AGENDA

Murray Creek Dairy Farm Limited

PO Box 43 WAVERLEY 4544 Tel +64 6 346 5329
Fax +64 6 346 5369 Email: invest@rogerdickie.co.nz

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given the Annual General Meeting of Murray Creek Dairy Farm Limited will be held at Wellington Airport Conference Centre's Sunderland Room on Thursday 23rd October 2014.

PROGRAMME

10.00 - 11.30pm Annual General Meeting
11.40 - 12.00pm Light Lunch

ATTENDANCE/CATERING

If you are attending the AGM please assist by advising the office by 15th October. **It is important we have accurate numbers for catering purposes. Thank you to those shareholders who have already advised via emal.**

DIRECTIONS

The conference rooms are situated on the mezzanine floor above the food court, take the stairs just past Witchery clothing and turn left at the top. A map layout of the floor is attached.

AGENDA

1. Appointment of Chairperson
2. Apologies and Proxies
3. Minutes of Previous Meeting
4. Arising from Minutes
5. Annual Report and Financial Accounts - To receive and adopt the Annual Report and Financial Statements for the Year ending 31 May 2014
6. Appointment of Auditor - To consider the appointment of Auditor
7. Appointment of Director - In accordance with the constitution Roger Dickie retires as a Director. Roger is available for re-election
8. General Business - Milk Price Drop, New Sharemilkers etc

PROXY VOTING

Shareholders are required to complete the attached Proxy Form and return to our office by Tuesday 21st October:

- **Mail** to Roger Dickie (NZ) Ltd (envelope provided); or
- **Fax** to 06 346 5369; or
- **Scan and email** to michelle@rogerdickie.co.nz; or
- **Vote on-line** by the link to the Proxy (as sent to you via email)

Michelle O'Neill, Administration, has been appointed by the Board as the Returning Officer to receive, record and count all votes.

I look forward to seeing you all at the AGM.

For and on behalf of the Board

RR Dickie
Chairman

PROXY VOTING FORM

Murray Creek Dairy Farm

Po Box 43, WAVERLEY 4544
Fax: +64 6 346 5369 Email: invest@rogerdickie.co.nz

PLEASE PRINT CLEARLY

PARTNER NAME____

ADDRESS____

APPOINT A PROXY
I/We being a Shareholder of Murray Creek Dairy Farm Limited:

hereby appoint______________________________of______________________________
(FULL NAME OF PROXY) (ADDRESS)

As Proxy to vote on (my/our) behalf at the Annual General Meeting of the Shareholders to be held on Thursday 23 October 2014

ATTENDING
I/We will be attending the AGM ☐ Number Attending ☐

Please provide names for name badges______________________________

APOLOGY
Please tender my/our apology ☐

PROXY VOTE

And instruct my Proxy to vote – Resolution 1)	**For** ☐	**Against** ☐	**As Proxy decides** ☐
And instruct my Proxy to vote – Resolution 2)	**For** ☐	**Against** ☐	**As Proxy decides** ☐

RESOLUTIONS:

1. Appointment of external Auditors. That Silks Audit of Wanganui be re-appointed.
2. Appointment of Director. Roger Dickie retires as Director and is available for re-election. That Roger Dickie be re-appointed Director.

ELECTRONIC VOTING
You can complete the form electronically by the link sent to you via email (username: murraycreek and password: 88rdnz413)

SIGNED______________________________ **DATE**__________________

SIGNED______________________________ **DATE**__________________

October 2014

MURRAY CREEK DAIRY FARM LIMITED
ANNUAL REPORT FOR YEAR ENDING 31 MAY 2014

The production achieved at Murray Creek for the 2013-2014 season was 363,658 kg/ms, 11.74% ahead of last season and slightly above the seasonal forecast for the farm of 360,000 kg/ms. This has been a record breaking production for the farm and demonstrates that our ambitions for the farm are realistic and achievable, provided our sharemilkers take notice of the advice given by our farm consultant, Jack Ballam.

The final payout announced by Open Country Dairy is$8.41kg/ms. This is a record pay out on a record production and certainly more palatable to the investors in Murray Creek than last years' $5.84.

The effect of the record payout for Murray Creek is that milk proceeds to 31st May 2014 were $350,000 more than budgeted. This more than made up for the fact that the Fonterra shares ended up being sold for $59,406 less than the 2013 Book Value and also meant that the borrowings, since balance date, for the purchase of the herd now total $1,523,302 compared with $3,235,000 at 31 May 2013. This has resulted in a good backstop coming into what is financially going to be a challenging 2014-15 Season.

As at balance date, the interest rate for the loan was 5.71%. The principal repayments for the year were $1,711,698 and no further principal payments are due until 22nd June 2015. We have subsequently drawn down a further $852,000 in June 2014, to cover capital expenditure on the purchase of the cows and the plant.

The 358,750 Fonterra shares have now all been sold and have yielded total revenue of $2,496,174. The average price achieved was $6.96 per share.The proceeds of the share sales are applied to the purchase of the cows, new tractor, trailer, silage wagon and general plant.

Capital expenditure for the year included the purchase of the New Holland tractor for $103,450, a deposit paid for the backing gate of $28,070, the Hustler bale feeder $15,800 and fencing equipment of $5,723.

By far the largest capital expenditure was the purchase of 987 cows. The herd is comprised of 738 mixed age cows and 249 R2 year old heifers.The cost was $2,079,285, an average per head of $2,107. We were selective with the animals purchased to ensure they would be capable of fitting into a herd that would be capable of meeting our production targets.

Repairs and maintenance for the year included maintenance work carried out on the lanes for $21,997 and installation of Novaflo in some wet areas of paddock and culvert installation costing 13,026.

Logan Stone Limited have valued Coldstream Downs this year and a copy of their report is included with this posting. As this is the first time they have valued the property they completed a full valuation and we hope in future years we can reduce this to a briefer desktop update annually. It is pleasing to see the updated valuation has increased by $1,350,000 to $10,800,000.

This was the last season on the farm for our sharemilkers, Stacey and Olivia Frost. They have downsized their herd and purchased their own farm near Invercargill and we wish them all the best for the future.

I would like to thank our Directors Jeff Whitlock and Stephen Barr and our consultant, Jack Ballam for their contributions over the past year.

We look forward to our first season at Murray Creek owning our own cows and equipment and using a VOSM to carry out the day to day farm management.

Farm Update -Current Season

Firstly we welcome our variable order sharemilkers (VOSM), Jason and Sandy Herrick to Murray Creek. It turns out Jason grew up in the neighbourhood and has a very good knowledge of the area so it is a bit like coming home for him.

The new season got off to a very promising start. The weather for June and July was unusually mild and dry for Southland and enabled us to commence the season in a strong feed position. We had quite a bit of silage and baleage left over from last season as well as having plenty of feed on the farm and the cows were generally in excellent condition.

The production forecast for the 2014-2015 season has been set at 355,000 kg/ms. The year to date production is for the season so far is down 10.4% on last year. Jason is hopeful that we will pick this up and still reach the 355,000 kg/ms season forecast as he has plenty of feed and still has some later calvers to come into the milking herd. Jack Ballam visited Murray Creek recently and he maintains we should be able to achieve production of 380,000 kgs/ms. WE hope he is correct!

Installation of the backing gate has been completed and Jason advises us it is operating well. Work has been completed on the concrete for the side yard at the dairy shed to facilitate easy drafting of the cows. We took the opportunity to ensure the posts that are installed are in the appropriate places so that later on, we can easily add a Protrak drafting system to the facility. Progress was held up for a couple of weeks due to the wet and cold weather conditions however, the job is finished in time for the drafting facility to be used for this seasons' mating.

Jason and Sandy have been able to rear more calves than are required for on farm replacements so we can look at selling off the surplus animals in the new year. Sandy has made an excellent job of the calves under sometimes difficult weather conditions.

You may have seen or read recently about cows in Southland suffering ill health or mortality from grazing HT (herbicide tolerant) swedes and been wondering whether Murray Creek has been affected by this. We have. We have five cows which have died already and another twenty four cows with health issues relating to photosensitivity. The issues include animals losing a lot of weight, not milking well, pulling up lame with no obvious injuries, skin peeling off their udders etc. This is a heart breaking situation to have to deal with, especially happening so closely to the fodder beet deaths and the uncertainty around whether there will be any longer term effects on the animals that are yet to become evident.

Southland farmers have now lost over three hundred cows to this mystery illness, with many others being affected to varying degrees including liver damage and sensitive and peeling skin. There may also be ongoing effects on animal health and production.

The toxicity is believed to be a result of a mild winter in Southland which has caused the swede plants to retain high levels of glucosinolate which in small quantities is beneficial but becomes toxic in larger doses. Animal health issues arise when dairy cows are shifted from a sweeter crop such as fodder beet to HT swedes near the end of the season when the swede is changing and becoming more bitter. The cows are reluctant to eat the swede bulbs due to the bitterness, so consume more leaf with the high glucosinolate levels.

Research into this is ongoing and a joint working group with representatives from a range of industry sector groups has been set up to seek more information on the incidence of the toxicity and to identify any patterns, causes and effects with a view to being able to provide Southland farmers with consistent advice as to how the situation is best managed.

The cows are no longer grazing the swedes and the intention is to plough them in. Jason has been in constant contact with Jack Ballam our farm consultant over the situation as well as keeping us informed. Jason and Sandy are handling the situation very pragmatically and getting on with the business of farming.While the cow deaths are a tragedy, these things happen from time to time in farming world and it is good to see they are not losing their focus as a result of these incidents.

Open Country Dairy have provided an update on the milk price for this season of $5.20 - $5.40.

This is in line with the Fonterra announcement on 24th September of $5.30.

OCD advise "Global supply and demand conditions continuing to put downward pressure on pricing. This has been further impacted by Russia's ban on dairy products from a number of significant exporting countries. This surplus volume, coupled with the continuation of muted demand, as well as a stubbornly high exchange rate has put considerable further pressure on the full season outlook".

This is disappointing news, especially since the last revision to $6 was also a significant drop. We are therefore adjusting our budgets and reviewing the farm expenditure accordingly with a view to reducing costs and delaying expenditure that is not urgent. The farm is well set up and we will be able to manage our way through this.

Many investors have enjoyed our biennial farm visits organised in previous years. We plan to organise another farm visit for 2015 and will provide more details at a later date.

I look forward to seeing you at the AGM.

Regards

RR Dickie – Director
Murray Creek Dairy Farm Limited

MURRAY CREEK DAIRY FARM LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2014

SILKS AUDIT
CHARTERED ACCOUNTANTS

Murray Creek Dairy Farm Limited

DIRECTORY

Nature of Business	Dairy Farming in the South Island of New Zealand
I R D Number	97-010-595
Date of Incorporation	7/06/2007
Company Number	1952025
Registered Office	87 Weraroa Road Waverley
Securities Registrar	Roger Dickie (N Z) Limited S H 3 Waverley
Directors	R R Dickie S J Barr J H Whitlock
Accountants	Markhams Waverley Limited Waverley
Solicitors	Kensington Swan Wellington Horsley Christie Wanganui
Auditors	Silks Audit Chartered Accountants Wanganui
Bankers	Bank of New Zealand Wanganui

SILKS AUDIT CHARTERED ACCOUNTANTS

Murray Creek Dairy Farm Limited

DIRECTORS REPORT
FOR THE YEAR ENDED 31 MAY, 2014

The business of the company through its subsidiary Murray Creek Ltd is dairy farming.

	THIS YEAR	LAST YEAR
The operating surplus (deficit) of the company for the year ended 31st May 2014 was	587,681	1,588,086
Taxation charge for the year was	(181,185)	(52,178)
Retained Earnings at 1st June 2013 were	374,569	(1,161,339)
Retained Earnings at 31 May 2014	$ 781,065	$ 374,569

It is not proposed to make any transfer to reserves.

The state of the company's affairs at 31st May 2014 was:-

Assets totalled	$ 12,176,061	$ 11,904,022
and were financed by		
Shareholders equity of	8,781,065	8,374,569
and liabilities of	3,394,996	3,529,653
	$ 12,176,061	$ 11,904,222

The Board of Directors present their annual report, including the financial statements of the Company for the year ended 31 May 2014.

Directors interests:

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

Directors Fees were paid to S J Barr amounting to $4,773. No other remuneration was paid to directors during the year

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 $8,981 were provided to the Group by Roger Dickie (N Z) Limited in which Roger Dickie, a director, has a controlling interest. The services were provided on normal commercial terms.

Accounting Services amounting to $7,285 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.

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
26 September 2014

Director
26 September 2014

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MAY, 2014

	Notes	GROUP 2014 $	PARENT 2014 $	GROUP 2013 $	PARENT 2013 $
Operating Revenue	4	3,115,079	-	2,167,633	-
Revaluation of Fonterra Shares	18	-	-	973,000	-
		3,115,079	-	3,140,633	-
Operating Expenditure	5	2,368,443	-	1,795,581	-
Impairment Loss (Reversal)	9	-	-	(427,806)	-
Revaluation of Fonterra Shares	18	59,406	-	-	-
Interest & Finance Charges		99,549	-	184,772	-
		2,527,398	-	1,552,547	-
Operating Surplus (Deficit) before Tax		587,681	-	1,588,086	-
Provision for Taxation	6	181,185	-	52,178	-
Operating Surplus (Deficit) after Taxation		406,496	-	1,535,908	-

Murray Creek Dairy Farm Limited

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY, 2014

	SHARE CAPITAL $	RETAINED EARNINGS $	TOTAL EQUITY $
31 May 2014 - Group			
Total Comprehensive Income for Year	-	406,496	406,496
Equity at Beginning of Year	8,000,000	374,569	8,374,569
Equity at End of Year	8,000,000	781,065	8,781,065
31 May 2014 - Parent			
Total Comprehensive Income for Year	-	-	-
Equity at Beginning of Year	8,000,000	(291,261)	7,708,739
Equity at End of Year	8,000,000	(291,261)	7,708,739
31 May 2013 - Group			
Total Comprehensive Income for Year	-	1,535,908	1,535,908
Equity at Beginning of Year	8,000,000	(1,161,339)	6,838,661
Equity at End of Year	8,000,000	374,569	8,374,569
31 May 2013 - Parent			
Total Comprehensive Income for Year	-	-	-
Equity at Beginning of Year	8,000,000	(291,261)	7,708,739
Equity at End of Year	8,000,000	(291,261)	7,708,739

SILKS AUDIT CHARTERED ACCOUNTANTS

STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY, 2014

		GROUP 2014 $	PARENT 2014 $	GROUP 2013 $	PARENT 2013 $
Current Assets					
Taxation Refund Due		-	-	-	-
Cash and Cash Equivalents	8	485,447	-	266,997	-
Accounts Receivable		271,530	-	323,867	-
GST Refund Due		303,590	-	-	-
Fonterra Shares sold since balance date	18	239,442	-	-	-
Livestock on Hand		2,079,285	-	-	-
Loan to Subsidiary		-	7,708,739	-	7,708,739
Total Current Assets		3,379,294	7,708,739	590,864	7,708,739
Non Current Assets					
Shares - Fonterra	18	-	-	2,555,000	-
Shares - Sundry		4,390	-	4,390	-
Shares in Subsidiary		-	-	-	-
Property, Plant & Equipment	9	8,792,377	-	8,753,968	-
Total Non-Current Assets		8,796,767	-	11,313,358	-
Total Assets		12,176,061	7,708,739	11,904,222	7,708,739
Current Liabilities					
Bank Overdraft	8	-	-	-	-
BNZ Loan - Current Portion	10	-	-	180,000	-
Provision for Taxation	6	104,070	-	20,540	-
GST Payable		-	-	41,296	-
Accounts Payable		1,729,918	-	202,602	-
Total Current Liabilities		1,833,988	-	444,438	-
Non-Current Liabilities					
Deferred Tax	6	37,706	-	30,215	-
Bank of New Zealand Term Loan	10	1,523,302	-	3,055,000	-
Total Non-Current Liabilities		1,561,008	-	3,085,215	-
Equity		8,781,065	7,708,739	8,374,569	7,708,739
Total Liabilities & Equity		12,176,061	7,708,739	11,904,222	7,708,739

For and on behalf of the board

Director
26 September 2014

Director
26 September 2014

SILKS AUDIT CHARTERED ACCOUNTANTS

CASHFLOW STATEMENT

FOR THE YEAR ENDED 31 MAY, 2014

	Notes	GROUP 2014 $	PARENT 2014 $	GROUP 2013 $	PARENT 2013 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from Customers		3,127,973	-	2,200,674	-
Tax Refunds			-	-	-
GST Refunds		-	-	20,660	
Interest		8,451	-	506	-
		3,136,424	-	2,221,840	-
Cash was applied to:					
Operating Expenses		(2,971,100)	-	(1,678,793)	
Interest Paid		(102,329)	-	(184,645)	-
GST		(137,783)	-	-	-
Taxation Paid		(82,375)	-	(20,472)	
		(3,293,587)	-	(1,883,910)	-
Net cash inflow (outflow) from operating activities	12	(157,163)	-	337,930	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Sale of Fixed Assets		-	-	-	-
Sale of Investments		2,256,152	-	-	-
		2,256,152	-	-	-
Cash was applied to:					
Purchase of Subsidiary		-	-	-	-
Loan to Subsidiary		-	-	-	-
Purchase of Fixed Assets		(168,841)	-	(58,550)	-
Purchase of Investments		-	-	(1,503)	-
		(168,841)	-	(60,053)	-
Net cash inflow (outflow) from investing activities		2,087,311	-	(60,053)	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Term Loan		-	-	-	-
Cash was applied to:					
Preliminary Expenses			-	-	-
Loan Repayment		(1,711,698)	-	(265,000)	-
Net cash inflow (outflow) from financing activities		(1,711,698)	-	(265,000)	-
Net increase (decrease) in cash held		218,450	-	12,877	-
Balance at beginning of year		266,997	-	254,120	-
Balance at end of year 31 May 2014		485,447	-	266,997	-

STATEMENT OF ACCOUNTING POLICIES AND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY, 2014

1. Summary of Significant Accounting Policies

Reporting Entity

Murray Creek Dairy Farm Ltd is a company registered under the Companies Act 1993.

The group consists of the Parent company Murray Creek Dairy Farm Ltd, which is an issuer, and its wholly owned subsidiary Murray Creek Ltd.

Murray Creek Dairy Farm Ltd is an issuer as defined by the Financial Reporting Act 1993 and these financial statements and these group financial statements have been prepared in accordance with this Act.

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.

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) Property, Plant and Equipment

The company has these classes of property, plant and equipment:
- Freehold Land;
- Freehold Buildings;
- Plant and equipment;

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 and equipment	5 to 15 years

(c) 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.

SILKS AUDIT CHARTERED ACCOUNTANTS

STATEMENT OF ACCOUNTING POLICIES AND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY, 2014 (CONT.)

(d) Share Capital

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

(e) 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.

(f) Financial Instruments

Financial instruments are recognised in the balance sheet when the Company becomes party to a financial contract. They include cash balances, bank overdrafts, receivables, payables, investments in and loans to others, and term borrowings.

(g) 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.

(h) Investments

Investments are recorded at market value with the revaluation income recognised through the Statement of Comprehensive Income.

(i) 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.

(j) Revenue

Revenue on sales of goods is recognised when they are delivered and ready for use by the customer.

(k) 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.

(l) Goods and Services Tax

These accounts have been prepared exclusive of Goods and Services Tax.

SILKS AUDIT SA CHARTERED ACCOUNTANTS

STATEMENT OF ACCOUNTING POLICIES AND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY, 2014 (CONT.)

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 2014	Parent 2014	Group 2013	Parent 2013
Ordinary Shares Issued	8,150,000	8,150,000	8,150,000	8,150,000
Opening Paid Up Capital	8,000,000	8,000,000	8,000,000	8,000,000
Further Capital Paid Up	-	-	-	-
Closing Paid Up Capital	8,000,000	8,000,000	8,000,000	8,000,000

All ordinary shares have been issued. There are 150,000 unpaid ordinary shares (2013: 150,000). All shares have equal voting rights and share equally in dividends and surplus on winding up. The shares have no par value.

3. Retained Earnings

	Group 2014	Parent 2014	Group 2013	Parent 2013
Balance as at 1 June 2013	374,569	(291,261)	(1,161,339)	(291,261)
Operating surplus (deficit) attributable to the shareholders of the parent company.	406,496	-	1,535,908	-
Balance as at 31 May 2014	781,065	(291,261)	374,569	(291,261)

4 Operating Revenue

	Group 2014	Parent 2014	Group 2013	Parent 2013
Milk Proceeds & Other Sales	3,082,198	-	2,040,246	-
Interest Income	8,451	-	506	-
Dividend Income	24,430	-	126,881	-
Total Operating Revenue	**3,115,079**	-	**2,167,633**	-

5 Operating Expenses

	Group 2014	Parent 2014	Group 2013	Parent 2013
Included in operating expenses are:				
Audit Fees	9,995	-	8,885	-
Depreciation Expense	117,014	-	121,606	-
Directors Fees	4,773	-	3,334	-
Loss on Disposal of Fixed Assets	-	-	-	-
Rental and Operating Expenses	-	-	-	-

6. Taxation

	Group 2014	Parent 2014	Group 2013	Parent 2013
Net Profit/(Loss) for the year	587,681	-	1,588,086	-
Prima facie income tax at 28%	164,551	-	444,664	-
Add (subtract) taxation effect of permanent differences				
Non-Taxable Fonterra Share revaluation	16,635	-	(272,440)	-
Other Permanent Differences	-		(260)	
Tax Effect of Impairment Loss Recovery	-	-	(119,786)	-
Non-recognised Timing Differences			-	
Recognition of tax losses not previously recognised	-	-	-	-
Income Tax Expenses	181,186	-	52,178	-
The income tax expense is represented by:				
Current Tax	173,694	-	57,891	-
Deferred Tax	7,491	-	(5,713)	-
Income Tax Expense	181,185	-	52,178	-

There are income tax losses and unrecognised timing differences carried forward of $Nil (2013: $Nil) for set-off against future assessable income subject to Inland Revenue Department Assessment.

7. Imputation Credit Account

	Group 2014	Parent 2014	Group 2013	Parent 2013
Balance as at 1 June 2013	81,332	-	60,496	-
Tax Refunded	-	-	(9,115)	-
Tax Paid	102,164	-	29,951	-
Balance as at 31 May 2014	183,496	-	81,332	-

SILKS AUDIT CHARTERED ACCOUNTANTS

STATEMENT OF ACCOUNTING POLICIES AND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY, 2014 (CONT.)

8. Cash and Cash Equivalents

	Group 2014	Parent 2014	Group 2013	Parent 2013
Bank of New Zealand Cheque Account	1,396	-	2	-
Bank of New Zealand Call Account	421,414		266,995	
ANZ New Zealand Securities Ltd Call Account	62,637	-	-	-
Balance as at 31 May 2014	485,447	-	266,997	-

The 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 Murray Creek Limited
The limit is $300,000 and the interest rate at year end is 9.8%

9. Property, Plant & Equipment

	Land	Buildings	Development Expenditure	Plant & Equipment	Total
1 June 2013:					
Cost Price	6,369,493	1,529,455	742,371	827,864	9,469,183
Accumulated Depreciation/Impairment	-	(151,238)	(154,044)	(409,933)	(715,215)
Net Book Value	6,369,493	1,378,217	588,327	417,931	8,753,968
Additions	-	-	-	155,423	155,423
Disposals	-	-	-	-	-
	6,369,493	1,378,217	588,327	573,354	8,909,391
Depreciation	-	(15,495)	(35,773)	(65,746)	(117,014)
Reversal of Impairment Loss	-	-	-	-	-
Loss/(Gain) on Sale					-
Net Book Value	6,369,493	1,362,722	552,554	507,608	8,792,377
31 May 2014:					
Cost Price	6,369,493	1,529,455	742,371	983,287	9,624,606
Accumulated Depreciation/Impairment		(166,733)	(189,817)	(475,679)	(832,229)
Net Book Value	6,369,493	1,362,722	552,554	507,608	8,792,377

The farm property has been assessed for impairment to value. An independent valuation carried our by Logan Stone Ltd, Property Valuers, dated 11 June 2014 assesses the value of the land, improvements and dairy plant at $10,800,000.

	Land	Buildings	Development Expenditure	Plant & Equipment	Total
1 June 2012:					
Cost Price	6,365,565	1,529,455	707,249	779,146	9,381,415
Accumulated Depreciation/Impairment	(427,806)	(135,743)	(117,039)	(340,827)	(1,021,415)
Net Book Value	5,937,759	1,393,712	590,210	438,319	8,360,000
Additions	3,928	-	35,122	48,718	87,768
Disposals	-	-	-	-	-
	5,941,687	1,393,712	625,332	487,037	8,447,768
Depreciation	-	(15,495)	(37,005)	(69,106)	(121,606)
Reversal of Impairment Loss	427,806				427,806
Loss/(Gain) on Sale	-	-			-
Net Book Value	6,369,493	1,378,217	588,327	417,931	8,753,968
31 May 2013:					
Cost Price	6,369,493	1,529,455	742,371	827,864	9,469,183
Accumulated Depreciation/Impairment	-	(151,238)	(154,044)	(409,933)	(715,215)
Net Book Value	6,369,493	1,378,217	588,327	417,931	8,753,968

The farm property has been assessed for impairment to value. An independent valuation carried out by Peter Minty Valuations ANZIV SPINZ dated 14 June 2013 assesses the value of the land, improvements and dairy plant at $9,000,000. Accordingly, previous impairment losses have been reversed.

10. Non Current Liabilities

BNZ Term Loan

	Group 2014	Parent 2014	Group 2013	Parent 2013
B N Z Term Loan - Current	-	-	180,000	-
B N Z Term Loan - Term	1,523,302	-	3,055,000	-
	1,523,302	-	3,235,000	-

Repayable as follows:

	Group 2014	Parent 2014	Group 2013	Parent 2013
BNZ Loan				
Less than 1 Year	-	-	180,000	-
Between 1 - 2 Years	180,000	-	180,000	-
Between 2 - 5 Years	1,343,302	-	2,875,000	-
Greater than 5 years		-	-	-
	1,523,302	-	3,235,000	-

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 Murray Creek Limited.

b) The Term Loan has a 5 year term with monthly principal payments of $15,000 commencing June 2015 and interest at a current interest rate of 5.71%

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11. 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 $251,783 (2013: $309,408) receivable from Open Country Dairy Ltd (2013: 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 Open Country Dairy Ltd who in turn incurs currency risk. Group entities have exposure to interest rate risk to the extent that they borrow at floating interest 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 facility of $300,000. At balance date, none 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 on floating interest rates.

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

	Group 2014	Parent 2014	Group 2013	Parent 2013
Net Surplus/(Deficit) after tax for the year	406,496	-	1,535,908	-
Add (less) non cash items:-				
- Fonterra Share Revaluation	59,406	-	(973,000)	-
- Impairment Loss	-	-	(427,806)	-
- Depreciation	117,014	-	121,606	-
	582,916	-	256,708	-
Add (less) movement in other working capital items:				
Increase (decrease) in accounts payable	1,540,734	-	22,116	-
(Increase) decrease in livestock on hand	(2,079,285)	-	-	-
(Increase) decrease in accounts receivable	52,337		12,165	
Increase (decrease) in GST payable	(344,886)	-	15,243	-
Increase (decrease) in Tax payable	91,021	-	31,698	-
Net cash inflow (outflow) from operating activities	(157,163)	-	337,930	-

13. Contingent Liabilities

The Company has no significant Contingent Liabilities that the board is aware of. (2013: $Nil)

14. Capital Commitments

A new Backing Gate has been purchased from Progessive Engineering for delivering in August 2014. A 45% Deposit was paid in April, and the remaining 55% $34,208 is due in August upon instalation.

At 31 May 2014 there were no other capital commitments. (2013: $Nil)

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15. Related Party Transactions

a) The subsidiary paid administration fees of $8,981 (2013: $11,347) to Roger Dickie (NZ) Ltd, in which Roger Dickie, a director, has a controlling interest. The amount owing at balance date was $708 (2013; $225)

b) Accounting Services amounting to $7,285 (2013: $6,160) 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 $144 (2013: $144)

c) Directors Fees were paid to S J Barr amounting to $4,773 (2013: $3,334). The amount owing at balance date was nil (2013: nil)

d) Capital Improvements amounting to $Nil (2012: $20,735) were provided by Dickie Land Developments Limited in which Charles Dickie, the shareholder, is the son of Roger Dickie, who is a director of Murray Creek Limited.

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

16. Events After Balance Date

The company began supplying Open Country Dairy Limited rather than Fonterra Co-operative Group Limited from the 2013/14 season. Because of this, the company has been progressively selling its Fonterra shares. At balance date, 39,907 shares remained to be sold. These have all been sold since balance date at a price of $6.00 each, realising $239,442

The company has also purchased a dairy herd, and has appointed a Variable Order Share Milker for the 2014/15 Season. The basis of the payment to the sharemilker is a standard fixed expense allowance plus 6.0% of the milk proceeds.

Since balance date the herd has been affected by a swede poisoning issue in the district. This has resulted in the death of 12 cattle, and a further 21 cattle are currently sick.

17. Investment in Subsidiary

	2014	2013	Business
Murray Creek Limited	100%	100%	Dairy Farming

The Company owns 100 ordinary shares in Murray Creek Limited

18. Investment in Fonterra Co-operative Group Limited

	2014 No.	2014 $	2013 No.	2013 $
Shares held at 1 June 2013	350,000	2,555,000	350,000	1,582,000
1:40 Bonus Issue	8,750	-	-	-
Shares Sold	(318,843)	(2,256,152)		
Revaluation of Shares	-	(59,406)	-	973,000
Shares held at 31 May 2014	39,907	239,442	350,000	2,555,000
Classified as:				
Current Asset	39,907	239,442	-	-
Non Current Asset	-	-	350,000	2,555,000
	39,907	239,442	350,000	2,555,000

See also Note 16.

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INDEPENDENT AUDITORS REPORT

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To the Shareholders of Murray Creek Dairy Farm Ltd.

Report on the Financial Statements
We have audited the financial statements of Murray Creek Dairy Farm Limited and group on pages 3 to 11, which comprise the consolidated and separate statement of financial position of Murray Creek Dairy Farm Limited as at 31 May 2014, consolidated and separate statement of comprehensive income, statement of changes in equity and cashflow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditors report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements
The Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Opinion
In our opinion the financial statements of Murray Creek Dairy Farm Limited for the year ended 31 May 2014

- comply with generally accepted accounting practice in New Zealand;
- comply with international financial reporting standards;
- gives a true and fair view of the financial position of the Murray Creek Dairy Farm Limited as at 31 May 2014 and the results of its operations and cashflows for the year ended on that date.

Report on Other Legal and Regulatory Requirements
We also report in accordance with the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 May 2014:

(i) We have obtained all the information and explanations we have required; and

(ii) In our opinion, proper accounting records have been kept by the company as far as appears from our examination of those records.

Silks Audit

Silks Audit
Chartered Accountants
Wanganui, New Zealand

Date: **26 September 2014**