Coldstream Downs Dairy Farm Limited

ANNUAL REPORT 2015/2016

ROGER DICKIE
NEW ZEALAND

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DIRECTORS ANNUAL REPORT

The final production for the 2015/2016 season was 315,456 kgMS achieved by our variable order sharemilkers Jason Checketts. This was up 5% on the previous season's production of 300,458 kgMS, the second highest production for the farm; a very good achievement with the trying conditions Jason experienced at the start of the season. This production equated to 404 kgMS/cow.

The final payout announced by Fonterra was $3.90/kgMS. We also received dividend payments totalling 40 cents per share for our 317,750 Fonterra Shares.

As at balance date, the term loan had a balance of $1,228,000, and the interest rate for the term loan was 3.67%. Though there is an overdraft facility available to Coldstream at an interest rate of 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 from the available funds when needed. This policy meant that there was $105,292, in total drawn down from the term loan at the end of the season. However, this went towards finalising the Sharemilking Company.

The directors also took advantage of Fonterra's interest free support loan, which provided $82,348. This remains interest free until May 2017.

A valuation of all land and buildings and stock were completed by Logan Stone Limited and Progressive Livestock Limited for the financial year and summary documents are included in this annual report. Coldstream was given a total value of $12,259,037. This was made up of land and buildings of $9,000,000, Fonterra Shares, of which we hold 317,750 and were valued at $5.85 each at the end of the financial year, totalling $1,858,837 in value and all stock for the operation at $1,400,200. It should be noted that this is a drop in value of $677,390 from the previous financial year. This decline in values can directly be attributed to the fall in dairy prices over the past two seasons. As the dairy industry begins to recover we are confident that the asset value will increase.

The share value for Coldstream from the current accounts gives a net asset backing value of $2.44 per share.

With the dairy payout continuing to be low, Jason and our administration team have continued to work hard to minimise costs without impacting milk production. For the 2015/2016 season the farm working expense (FWE) were $4.39/kgMS, which was below the original budget figure of $4.44/kgMS.

The total capital expenditure for the year was $16,036. This comprised of a $10,036 for upgrading the water systems for the workers dwellings and $6,000 for a new bale feeder.

Repairs and maintenance for the season totalled $50,856. The two major expenditures in this area were for cowshed maintenance of $28,415 and repairing and maintaining the farms drainage of $7,686.

It must also be pointed out that through our stock reconciliation and valuation process at the end of the season we identified an error in the opening stock numbers for the 2015/2016 season. Through our investigations we have established that despite the livestock valuer confirming he had completed a physical count of all stock at the 31st May 2015, it appears that this did not occur. It has been identified that the opening stock numbers were overstated by forty-four animals. With advice from the auditor we are taking this issue up with the valuer in order to ensure this does not arise again.

I would like to take this opportunity to thank my fellow Directors Jeff Whitlock and Stephen Barr, our Variable Order Sharemilkers Jason Checketts and Jack Ballam for their contributions over the past year.

Farm Update – Current Season

The production forecast for the 2016/2017 season has been set at 310,000 kgMS. Spring in Southland is one of the best for a number of years. Jason & Sandy have the cows milking exceptionally well and are currently 19% ahead for the season.

For the current season, Fonterra has forecast a milk price for the 2016/2017 season of $5.25. As prices begin to show signs of recovery, we must caution that things are still not entirely stabile. As we proceed cautiously into this season, we continue to work with our sharemilkers to create the most efficient cost structure. As a result we have worked hard to minimise costs and have budgeted a FWE of $4.17/kgMS.

In a move to minimise the impact on the farm business the directors have agreed to continue no principal payments for the 2016/2017 season and stay with interest only repayments. We have also re-negotiated new interest rates for the loan of 3.67% floating. The directors have also resolved to continue to operate at a zero over draft balance and take advantage of the more favourable term loan interest rate, by drawing down from the available funds if needed.

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I look forward to seeing you at the AGM.

Kind Regards

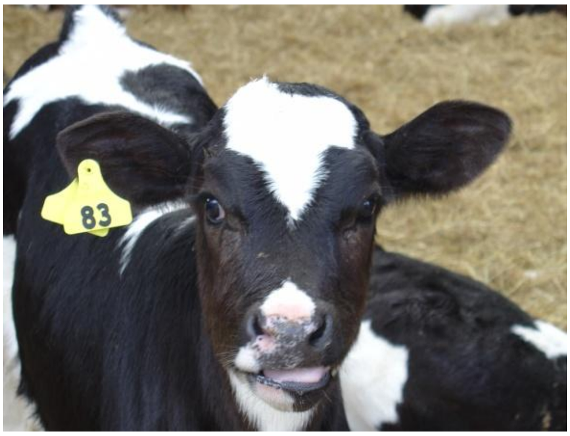
Roger Dickie
Director
Coldstream Downs Dairy Farm Limited

VOSM ANNUAL REVIEW – Jason Checketts

Well after a bit of a rollercoaster of a season regarding the weather, we made it to the end with a reasonably pleasing result.

With last winter and spring being one of the wettest in Southlands history it made for a very challenging start, with taking on a new farm and the weather being against us.

All things considered we got through pretty well with minimal pasture damage and cows still in good condition. We saw a very quick flush of grass come late in October/early November, when the farm began to dry out, which allowed us to harvest some for pit silage and also feed the cows fully leading into the mating.



As we approached the New Year the farm dried out, which was the result of North West winds which dry the farm out very quickly. We had to resort to feeding a bit of palm kernel to get us through until the summer turnips that were ready to eat come late January.

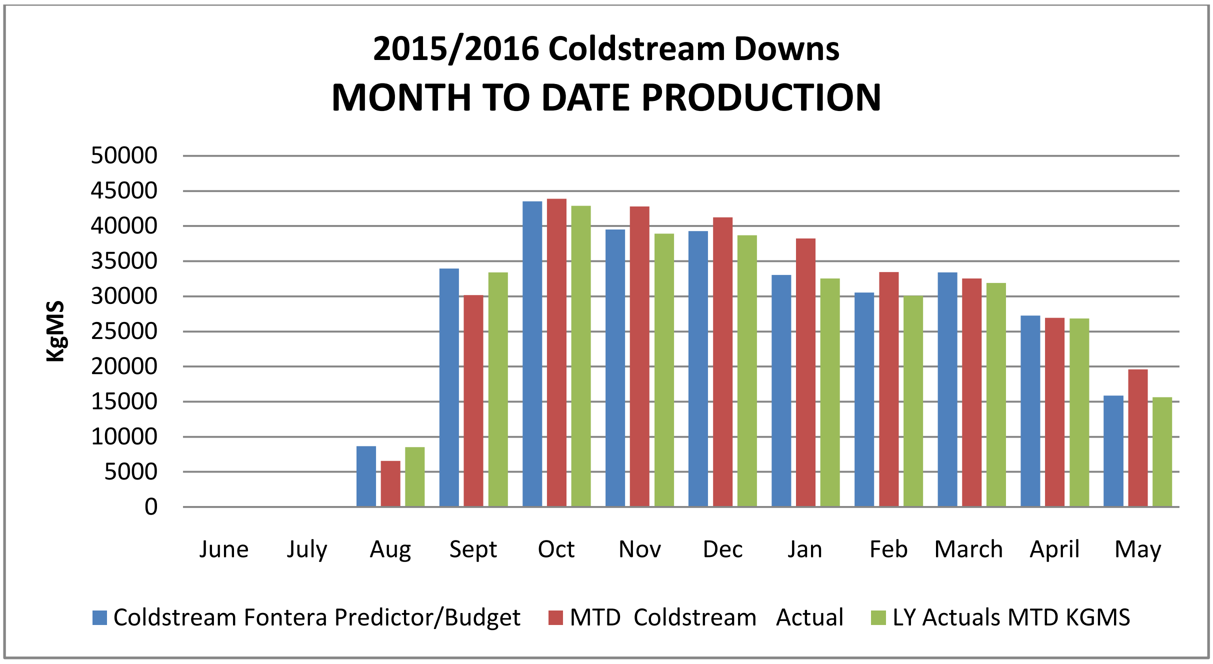
We also went to three milkings in two days in the second week of January, which helped with keeping condition on cows and cope with the lack of feed due to the dry. By late January we had started eating the summer turnips which filled our feed whole nicely and also allowed us to push the round out.

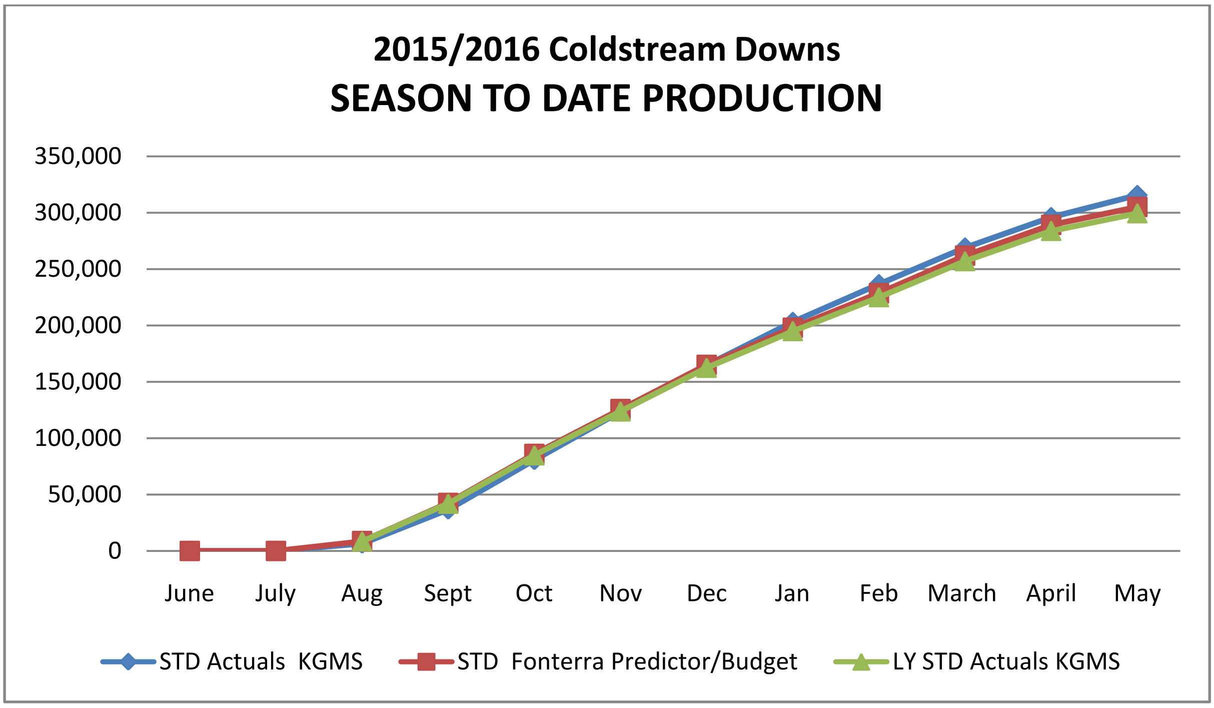
Although there was not a lot of rain for January and February we got through pretty well with using some palm kernel, turnips and three times in two day milking system.

The autumn was reasonably dry as well, with less than usual rainfall.

Production

Milk production for the season ended with a reasonable result, 315,496 kg/MS for the season nearly, 16,000kgs/MS ahead of the previous season; hopefully we can achieve an even better result for the coming seas on.





It has been an enjoyable last year with a pleasing result. I feel I've made improvements around most areas of the property, with I feel I have more to offer the property.

Hopefully the coming season is a lot more kind in terms of the weather and that we can lift production even further.

Regards

Jason Checketts

2017 SHAREHOLDER FARM VISIT

The date for the next bi-annual shareholder visit to Coldstream has been set for Saturday 18th March 2017. Further detail to follow early in the new year.

RESOLUTIONS

Appointment of Auditor

It is moved that Silks Audit Chartered Accountants of Wanganui be appointed auditors for Coldstream Downs Limited.

Moved: Jeff Whitlock Director

Seconded: Roger Dickie Director

Appointment of Director

In accordance with the constitution Steve Barr retires as a Director and Steve is available for re-appointment. That Steve Barr is re-appointed as a Director.

VALUATIONS

Coldstream Downs Limited
1741 Waimea Valley Road
SOUTHLAND

Desk Top Market Valuation prepared for:

Roger Dickie Limited

As at 31 May 2016

LOGANSTONE
PROPERTY ■ SOLUTIONS ■ VALUATION

Please note this is a summary document and a full valuation is available on the website.

1.0 INTRODUCTION

1.0.1 Further to instructions from Kate Murdoch we have undertaken a 'Desk Top' 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 there have been no substantial changes to the property since this date and 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;

1. Market Value as at 31 May 2016.

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 15 years. Currently milking approximately 800 cows and producing circa 315,456 kg milk solids last 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	Limited

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 three unconditional dairy unit sales and one near unconditional sale for 2016 to date. This is a reflection of the low confidence in the dairy sector at present due to low global commodity prices flowing through to poor farm gate returns on a historical basis. From the limited recent sales evidence there appears to be a slight drop in dairy farm values over previous years. The value drop is lower for well-located and good quality dairy units. Dairy units of lower quality with inferior locations and larger scale could find saleability and liquidity further restricted.

3.0.8 Some commentators estimate approximately 80% of dairy farm businesses have run at a cash loss over the past two years and with the forecast milk price for the 2016/2017 season only being marginally higher there will be severe financial pressure in the sector.

3.0.9 The above financial pressures could see a number of dairy units coming to the market as dairy farm businesses need to restructure their capital if there is insufficient equity to allow extended bank support. This could see an oversupply of dairy units to the market in conjunction with weak and limited buyer demand given existing industry participants have not been creating wealth and have most likely been losing money and equity over recent years.

3.0.10 Our income based valuation methodologies are based on an average of the five past seasons milk prices and the current forecast milk price which currently gives an average

milk price of $5.48 per kg milk solids. The resultant estimate of market value from these approaches is lower than the more traditional comparable sales summation approaches. Given the current Fonterra forecast for the 2016/17 season milk price is $4.25, some $1.23 per kg milk solids lower than the average, we are placing more weight on the income based approaches as a guide to market, especially where good comparable market evidence is limited, and influences our inputs for the summation approaches.

3.0.11 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.

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

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

Valuation Approach	Market Value Estimate
Per Hectare	$9,000,000
Per kg Milk Solids. Average Efficient	$9,106,000
Income Capitalisation	$8,613,000
Multiplier of Milk Income	$8,948,000

3.0.14 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.

3.0.15 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 • Good soil fertility • Good pastures • Low input production system • Good centrally sited milking shed • More supplementary feeding for production	• One dwelling short • Northern Southland location • Climate has summer dry risk • Environmental regulations • Volatile milk price pay-out • Softening 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 2016 is:

NINE MILLION DOLLARS ($9,000,000)		
Apportioned as follows:		
Value of Improvements		
– Residential Improvements	$461,000	
– Productive Buildings	$804,000	
– Other Improvements	$545,000	
		$1,810,000
Land Value		$7,020,000
Realty Value – Land & Buildings		$8,830,000
Household & Farm Chattels		$20,000
Milking & Effluent Plant & Equipment		$150,000
Market Value		$9,000,000

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	$20,059 /ha	$22.36 /kg ms
Market Value (*net of shares*)	$25,717 / ha	$28.66 / kg ms

4.0.3 Fonterra Shares are not included.

4.2 Certification

Experience

4.2.1 '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

4.2.2 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

4.2.3 We certify that Logan Stone Limited hold professional indemnity insurance for an amount of up to $3 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

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160631 4912 Short report

PROGRESSIVE LIVESTOCK LTD

DAIRY & BEEF
LIVESTOCK AGENTS

31st May 2016

Cameron Town
The Engagement Partner
Silks Audit Chartered Accountants
PO Box 7144
Wanganui 4541

Dear Cameron

LIVESTOCK COUNT AND VALUATION

We confirm that we have attended to the count and the valuation of the Livestock held by *Coldstream Downs Limited* as at 31/05/2016.

We confirm that we understand that this information will be used in the preparation of the Farms annual financial statements.

We can confirm the following:

Livestock Class	Verified Units on Hand	Price Per Head - $	Total Value of class - $
3-8 year old F & FX incalf dairy cows	576	$1680	$967 680 + GST
9 year old plus F & FX incalf dairy cows	22	$800	$17 600 + GST
Mixed age budget F & FX incalf dairy cows (inc 3 titters)	25	$800	$20 000 + GST

Herd BW 108
PW 143
RA 89%

Livestock Class	Verified Units on Hand	Price Per Head - $	Total Value of class - $
F & FX incalf dairy Heifers	200	$1400	$280 000 + GST

BW 151
PW 155

Livestock Class	Verified Units on Hand	Price Per Head - $	Total Value of class - $
F & FX empty R1 dairy Heifers	169	$680	$114 920 + GST

BW 156
PW 165

Total $1,400,200
+ GST $1,610,230

We confirm that we have counted and verified the units held as above.
We confirm that the value per head above is the current market value.
We confirm that the stock appeared to be in reasonable condition and health.

A late surge in market interest has seen a real demand for quality stock develop, this has ensured that the value of quality stock has not fallen away as historically it would later into the season. The standard of stock management and overall presentation has ensured that the Coldstream Downs herd retains a value at the better end of the market.

We confirm that we are independent of the Farm, Farm Manager and the shareholders of the Farm.

We acknowledge that Silks Audit Chartered Accountants, as auditor of the farm, will be relying on our considerations and opinions expressed in the report.

Yours sincerely

Burke Patching

Progressive Livestock Ltd
Dairy Livestock Agent