October 2013

MURRAY CREEK DAIRY FARM LIMITED
ANNUAL REPORT FOR YEAR ENDING 31 MAY 2013

The final payout of $5.84kg of milksolids (ms) has been announced. This is 4% down on last year's payout. Opening forecast for the 2013/2014 season was $7.00kg (ms) and is presently $8.30.

The production achieved for the season was 345,184kg (ms). This was 6.06% ahead of last season and slightly less than the budget of 350,000kg (ms). This has been a farm record despite the Summer drought that brought on quite a number of challenges.

The operating surplus for the year is $1,588,086. The underlying cash trading surplus before tax was $308,886.

At balance date the Company held 350,000 Fonterra Shares. As share holders are aware on the 1st June Murray Creek changed dairy companies from Fonterra to Open Country Dairies (OCD). We started trading our Fonterra shares on the 16th of July. In total to date we have sold 221,660 shares at prices ranging from $7.40 - $7.51. The amount of $1,272,815 we received from the sales has been paid off the loan. With only one lump sum repayment permitted per month we carried on trading and in August a further $374,882 was repaid off the loan. We have a further 137,090 shares still left to sell. With Fonterra's botulism scare in August, the bottom fell out of the market and we stopped trading. The market is improving at a slow pace and as at today is $6.98. There is a good chance prices will rise in October when farmers receive their final payout. This will be a prime opportunity to sell the rest of the shares if the price is right.

The balance of the loan as at 20 September 2013 was $1,548,802 with an effective interest rate of 5.28%pa. Repayments are currently Principal & Interest.

We have enclosed the latest valuation of the property. Actual valuation has increased by 1.1 million to $9,450,000 and the Fonterra shares have been excluded from the valuation.

I am concerned that the annual valuation we receive for Murray Creek seems to be significantly below the market price that other similar dairy farms are selling for. We have asked experienced real estate agents to comment on the valuation and they have said in their opinion it would not be possible to buy Murray Creek for the valuation figure. Next year we may use different valuers in an attempt to give shareholders a more accurate view of market value.

We spent $22,425 on a heavy roller to assist in the sharemilkers in maintaining the tracks and lanes over the farm.

Murray Creek took the option to purchase the Fonterra Vat at a cost of $33,600 to save on costs that would have been associated in purchasing a new Vat for Open Country Supply.

Capital drainage costs amounted to $35,122. This included the installation of new drainage around the irrigator, new culverts and nova flow to rectify the drain water from low lying areas.

General farm maintenance expenditure included repairs to the irrigation tracks & lanes at a cost of $23,509. Over the year the backing gate at the dairy shed has needed several repairs at total cost of $9,520. The Directors have decided that a new Reporoa Backing Gate will be purchased this season at a cost of $43,468.

Farm Update -Current Season

Budgeted production has been set for 360,00kgs (ms) for the 2013/2014 season. The mild weather made calving easier during August and Murray Creek are ahead of production by 21.2% compared to last season at the same time. Our Sharemilkers have reported there are no problems with animal health.

Stacey and Olivia are on a year to year contract and we will discuss the situation with them later this calendar year.

There is a possibility we could change our farm contract for running the farm to Lower Order Sharemilking (LOSM) for next year as this would be more profitable. We would need to buy our own herd of cows to do this. Another option may be to change the terms of our current contract (expiring this year) with the present sharemilkers, the Frosts. The directors will consider options and report back.

This years AGM will be held at the Wellington airport in their conference centre to assist any shareholders who may care to fly in for the meeting.

Many investors have enjoyed our biennial farm visits organised in previous years. We plan to organise another farm visit for early 2014 and will provide more details at a later date.

Thank you to Jack Ballam our farm consultant and Directors' Jeff Whitlock and Steve Barr for their contributions throughout the year. Our thanks go to Stacey, Olivia and their staff for the work achieved over the year.

Regards

RR Dickie – Director Murray Creek Dairy Farm Limited

MURRAY CREEK DAIRY FARM LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2013

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	07/06/2007
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

Murray Creek Dairy Farm Limited

DIRECTORS REPORT

FOR THE YEAR ENDED 31 MAY, 2013

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 2013 was	1,588,086	773,042
Taxation charge for the year was	(52,178)	(51,526)
Retained Earnings at 1st June 2012 were	(1,161,339)	(1,882,855)
Retained Earnings at 31 May 2013	$ 374,569	(1,161,339)

It is not proposed to make any transfer to reserves.

The state of the company's affairs at 31st May 2013 was:-

Assets totalled	$ 11,904,222	$ 9,935,630
and were financed by		
Shareholders equity of	8,374,569	6,117,145
and liabilities of	3,529,653	3,818,485
	$ 11,904,222	$ 9,935,630

The Board of Directors present their annual report, including the financial statements of the Company for the year ended 31 May 2013.

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 $3,334. 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 $11,347 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 $6,160 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
23 September 2013

Director
23 September 2013

SILKS AUDIT CHARTERED ACCOUNTANTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MAY, 2013

	Notes	GROUP 2013 $	PARENT 2013 $	GROUP 2012 $	PARENT 2012 $
Operating Revenue	4	2,167,633	-	2,156,911	-
Revaluation of Fonterra Shares	18	973,000	-	-	-
		3,140,633	-	2,156,911	-
Operating Expenditure	5	1,795,581	-	1,771,643	-
Impairment Loss (Reversal)		(427,806)	-	(589,020)	-
Interest & Finance Charges		184,772	-	201,246	
		1,552,547	-	1,383,869	-
Operating Surplus (Deficit) before Tax		1,588,086	-	773,042	-
Provision for Taxation	6	52,178	-	51,526	-
Operating Surplus (Deficit) after Taxation		1,535,908	-	721,516	-

Murray Creek Dairy Farm Limited

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY, 2013

	SHARE CAPITAL $	RETAINED EARNINGS $	TOTAL EQUITY $
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
31 May 2012 - Group			
Total Comprehensive Income for Year	-	721,516	721,516
Equity at Beginning of Year	8,000,000	(1,882,855)	6,117,145
Equity at End of Year	8,000,000	(1,161,339)	6,838,661
31 May 2012 - 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, 2013

		GROUP 2013 $	PARENT 2013 $	GROUP 2012 $	PARENT 2012 $
Current Assets					
Taxation Refund Due		-	-	8,613	-
Cash and Cash Equivalents	8	266,997		254,120	-
Accounts Receivable		323,867		336,032	-
Loan to Subsidiary			7,708,739	-	7,708,739
Total Current Assets		590,864	7,708,739	598,765	7,708,739
Non Current Assets					
Shares - Fonterra	18	2,555,000		1,582,000	-
Shares - Sundry		4,390		2,887	
Shares in Subsidiary		-		-	-
Property, Plant & Equipment	9	8,753,968		8,360,000	-
Total Non-Current Assets		11,313,358		9,944,887	-
Total Assets		11,904,222	7,708,739	10,543,652	7,708,739
Current Liabilities					
Bank Overdraft	8	-		-	-
BNZ Loan - Current Portion	10	180,000		-	-
Provision for Taxation		20,540			
GST Payable		41,296		26,053	-
Accounts Payable		202,602		143,010	-
Total Current Liabilities		444,438		169,063	-
Non-Current Liabilities					
Deferred Tax		30,215		35,928	-
Bank of New Zealand Term Loan	10	3,055,000		3,500,000	-
Total Non-Current Liabilities		3,085,215		3,535,928	-
Equity		8,374,569	7,708,739	6,838,661	7,708,739
Total Liabilities & Equity		11,904,222	7,708,739	10,543,652	7,708,739

For and on behalf of the board

Director
23 September 2013

Director
23 September 2013

SILKS AUDIT CHARTERED ACCOUNTANTS

CASHFLOW STATEMENT

FOR THE YEAR ENDED 31 MAY, 2013

	Notes	GROUP 2013 $	PARENT 2013 $	GROUP 2012 $	PARENT 2012 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from Customers		2,200,674	-	2,227,813	-
Tax Refunds			-	-	-
GST Refunds		20,660	-	9,038	
Interest		506	-	2,206	-
		2,221,840	-	2,239,057	-
Cash was applied to:					
Operating Expenses		(1,678,793)	-	(1,685,256)	
Interest Paid		(184,645)	-	(211,148)	-
GST		-	-	-	-
Taxation Paid		(20,472)	-	(20,425)	
		(1,883,910)	-	(1,916,829)	-
Net cash inflow (outflow) from operating activities	12	337,930	-	322,228	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Sale of Fixed Assets		-	-	-	-
Sale of Investments		-	-	-	-
		-	-	-	-
Cash was applied to:					
Purchase of Subsidiary		-	-	-	-
Loan to Subsidiary		-	-	-	-
Purchase of Fixed Assets		(58,550)	-	(171,889)	-
Purchase of Investments		(1,503)	-	(825)	-
		(60,053)	-	(172,714)	-
Net cash inflow (outflow) from investing activities		(60,053)	-	(172,714)	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Term Loan		-	-	292,604	-
Cash was applied to:					
Preliminary Expenses			-	-	-
Loan Repayment		(265,000)	-	(165,141)	-
Net cash inflow (outflow) from financing activities		(265,000)	-	127,463	-
Net increase (decrease) in cash held		12,877	-	276,977	-
Balance at beginning of year		254,120	-	(22,857)	-
Balance at end of year 31 May 2013		266,997	-	254,120	-

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

FOR THE YEAR ENDED 31 MAY, 2013

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, 2013 (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 CHARTERED ACCOUNTANTS

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

FOR THE YEAR ENDED 31 MAY, 2013 (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 2013	Parent 2013	Group 2012	Parent 2012
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 (2012: 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 2013	Parent 2013	Group 2012	Parent 2012
Balance as at 1 June 2012	(1,161,339)	(291,261)	(1,882,855)	(291,261)
Operating surplus (deficit) attributable to the shareholders of the parent company.	1,535,908	-	721,516	-
Balance as at 31 May 2013	374,569	(291,261)	(1,161,339)	(291,261)

4 Operating Revenue

	Group 2013	Parent 2013	Group 2012	Parent 2012
Milk Proceeds & Other Sales	2,040,246	-	2,035,705	-
Interest Income	506	-	2,206	-
Dividend Income	126,881	-	119,000	-
Total Operating Revenue	**2,167,633**	**-**	**2,156,911**	**-**

5 Operating Expenses

	Group 2013	Parent 2013	Group 2012	Parent 2012
Included in operating expenses are:				
Audit Fees	8,885	-	7,825	-
Depreciation Expense	121,606	-	128,556	-
Directors Fees	3,334	-	2,622	-
Loss on Disposal of Fixed Assets	-	-	-	-
Rental and Operating Expenses	-	-	-	-

6. Taxation

	Group 2013	Parent 2013	Group 2012	Parent 2012
Net Profit/(Loss) for the year	1,588,086	-	773,042	-
Prima facie income tax at 28%	444,664	-	216,452	-
Add (subtract) taxation effect of permanent differences				
Non-Assessable Fonterra Share revaluation	(272,440)	-	-	-
Other Permanent Differences	(260)			
Tax Effect of Impairment Loss Recovery	(119,786)	-	(164,926)	-
Non-recognised Timing Differences			-	
Recognition of tax losses not previously recognised	-	-	-	-
Income Tax Expenses	52,178	-	51,526	-
The income tax expense is represented by:				
Current Tax	57,891	-	51,812	-
Deferred Tax	(5,713)	-	(286)	-
Income Tax Expense	52,178	-	51,526	-

There are income tax losses and unrecognised timing differences carried forward of $Nil (2012: $Nil) for set-off against future assessable income subject to Inland Revenue Department Assessment.

7. Imputation Credit Account

	Group 2013	Parent 2013	Group 2012	Parent 2012
Balance as at 1 June 2012	60,496	-	40,071	-
Tax Refunded	(9,115)	-	-	-
Tax Paid	29,951	-	20,425	-
Balance as at 31 May 2013	81,332	-	60,496	-

SILKS AUDIT CHARTERED ACCOUNTANTS

STATEMENT OF ACCOUNTING POLICIES AND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY, 2013 (CONT.)

8. Cash and Cash Equivalents

	Group 2013	Parent 2013	Group 2012	Parent 2012
Bank of New Zealand Cheque Account	2	-	5,503	-
Bank of New Zealand Call Account	266,995	-	248,617	-
Balance as at 31 May 2013	266,997	-	254,120	-

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 and Mortgage over Dairy Company Shares in Fonterra Co-Operative 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 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 our by Peter Minty Valuations ANZIV SPINZ dated 14 June 2013 assesses the value of the land, improvements and dairy plant at $9,000,000.

	Land	Buildings	Development Expenditure	Plant & Equipment	Total
1 June 2011:					
Cost Price	6,365,565	1,529,455	670,804	716,055	9,281,879
Accumulated Depreciation/Impairment	(1,016,826)	(120,248)	(79,859)	(264,946)	(1,481,879)
Net Book Value	5,348,739	1,409,207	590,945	451,109	7,800,000
Additions	-	-	36,445	63,091	99,536
Disposals	-	-	-	-	-
	5,348,739	1,409,207	627,390	514,200	7,899,536
Depreciation	-	(15,495)	(37,180)	(75,881)	(128,556)
Impairment Loss	589,020				589,020
Loss/(Gain) on Sale	-	-			-
Net Book Value	5,937,759	1,393,712	590,210	438,319	8,360,000
31 May 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

The farm property has been assessed for impairment to value. An independent valuation carried our by Peter Minty Valuations ANZIV SPINZ dated 23 July 2012 assesses the value of the land, improvements and dairy plant at $8,360,000.

10. Non Current Liabilities

BNZ Term Loan

	Group 2013	Parent 2013	Group 2012	Parent 2012
B N Z Term Loan - Current	180,000	-	-	-
B N Z Term Loan - Term	3,055,000	-	3,500,000	-
	3,235,000	-	3,500,000	-

Repayable as follows:

	Group 2013	Parent 2013	Group 2012	Parent 2012
BNZ Loan				
Less than 1 Year	180,000	-	-	-
Between 1 - 2 Years	180,000	-	180,000	-
Between 2 - 5 Years	2,875,000	-	3,320,000	-
Greater than 5 years		-	-	-
	3,235,000	-	3,500,000	-

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 and Mortgage over Dairy Company Shares in Fonterra Co-operative Limited.

b) The Term Loan has a 4 year term with monthly principal payments of $15,000 and interest at a current interest rate of 5.54%.

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

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

Concentrations of credit risk

Group accounts receivable include $309,408 (2012: $318,437) 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 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 for a fixed term at fixed rates. The Issuing Group manages its cost of borrowing by placing limits on the proportion of borrowings at floating rate, and the proportion of fixed rate borrowing that is repriced in any year. The Issuing Group's policy is that between 90% and 100% of interest rates on borrowings are fixed for a minimum of 3 months.

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

	Group 2013	Parent 2013	Group 2012	Parent 2012
Net Surplus/(Deficit) after tax for the year	1,535,908	-	721,516	-
Add (less) non cash items:-				
- Fonterra Share Revaluation	(973,000)	-	-	-
- Impairment Loss	(427,806)	-	(589,020)	-
- Depreciation	121,606	-	128,556	-
	256,708	-	261,052	-
Add (less) movement in other working capital items:				
Increase (decrease) in accounts payable	22,116	-	(106,765)	-
(Increase) decrease in livestock on hand	-	-	-	-
(Increase) decrease in accounts receivable	12,165		117,116	
Increase (decrease) in GST payable	15,243	-	19,724	-
Increase (decrease) in Tax payable	31,698	-	31,101	-
Net cash inflow (outflow) from operating activities	337,930	-	322,228	-

13. Contingent Liabilities

The Company has no significant Contingent Liabilities that the board is aware of. (2012: $Nil)

14. Capital Commitments

At 31 May 2013 there were no capital commitments. (2012: $Nil)

SILKS AUDIT SA CHARTERED ACCOUNTANTS

15. Related Party Transactions

a) The subsidiary paid administration fees of $11,347 (2012: $14,592) to Roger Dickie (NZ) Ltd, in which Roger Dickie, a director, has a controlling interest. These fees were charged on normal commercial terms and conditions.

b) Accounting Services amounting to $6,160 (2012: $6,187) 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.

c) Directors Fees were paid to S J Barr amounting to $3,334 (2012: $2,622)

d) Capital Improvements amounting to $20,735 (2012: $Nil) 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 will be supplying Open Country Dairy Limited rather than Fonterra Co-operative Group Limited from the 2014/15 season. Because of this, the company will not be required to hold Fonterra shares, and since balance date has commenced selling these, with the proceeds applied to the company's term loan. At reporting date, 221,660 shares have been sold for $1,647,416.

17. Investment in Subsidiary

	2013	2012	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

	2013 No.	2013 $	2012 No.	2012 $
Shares held at 1 June 2012	350,000	1,582,000	350,000	1,582,000
Shares redeemed re 2013 Season	-	-	-	-
Shares Purchased re 2013 Season	-	-	-	-
Revaluation of Shares	-	973,000	-	-
Shares held at 31 May 2013	350,000	2,555,000	350,000	1,582,000

See also Note 16.

SILKS AUDIT
Chartered Accountants
Celebrating over 100 years of: Service Integrity Leadership Knowledge and Sincerity

INDEPENDENT AUDITORS REPORT

24 Bell Street
Wanganui 4500
PO Box 7144
Wanganui 4541
New Zealand

T: (06) 345 8539
F: (06) 345 2212
E: silks@silks.co.nz
www.silksaudit.co.nz

To the Shareholders of Murray Creek Dairy Farm Ltd.

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Murray Creek Dairy Farm Limited on pages 3 to 11 and its subsidiaries, which comprise the statement of financial position of Murray Creek Dairy Farm Limited as at 31 May 2013 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cashflows 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 Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements of Murray Creek Dairy Farm Limited for the year ended 31 May 2013

- 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 2013 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 2013:

(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

CHARTERED ACCOUNTANTS

Date: **23 September 2013**