Pukekaka Sheep & Beef Farm Limited

ANNUAL REPORT 2015/2016

ROGER DICKIE
NEW ZEALAND

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DIRECTORS ANNUAL REPORT

Hello

You will see from the attached Performance Review Summary Report that the farming operation at Pukekaka was again carried out in a very efficient manner by our manager Rob Stratton ably assisted by his wife Maree and staff member Jack (who left half way through the year) and Sam.

As independent consultant Paul Hughes discusses in his report, we had yet another dry finish to the farming year, (this year it was February to June). Many of you who are farmers or have visited the farm will realise that late summer/autumn is a very important time of the year for grass growth to finish lambs. As well autumn rains ensure the ewes are well fed so that mating is successful and lambing percentages the following year are at the highest level. A moist autumn also ensures there is a good bank of feed to carry into the winter months. Of course, something has to give when grass is in short supply and Rob was forced to sell lambs early and at lighter weights in order to look after the other issues (discussed above).

Lamb prices were again at the lowest end of the range over recent years, we averaged $77 per head which is well back from the $113 per head we averaged 4 years ago. With 6920 lambs sold it is interesting to note that a price $30 higher would bring in another $207,000 and increase the farm return by around 2.5%. These lower lamb prices have affected all farmers for much of the last decade and have significantly impacted on profitability at Pukekaka and the sector in general.

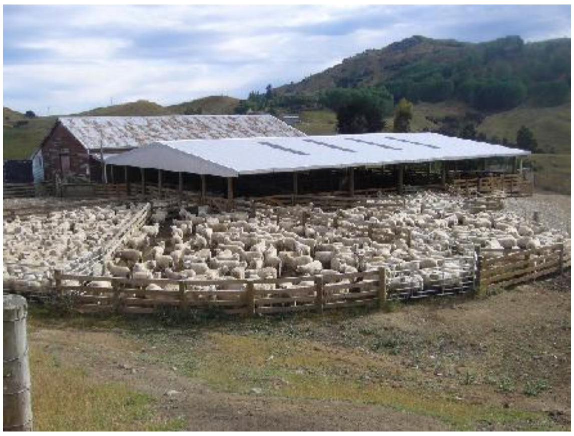
The dry autumn also had a financial cost to us as lambs were sold at lighter weights because of the grass situation.

The cash position for Pukekaka showed a trading profit for the 2015/16 year of $335,952 before tax, principal repayments and fixed asset purchases.

On behalf of the directors I would like to congratulate and thank Rob Stratton for his exceptional input and outcome in regard to all parameters of the farming operation that he has influence over.

Despite the difficulties of dry climatic conditions (which appear to be rather regular over the past decade) Rob, Maree and their staff have made the operation of Pukekaka a trouble free one.

We have undertaken a review of the future of Pukekaka and this matter is discussed on the following pages.



I look forward to seeing you at the AGM.

Kind Regards

Roger Dickie
Director

PUKEKAKA SHEEP AND BEEF FARM -- OWNERSHIP REVIEW

At the Annual General Meeting last year it was decided that we would undertake a review of the farm operation and bring forward recommendations as to the future, to this year's Annual General Meeting.

Leasing of the farm has been considered and rejected because research showed that lease returns were likely to be considerably less than farming returns. As well, with farm leasing there are issues regarding maintenance of the asset value and care of farm improvements.

Here is some relevant information/facts pertaining to Pukekaka

PURCHASED: In 2006 for$6,111,810.00

SHARES: 6,300,000 shares issued; 130 Shareholders

LOAN: Original Loan, $2,000,000.00, Current Loan Balance: $1,358,565.95 (as at 30th June 2016)

VALUATIONS:

Asset Valuation: Land & Buildings – $7,175,000.00 (prepared by Morgans Property Advisors, 12th August 2016)

Stock Valuation: $1,376,04.00 (prepared by PGG Wrightsons, 29th June 2016)

Market Valuation: Land & Buildings - $7,250,000.00 to $7,700,000.00 (prepared by Bayleys, 10th September 2016)

CASH Trading Surplus: $335,952 from the 2015-2016 year (before tax and principal payments).

I have discussed the Real Estate Agents market assessment with him and he is reasonably confident a sale could be achieved at $7.5 million. With the stock value approximately matching the debt level and plant value close to covering the agent’s sales commission, a $7.5 million sale value would return around $1.19 per share.

At our directors meeting in September, the Directors voted to propose a sale of Pukekaka subject to discussion with the largest shareholders who hold 37% of the shares in Pukekaka.

This discussion has since been held and was inconclusive. Some of the larger and smaller shareholders have advised they would be interested in retaining the property and some said they would be interested to purchase additional shares.

We normally have attendance at meetings in person and by proxy of around 92% to 95%. A vote of 75% is needed to approve a sale i.e. about 71% of investors.

For this reason we have decided to poll shareholders on the options available. Based on this poll we will then bring forward a resolution to a general meeting which will hopefully be approved by shareholders.

There are two options available:

1. To sell the farm by the end of the present financial year. (Farm sales are normally completed near the end of the financial year i.e. around May/June 2017).

2. To retain the farm and reconsider sale in two years time.

An important factor in all of this is the situation in regard to our managers, Rob and Maree. They are performing at a very high level; a sale offer will be unsettling for them and may result in them leaving the farm. The prospect of a new incoming manager performing at the same level as Rob especially in the first two years is unlikely.

We have given an undertaking to Rob that if a sale is voted for then they would be remunerated for the full financial year, also I feel that if a proposal to sell is agreed to, then it should only run for say six months and then if unsuccessful be postponed for say two years to give our manager certainty on his future.

Some factors of interest in no particular order:

- The farm is running at a high level of productivity
- The two main factors affecting income are dry climatic conditions and lamb prices
- Most of the development on the farm has been completed and no major new expenditure is contemplated.
- Budget showed a pre tax cash return of around 4.4% last year, (is forecast to be lower this year) the normal for this type of farm is around 3.5%.
- Improved lamb prices and climate would likely bring about a higher return and property value.
- Market sale price is estimated at $7.5 million but cannot be guaranteed.
- Some shareholders would be prepared to buy additional shares perhaps up to 10% to 15% of shares (my guess), but as is normal in these circumstances they would want to purchase at a discount to asset value.
- The Directors may approve a buyback of perhaps 600,000 to 700,000 shares to take debt to $2 million.

Accordingly we are asking you to express your preference in either of the following choices.

1. To sell the property for not less than $7.5 million (with directors to have rights to vary this downward by up to 2%).

2. To retain the property and carry out a poll with shareholders in 24 months time to consider sale or retention of the farm.

As noted, the result of this poll will determine the Directors recommendation to be put as a resolution to a special meeting following the AGM with online proxy voting.

Kind Regards

Roger Dickie
Director

PUKEKAKA STATION – PERFORMANCE REVIEW

Paul L Hughes BVSc MRCVS MIPIM CMInstD

This review builds on the history of reviews since 2009. As with the last two reviews the beef and lamb economic service (provisional 2015/16) data is used for comparison with its limitations as previously discussed.

The 2016 year yielded another dry autumn which puts a strain on our breeding and finishing district. Pasture cuts at the high country pasture monitoring site averaged 5kgDM/ha/day for the period from February to the end of the June year. It should have averaged 13kgDM/ha/day over that period, that adds up to a lot of missing pasture (1200kgDM/ha). This tests management in our pasture based systems.

Again the store lamb prices were flat until mid-winter (which is obviously not timing that Pukekaka can aspire to). Rob had a strategy of selling lambs down at weaning and then finishing the remainder later in the season. This strategy proved to be sound because of the modest autumn grass production and lack of lift in the store values.

The lambing percentage was again exceptional at 148%. Rob has these ewes in prime condition for tupping so some compromise has to occur in the lamb finishing programme (especially in a dry autumn).

Having just had a farm visit to Pukekaka I can assure investors that all the stock are in excellent body condition and that the pastures are well set up for the season ahead.

Production Parameters Summary 2015/16

	Pukekaka Station	B & L Provisional
Stocking Rate (su/ha)	10.9	10.4
Ewe Lambing %	148	134
Hogget Lambs as % Total Lambs	12.1	5.6
Ave Lamb Price ($/hd)	77	87
Ave Wool Price ($/kg)	4.33	4.12
Wool Production (kg/ssu	4.82	4.95
Ave Cull Cow ($/hd)	983	905
Calving %	88	86
Deaths & Missing Sheep %	7.1	4.5
Deaths & Missing Cattle %	6.6	1.9

Revenue Summary 2015/16 (not adjusted for stock changes)

	Pukekaka Station	B & L Provisional
Sheep meat ($/sheep/su)	78	85
Cattle ($/cattle su)	79	85
Wool ($/sheep su)	21	24
Sheep ($/ha)	785	640
Cattle ($/ha)	240	300
Gross Farm Income ($/ha)	1032	1008
Net Cash Increase ($/ha)	397	227

Expenditure Summary 2015/16

	Pukekaka Station	B & L Provisional
Wages ($/ha)	150	240
Animal Health ($/ha)	56	46
Fertiliser ($/ha)	164	113
Shearing ($/ha)	59	52
Vehicles ($/ha)	23	40
Repairs & Maintenance ($/ha)	20	96
Administration ($/ha)	41	23
Rates & Insurance ($/ha)	30	46
Feed ($/ha)	17	36
Total Farm Working Exp. ($/ha)	635	781
Interest Charged ($/ha)	63	137

Overall Economic Performance (B & L definition with stock adjustments less depreciation)

	Pukekaka Station	B & L Provisional
Economic Farm Surplus ($/ha)	343	204

Pukekaka has again performed well in comparison to the B & L economic service data for a farm class that is in fact easier in contour and significantly smaller (421ha). Notable features this year are the lower costs overall, with R & M, vehicles and feed standing out in this regard. Fertiliser costs are in line with previous years and is significantly higher than the mean for the farm class. The Pukekaka input is now deemed to be maintenance by our fertiliser advisor Paddy Shannon. This is concerning in that the soil fertility status of the 3,640 farms in this class must be continuously eroding. Administration is as always, on the high side but interest payments have significantly reduced reflecting the benefits of debt reduction.

If you look back to when Pukekaka was purchased in 2006 and compare to the property now it has come forward in a huge way particularly in terms of infrastructure, soil fertility, pasture and stock quality. In addition that decade will go down in history as being one of the most difficult climatically to farm in the Taihape district. It is a significant achievement for all involved to have been able to develop the property to the standard it is now and pay down debt during that period. Cash returns on sheep and beef farm investments have only ever been modest in the last several decades so that is no surprise. This should not detract from a decade of hard work and a job well done by all involved.

Morgans
PROPERTY ADVISORS
COMMERCIAL | RESIDENTIAL | RURAL

ASSET VALUATION

PUKEKAKA STATION LIMITED

693 PUKEOKAHU ROAD, TAIHAPE

VALUER: **S A (TONY) JONES**

EFFECTIVE DATE: **12 AUGUST 2016**

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E admin@morganval.co.nz
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1. Valuation Summary

Property Address: **693 Pukeokahu Road, Taihape**

Client's Name:

Pukekaka Station Limited
c/- Roger Dickie Limited
P O Box 43
WAVERLEY 4544

Attention: Kate Murdoch

Introduction:

Since July 2013, we (Morgans Property Advisors) have completed annual inspections of the subject farm property, verified/updated the base information held on the property and provided annual Asset Valuation reports (in abbreviated format).

Following recent email instructions from Kate Murdoch (on behalf of Pukekaka Station Limited) we have re-inspected the property on 12 August 2016, quantified changes that have been made over the last twelve months, inspected the main improvements, and now provide our updated assessment for Asset Valuation Financial Reporting purposes, again in an abbreviated format. This report does not purport to meet with the minimum reporting standards of NZIV nor International Valuation Standards (IVS). We do however advise that a fully complaint report can be made available in the future should you so require.

Valuation (30 June 2016):

$7,175,000 - Seven Million One Hundred and Seventy Five Thousand Dollars plus GST (if any), and exclusive of any timber which may exist on the property.

Brief Description:

A larger scale, high altitude hill country sheep and beef property with a good balance of easy/steeper contoured land. The property includes two occupied dwellings, the investor's house, worker's cottage, shearers' quarters, large woolshed/covered yards complex, general farm buildings, water supply, fencing and good standard of tracking as main improvements.

Located on both sides of Pukeokahu Road, some 26 km east of Taihape Township in an area traditionally regarded as being 'summer safe', with the eastern boundary following the Rangitikei River.

Main changes to the property since the 2015 report include the re-fencing of an area following the Rangitikei River, and repairs and maintenance on other fences (mainly in the eastern portion).

We note there is some damage to fences from the dead willow trees (quite brittle and are breaking/falling). These are becoming a problem and impact on the appearance of the property as a whole.

Porina are a problem and are causing loss of production. The south east facing country are showing signs of infestation, and there were Porina present (checked). Spraying is to be carried out (on around 600 ha) to limit the impact of these, a factor and cost to farming in the Taihape District. We note there has been a slight lowering of the stocking rate due to the Porina.

The last summer season was quite kind though again the later part of the summer and in to the autumn (late) was dry. This limited feed on hand going in to the winter, but in saying that the winter has been kind and with better than average growth.

Overall, management appears above average. Stock appeared in good condition and the land/improvements generally well maintained.

Purpose of Valuation:
Asset Valuation for Financial Reporting Purposes

Date of Inspection:
12 August 2016

Pawson Property Solutions Limited

S A (Tony) Jones
Registered Valuer, ANZIV, MPINZ,
B. Com, Post Grad. Dip Com (Val)

BAYLEYS

10 September 2016

P O Box 8, Taihape
New Zealand
Telephone 06 388 0098
Mobil 027 484 7078

Pukekaka Station
c/o Kate Murdoch (via email)

To The Directors; Pukekaka Station Limited

Re: Property Value Assessment.

After instruction from Kate Murdoch, and based on an inspection with Rob Stratton and information provided, I have prepared this assessment for you.

The property East of Taihape on Pukeokahu Road, and described in Certificate of Titles WN212/287, WN24D/775, WN24B/977, WN277/283, 317249,and 412631.

The following information was provided;

- 1103.2893 hectares more or less. (980 effective)
- Government Valuation July 2014 $ 5.175m
- Approximately 32ha flat, 72 ha rolling, 876 ha medium/steep hill, 123 ha non-effective.
- Very well developed Station with excellent stock facilities.
- Assessed as wintering around 10,340 equivalent stock units (**esu**) with a strong per stock unit performance.

The market for similar properties in the greater region has continued to strengthen over the last few years, and with the current confidence in beef aided by continued lowering of interest rates, there is still upward pressure on values.
I believe that your property on the open market would attract keen competition from a wide range of prospective purchasers.
The most comparable sales are;

Pukeokahu Station, Taihape	978 ha	9,500 esu	$7.45m	$7,618/ha
Tanupara Station, Raetihi	2583 ha (2100ha effective)	21,500 esu	$13.5m	$6,400/effective ha
Kowhainui Station, Taihape	925 ha	9,600 esu	$6.2m	$6,703/ha
Potaka Station, Manawatu	1181 ha	9,000 esu	$9.03m	$7,646/ha

Pukeokahu bounders Pukekaka. An exceptional sale in 2009 for a property with a lot of deferred maintenance. This shows the demand for land in this vicinity.
Tanupara is an extremely well developed Station with a comparatively high proportion of cultivatable contour, but in a perceived inferior location.
Kowhainui Station West of Taihape has similar location and balance of contour to Pukekaka but is not as well developed.
Potaka Station has very good location, a high standard of improvements and better balance of contour.
I am also currently marketing the local Kaiangaroa Station. Based on the interest in Kaiangaroa and these sales, I conservatively assess the properties current market value at somewhere between $6,600 and $7,000 per hectare for Land & Buildings, approximately between $7.25m and $7.7m for Land & Buildings.
This value would be influenced by the timing of marketing and generation of competition.

The writer makes it clear that he is not a registered valuer and accepts no responsibility or liability for the accuracy of this estimate of current market value.

Please contact me if you have any further queries.
Yours faithfully,

P. Stratton.

Peter Stratton AREINZ B.Agr.Sc
Director Coast to Coast Limited
Member of the Bayleys Realty Group

Comparative Sales

Road Name	Locality	Sale Price	Total Area	$/Ha	GV	% of GV	Sale Date	Comments
787 Reu Reu Rd	Halcombe	9030000	1181	$7,646	$4,700,000	192%	15/07/2016	Potaka Station
1408 Pukeokahu Road	Taihape	7450000	978	$7,618	$5,200,000	143%	27/07/2012	Pukeokahu Station
1070 Pukeokahu Road	Taihape		1103		$5,175,000			Pukekaka Station
8581 Turakina Valley Rd	Taihape	6200000	925	$6,703	$4,585,000	135%	22/02/2016	Kowhainui Station
Rangiwahia Rd	Kimbolton	4600000	870	$5,287	$4,790,000	96%	02/05/2014	
756 Mangaeturoa South Rd	Raetihi	13500000	2583	$5,226	$11,825,000	114%	25/05/2015	Tanupara Station
1957 Mangaohane Road	Taihape	24000000	4839	$4,960	$22,200,000	108%	20/03/2014	Mangaohane Station
2509 Kururau Rd	Taumarunui	8250000	1745	$4,727	$7,160,000	115%	7/03/2016	Te Moata Station
3594 & 3704 Mangamahu Road	Mangamahu	4250000	1091	$3,896	$3,694,000	115%	21/01/2014	The Shades
608 Upper Retaruke Rd	Owhango	3700000	988	$3,744	$3,320,000	111%	2/03/2015	
369 Makopua Rd	Taihape	6200000	1657	$3,741	$3,360,000	185%	27/05/2016	Makopua Station
738 Makino Rd	Raetihi	6000000	1671	$3,590			2/05/2016	Makino Station

PGG Wrightson

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07th July 2016

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

Dear Sir/Madam

Re: Valuation of Livestock/Chattels

In accordance with the agreement to value livestock and/or chattels, and subject to the terms of that agreement, we inspected the stock and/or chattels described below to establish their market value on 29th June 2016.

We report as follows:

Tally	Livestock Description [e.g. Class, breed, age, sex]	Value per head $ (excluding GST)	Total (excluding GST)
1472	2th Ewes RWR 24/4/16	$137.00	$201,664.00
3336	MA Ewes RWR 24/4/16	$135.00	$450,360.00
1546	Ewe Hoggets RWR 4/5/16	$115.00	$177,790.00
47	MA Rams	$450.00	$21,150.00
5	Stud Ram Hoggets	$1,000.00	$5,000.00
20	C/O Lambs	$70.00	$1,400.00
20	Sheep (killers)	$20.00	$400.00
109	1yr Heifers	$670.00	$73,030.00

PGG Wrightson Limited.

126	1yr Steers	$800.00	$100,800.00
56	R2yr Heifers VIC Angus 23/12/15	$1200.00	$67,200.00
35	R3yr Heifers VIC Angus 3/1/16	$1350.00	$47,250.00
158	MA Cows VIC Angus 3/1/16	$1250.00	$197,500.00
9	Angus Breeding Bulls	$2,500.00	$22,500.00
2	R2yr Angus Bulls	$5,000.00	$10,000.00
Total			$1,376,044.00

In arriving at our opinion as to market value, consideration has been given to recent sales of comparable livestock and chattels.

This valuation has been prepared for the sole use of the addressee only.

Thank you for your instructions in this matter. Should any portion of this report require further description or discussion, please contact the undersigned directly.

Please note

- That the units on hand were verified and counted.
- That the livestock agent is independent of the farm.
- That from my observation of the livestock they appeared to be in good health and condition.

Yours faithfully

Phil Transom
Livestock Agent

Disclaimer:

All details and descriptions as to livestock and/or chattels referred to have not been independently verified by PGG Wrightson. PGG Wrightson takes reasonable care to ensure accuracy and reliability in the information we provide you. However PGG Wrightson does not warrant that the information will be technically correct, reliable or accurate or that such information will satisfy any industry practice or statutory, regulatory or prudential requirements.

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