including livestock, of Coldstream Downs Limited and Mortgage over Dairy Company Shares in Fonterra Co-Operative Limited, and perfected security interest in all present and after acquired property, including Livestock, of Coldstream Downs Limited. Sharemilking Limited. Coldstream Downs Limited has provided a BNZ guarantee to Coldstream Downs Sharemilking Limited up to the value of $350,000.

b) The bank does not currently have any financial covenants in place.

c) The bank loans have a limit of $1,800,000 and are interest only. The current interest rate is 3.65% pa basis.

d) The Fonterra Price Support Loan was repaid during the year.

## 10. Financial Instruments

**Credit risk**

To the extent that the Group entities have a receivable from another party, there is a credit risk in the event of non-performance by that counterparty. Financial instruments which potentially subject Group entities to credit risk principally consist of bank balances, receivables, other assets.

**The Issuing Group manages its exposure to credit risk**

Maximum exposures to credit risk at balance date are shown on the Statement of Financial Position as current and term assets. No collateral is held on these amounts.

**Concentrations of credit risk**

Group accounts receivable include $440,940 (2018: $518,357) receivable from Fonterra. The group does not have any other significant concentrations of credit risk.

**Currency and interest rate risk**

There is currency risk to the extent that income is dependant on the sale price achieved by Fonterra Co-Operative Group who in turn incurs currency risk. Group entities have exposure to interest rate risk to the extent that they borrow for a fixed term at fixed rates.

**Fair values**

The carrying values of financial instruments in the Statement of Financial Position are considered to be fair values and include interest accruals that are included in current receivables and payables.

**Liquidity Risks**

Liquidity risk represents the Issuing Groups ability to meet its financial obligations on time. For the most part the Company generates sufficient cash flows from its operating activities to make timely payments. It does however maintain committed credit lines to cover any shortfalls. The Issuing Group has a total bank overdraft facilities of $300,000. At balance date none (2018: Nil) of this has been borrowed by the Company.

**Liquidity Forecasts**

Management supervises liquidity by monitoring short-term and long-term cash flows for up to 5 years.

**Interest Rate Risk**

The Issuing Group has exposure to interest rate risk to the extent that it borrows for at floating interest rates.

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## 11. Reconciliation of Operating Surplus to Net Operating Cash Inflow/(Outflow)

| | Group 2019 | Parent 2019 | Par Group 2018 | Parent 2018 |
|---|---|---|---|---|
| Net Surplus/(Deficit) after tax for the year | (587,060) | - | 228,493 | - |
| Add (less) non cash items:- | | | | |
| - Revaluation of Investments | 627,241 | - | 262,116 | - |
| - Depreciation | 72,078 | | 77,405 | |
| - (Gain)/Loss on Sale of Fixed Assets | - | - | - | - |
| | 112,251 | - | 568,014 | - |
| Add (less) movement in other working capital items: | | | | |
| Increase (decrease) in accounts payable | 58,250 | - | 24,919 | - |
| (increase) decrease in livestock on hand | 277,700 | - | (34,275) | - |
| (increase) decrease in accounts receivable | 33,688 | - | (21,843) | - |
| (increase) decrease in Prepayments | 2,940 | | (22,940) | |
| (increase) decrease in feed on hand | (15,659) | - | 22,476 | - |
| Increase (decrease) in GST payable | (12,689) | - | (10,580) | - |
| Increase (decrease) in Taxation Payable | (229,685) | - | 36,978 | - |
| Increase (decrease) in Deferred Tax payable | (55,006) | - | 6,083 | - |
| Net cash inflow (outflow) from operating activities | 170,911 | - | 570,830 | - |

## 12. Contingent Liabilities & Contingent Assets

At 31 May 2019 the Company has no significant contingent assets or contingent liabilities. (2018: $Nil)

## 13. Capital Commitments & Non-Cancellable Operating Leases

At 31 May 2019 there were no capital commitments and no non-cancellable operating leases. (2018: $37,343)

## 14. Events After Balance Date

The Fonterra milk price forecast for the 2020 season is $6.75 as at 28 July 2019.
Since balance date the Fonterra share price has fallen to $3.19. The Company's shareholding in Fonterra has been revalued to reflect this price.
The farm is subject to a surveillance by the Ministry of Primary Industries in relation to Mycoplasma Bovis. This will involve the swabbing and blood testing of bull calves during the season.
There were no other significant events occuring after balance date.

## 15. Investment in Subsidiaries

| | 2019 | 2019 | Business |
|---|---|---|---|
| Coldstream Downs Limited | 100% | 100% | Dairy Farming |
| Coldstream Downs Sharemilking Limited | 100% | 100% | Non Trading |

The Company owns 100 ordinary shares in Coldstream Downs Limited (unpaid), and Coldstream Downs Limited owns 100% (2017: 100%) of Coldstream Downs Sharemilking Limited.

## 16. Investment in Fonterra Co-operative Group Limited

| | 2019 No. | 2019 $ | 2018 No. | 2018 $ |
|---|---|---|---|---|
| Shares held at 1 June 2018 | 317,750 | 1,642,767 | 317,750 | 1,906,500 |
| Shares Purchased | - | | - | |
| Revaluation of Shares * | - | (629,145) | - | (263,733) |
| Shares held at 31 May 2019 | 317,750 | 1,013,622 | 317,750 | 1,642,767 |

* Revalued to the Fonterra share price at 24 September 2019 of $3.19.

## 17. Related Party Transactions

a) The subsidiary paid administration fees of $3,565 (2018: $12,441) to Roger Dickie (NZ) Ltd, in which Roger Dickie, a director, has a controlling interest. The amount overpaid at balance date was $796 (2018: $8,687).

b) Compensation paid to key management personnel during the year was Nil.
The amount incurred for the provision of key management personnel services provided by a separate management entity during the year was Nil.

c) Accounting Services amounting to $7,881 (2018 $7,848) were provided to the Group by Markhams Waverley Ltd in which Jeff Whitlock, a director, is also a director. The amount owing at balance date was $5,000 (2018: $5,000)

d) The subsidiary paid no directors fees to Steve Barr during the year. (2018: $Nil)

e) Coldstream Downs Limited has an advance from the parent of $4,173,600 (2018: $4,173,600). No interest has been charged on this advance

f) No related party debts have been written off or forgiven during the year.

## 18. Significant Judgements & Uncertainties

The preparation of financial statements of necessity involves judgement and estimation. The only significant estimation required for the year is the valuation of livestock. There is a ready market for dairy livestock in the area, and the livestock is counted and valued annually by an independent expert, PPG Wrightson Limited

## 19. FINANCIAL INSTRUMENTS

**Classes and categories of financial instruments and their fair values**

**The following tables combine information about:**
- classes of financial instruments based on their nature and characteristics;
- the carrying amounts of financial instruments;
- fair values of financial instruments (except financial instruments when carrying amount approximates their fair value); and
  fair value hierarchy levels of financial assets and liabilities for which fair value was disclosed

**Fair value hierarchy levels 1 to 3 are based on degree to which their fair value is observable:**
- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| GROUP | Notes | Assets at FVTPL | Financial assets at amortised cost | Total | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|
| **31 May 2019** | | | | | | | | |
| **Financial Assets** | | | | | | | | |
| Cash and Cash Equivalents | 6 | - | 281,229 | 281,229 | | | | |
| Accounts Receivable | | | 483,124 | 483,124 | | | | |
| Shares in Fonterra | 16 | 1,013,622 | - | 1,013,622 | 1013622 | | | 1,013,622 |
| Shares in Sundry Companies | | 23,943 | - | 23,943 | 23,943 | | | 23,943 |
| | | 1,037,565 | 764,353 - | 1,801,918 | 1,037,565 | | | 1,037,565 |

| GROUP | Notes | Financial liabilities at amortised cost | Total |
|---|---|---|---|
| **31 May 2019** | | | |
| **Financial Liabilities** | | | |
| Accounts Payable | | 224,726 | 224,726 |
| Bank of New Zealand Loan | | 1,013,000 | 1,013,000 |
| Hire Purchase | | 8,431 | 8,431 |
| | | 1,246,157 | 1,246,157 |

| GROUP | Notes | Assets at FVTPL | Financial assets at amortised cost | Total | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|
| **31 May 2018** | | | | | | | | |
| **Financial Assets** | | | | | | | | |
| Cash and Cash Equivalents | 6 | - | 142,467 | 142,467 | | | | |
| Accounts Receivable | | | 517,413 | 517,413 | | | | |
| Shares in Fonterra | 16 | 1,642,767 | - | 1,642,767 | 1642767 | | | 1,642,767 |
| Shares in Sundry Companies | | 21,337 | - | 21,337 | 21,337 | | | 21,337 |
| | | 1,664,104 | 659,880 | 2,323,984 | 1,664,104 | | | 1,664,104 |

| GROUP | Notes | Financial liabilities at amortised cost | Total |
|---|---|---|---|
| **31 May 2018** | | | |
| **Financial Liabilities** | | | |
| Accounts Payable | | 171,732 | 171,732 |
| Bank of New Zealand Term Loan | 9 | 813,000 | 813,000 |
| Fonterra Price Support Loan | 9 | 44,189 | 44,189 |
| Hire Purchase - Protrack | 9 | 37,343 | 37,343 |
| | | 1,066,264 | 1,066,264 |

| PARENT | Notes | Financial assets at cost | Total |
|---|---|---|---|
| **31 May 2019** | | | |
| **Financial Assets** | | | |
| Loan to Subsidiary | | 4,173,600 | 4,173,600 |
| Shares in Subsidiary | | 1 | 1 |
| | - | 4,173,601 | 4,173,601 |

| PARENT | Notes | Financial assets at cost | Total |
|---|---|---|---|
| **31 May 2018** | | | |
| **Financial Assets** | | | |
| Loan to Subsidiary | | 4,173,600 | 4,173,600 |
| Shares in Subsidiary | | 1 | 1 |
| | - | 4,173,601 | 4,173,601 |

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## INDEPENDENT AUDITORS REPORT

To the Shareholders of Coldstream Downs Dairy Farm Limited

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Coldstream Downs Dairy Farm and its subsidiaries (the Group) on pages 3 to 16, which comprise the consolidated statement of financial position as at 31 May 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 May 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company or any of its subsidiaries.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were address in the context of our audit of the financial statements as a whole, and in forming our opinion. We do not provide a separate opinion on these matters.

#### Biological Assets (Livestock)

| Why Significant | How our audit addressed the key audit matter |
|---|---|
| The livestock on hand represents a significant amount of the company's total net assets.<br><br>Livestock was independently counted on the 31 May 2019. | To address the key audit matter, we:<br>• Assessed the internal controls and systems relating to livestock stock management.<br>• Assessed the independence and objectivity of the valuer. Obtained representation from the valuer of their independence and their scope of work. |

**Directors Responsibilities for the Financial Statements**
The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

**Auditors Responsibilities for the Audit of the Financial Statements**
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A detailed description of the auditors' responsibilities including those related to assessment of risk of material misstatement, evaluation of appropriateness of going concern assumptions and determining key audit matters are available on the external reporting board website: http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/

**Restriction on Distribution or Use**
This report is made solely to the Shareholders, as a body. 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 Shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

The engagement partner on the audit resulting in this independents auditor's report is Talia Anderson-Town.

Silks Audit

**Silks Audit Chartered Accountants Limited**
**Whanganui, New Zealand**

**Date: 26 September 2019**