

MACALISTER RESEARCH FARM CO-OPERATIVE LIMITED.

ANNUAL REPORT 2004

Notice of Annual General Meeting

Notice is hereby given that the 45th Annual General Meeting of the Co-operative will be held at the Macalister Research Farm, Boggy Creek Rd, Riverslea on Thursday October 28th, 2004, at 10.00 am

Agenda

1. Confirm the Minutes of the 44th Annual General Meeting of the Macalister Research Farm Co-operative Ltd. held on October 2nd, 2003.
2. Receive and consider the Reports of the Chairman and Directors.
3. Receive and consider the Financial Reports and Auditor's Report for the year ended June 30th, 2004.
4. Election of Directors.
5. Fix remuneration.
6. Any other business or resolution that the Chairman may permit.

By order of the Board,
R. Pitman, Secretary.

Directors

- | | |
|----------------------------------|------------------|
| # Dr M. Larcombe - Chairman | # Mr T. Henry |
| * Mr B. Walker - Deputy Chairman | * Mr T. Platt |
| # Mr J. Berryman | * Mrs M. Stewart |
| * Mr G. Green | |
| * Retire 2004 | # Retire 2005 |

Auditors: Armitage Downie, Sale
Bankers: Commonwealth Bank

Notice of Annual Field Day

The Macalister Research Farm's Annual Field Day will be held at the Farm, immediately after the AGM, commencing at 10.30 am on Thursday October 28th, 2004

Field Day Programme

1. Analysis of MRF's physical and financial performance in 2003/4
2. Review of milk supply options for the Macalister Research Farm
– Brief presentations by representatives of interested milk processing companies
3. Inspection of recently sown pasture plots and recently renovated pasture
4. Light luncheon – provided by MRF

All visitors welcome to both the AGM and Field Day

At the conclusion of the Field Day, at 1.00 pm, shareholders of both the Macalister Research Farm and Murray Goulburn Co-ops. are invited to attend a special meeting, for one hour, to consider the question: "Should MRF continue to supply Murray Goulburn?"

*Cover Photos: Sharefarmer Peter Rosenberg with two Farm visitors
Milkers Dale Jarvis and Declan Patten
Signage by the front gate*

MACALISTER RESEARCH FARM CO-OPERATIVE LIMITED

CHAIRMAN'S REPORT

It is disappointing to report that your Co-operative again operated at a loss during the last financial year. Your elected directors are well aware that this situation is not sustainable and must be reversed. However, we believe that we have taken the necessary action to return the farm to profitability.

Two years ago, the farm was milking 300 cows on 80 hectares of well developed land. The herd had outgrown the milking facilities and a redevelopment was essential to maintaining a sustainable labour structure for the farm. The Board believed that for the Co-operative to remain viable and to achieve its extension goals it had to increase the scale of the operation. As a result, it took up the opportunity to purchase the adjoining Grady farm, redevelop the dairy and increase stock numbers.

Last year's results reflect the impact of severe water shortages and extremely high supplementary feed costs as well as the increased debt servicing costs incurred by the Co-op. It was not possible to exploit the extra land, apart from the water right it provided. Despite the financial pressures caused by the drought, the Board continued with its plans to redevelop the dairy and increase cow numbers. As a result, 80 cows were purchased in October, once irrigation water supplies for the year were secure. The land purchase and development costs have resulted in debt increasing by around \$700,000.

The incorporation of the extra land and cows created difficulties for the existing labour structure of the farm, which was based on salary remuneration. Production targets last spring were not met and difficulties were encountered in controlling the costs of the operation. These problems contributed to the loss reported this year.

The Co-op does not have the financial capacity to provide day to day supervision for the farm and the Board decided a different management structure was required. One that would maximise the chances that budget targets for production and costs would be met in the future. As a result, it was decided to return to a share farming arrangement where the share farmer provides the plant and equipment and shares in all farm operating costs.

We acknowledge the role played by Kane and Melinda Stevens during the last three years and on their departure we welcomed Peter and Jenny Rosenberg to the farm. They have taken on the responsibility of improving the profitability of your Co-op with enthusiasm and determination. Their early achievements in improving pasture composition and quality have been substantial and we believe that they have established the farm on a good footing for achieving budget targets in the coming year. In addition to improved productivity, the improvement in outlook for milk price will also ensure an improved result next year.

The decision to expand the farm has meant that the Board must focus on developing the new land, and reducing debt as rapidly as possible. The high debt makes the Co-op vulnerable to future droughts or dairy industry downturns and so debt reduction is a high priority for the Board. As a result, it has been necessary to reduce our extension program.

The Board retains its commitment to providing informative articles in the Gippsland Times, Weekly Times and GHI Farmer, and continuing our reporting on ABC radio to enable local farmers to monitor the performance of the farm. We thank Jason McAinch for his efforts in this direction and also providing support for Kane Stevens. Since February, Richard Churchly has been managing the extension program for the farm and we thank him for his input and look forward to his continuing knowledge, experience, and expertise around the farm. We also thank the ABC, Gippsland Times, Weekly Times and GHI for enabling us to report our performance to the dairy industry. This service has been identified as a high priority by our share holders and local farmers in recent surveys.

External funding has declined significantly in recent years, with the reduction in extension work being carried out on the farm, but we are extremely grateful to Genetics Australia for their continuing support. It is largely through their support that we are able to continue our limited extension program. We also thank Gippsland Herd Improvement for continuing to provide administrative support.

Special thanks to Peter and Margaret Stewart for their enormous efforts in the house renovations prior to Peter and Jenny moving in, and also their work in reinstating the mower and other plant and equipment.

The Co-op continues to face the challenge of high debt levels and a low margin business. It will take a number of years to recover from the drought and reduce debt levels. The Board hopes that the steps it has taken will return the Co-operative to profitability and secure its long term future. I thank all of the Board for their commitment to this task during difficult times.

Michael Larcombe
Chairman



The New Workforce (from left): Brendon Kay, Dale Jarvis, Jack Kay and Peter Rosenberg

FIVE YEAR FARM PERFORMANCE SUMMARY

	2003/04	2002/03	2001/02	2000/01	1999/00
Irrigated hectares	120	120	80	80	80
Milking Cows	* 405	370	308	307	300
Litres – total	2,000,555	1,600,855	1,909,601	1,816,690	1,829,682
litres/cow	4,940	4,327	6,200	5,918	6,099
litres/ha	16,671	13,340	23,870	22,709	22,871
Fat - total kg	85,870	66,506	81,981	78,192	75,868
kg/cow	212	180	266	255	253
kg/ha	716	554	1,025	977	948
Protein - total kg	67,410	51,434	64,318	61,990	62,049
kg/cow	166	139	209	202	207
kg/ha	562	429	804	775	776
Milk Income \$	539,851	392,823	619,513	570,428	443,372
Cattle Trading Profit \$	24,460	11,630	63,744	32,056	6,055
Calf Sales \$	5,888	3,170	9,249	4,862	3,697
Total Farm Income \$	591,596	439,515	722,350	632,269	461,481
Grain tonnes	454	102	519	568	484
Grain \$	110,348	30,400	149,392	132,461	90,722
Hay tonnes	104	98	167	553	130
Hay \$	17,193	18,814	27,330	73,691	19,896
Nitrogen tonnes	26	43	25	18	18
Nitrogen \$	30,736	48,281	25,563	18,397	13,224
Supplementary Feed Costs \$	216,742	158,936	272,141	271,234	163,952
Irrigation Water ML	898	728	468	540	541
Irrigation Water \$	33,825	25,028	12,214	14,912	15,159
Total Feed Costs \$	273,855	192,963	293,076	302,186	191,682
Feed Costs/cow	676	522	952	984	639
Total Herd Costs \$	44,641	42,677	40,943	40,816	38,800
Herd Costs/cow	110	115	133	133	129
Total Shed Costs \$	11,035	9,355	11,359	10,880	8,996
Shed Costs/cow	27	25	37	35	30
Total Labour Costs \$	128,283	122,045	111,286	106,359	98,111
Labour Costs/cow	317	330	361	346	327
Finance Costs \$	58,873	67,783	14,142	10,882	10,092
Total Farm Operating Costs \$	457,814	367,041	457,339	460,718	339,472
Farm Operating Costs/cow	1,130	992	1,485	1,501	1,132
Total Farm Operating Surplus \$	83,496	25,782	162,174	109,710	104,426
Operating Surplus/cow	206	70	527	357	348
Feeding Performance					
(Milk Income less Supp Feed Costs)	323,109	233,887	347,372	299,194	279,420
Feed Performance/cow	798	632	1,128	975	931
Feed Performance/ha	2,693	1,949	4,342	3,740	3,493

* Additional 80 cows purchased in Nov 2003

COMMENTS ON FARM PERFORMANCE IN 2003/4

1. Productivity

- Milk production at MRF topped 2 million litres for the first time on record, following major increases in farm and herd size (40 hectares of irrigated land were added in July 2002 and 80 extra milking cows were purchased in November 2003).
- Protein production was 30% higher compared with the previous drought season, but was only 5% higher than the farm's total pre-expansion.
- Production per hectare improved but is much lower than earlier years due to a lower stocking rate.
- Production per cow was lower than levels pre-expansion due to:
 - the decision by management at the start of the season to utilise as much pasture as possible with minimum use of bought-in supplements in response to lower stocking rates;
 - the late purchase of additional cows which meant that a significant proportion of the herd only milked for 8 months.
- Improved availability of irrigation water in 03/04 resulted in improved pasture production and an increase in the amount of fodder conserved on the farm, reducing the demand for bought-in fodder;
 - Pastures were grazed at three leaves during the spring, and while this resulted in good cuts of silage, this strategy led to a loss of feed quality and reduced herd pasture intake during October.
 - A significant area of the new farm remained un-irrigated until channel infrastructure could be improved as water use efficiency was not satisfactory given the water allocation.

2. Profitability

The Farm's operating surplus (Total Farm Income less Operating Costs) was higher in 03/04 than in the previous (drought) season, but was still well down on previous seasons. This was a reflection of several things, including:

- a 10 percent lift in milk price in 03/04, after a 25 percent drop in price the year before;
- an easing of grain and hay prices (post drought) in 03/04;
- high finance costs to fund the purchase of additional land, improvements to shed and yard and the purchase of extra cows.
- the slow progress in achieving productivity gains following expansion.
- A labour structure in place during the first half of the year that was not suited to the expanded farm and did not offer appropriate incentives to increase productivity rapidly. This changed in the second half of the season, following a Board decision to again run the Farm as a sharefarm.

The current level of profitability reported is not sustainable as the Farm operating Surplus is not adequate to cover fixed costs and depreciation, as well as provide a satisfactory return on assets. The expanded farm assets must be fully utilised in the coming year to achieve a satisfactory result.

3. Feeding Performance

Feeding performance (Milk Income less Supplementary Feed Costs) is a measure of the efficiency with which milk is produced on the farm. For several years, during the 1990s, the Farm aimed for a Feeding Performance of \$3,000 per hectare at a milk price of \$3.40 per kg of solids. It first achieved this in 98/99 and by 01/02 had lifted its performance to \$4,342 per hectare - when milk prices were high, grain prices were at reasonable levels and the farm adopted a high feed input system.

A season of drought, soaring feed costs and low milk prices resulted in a crash to \$1,949 per hectare. It has since recovered to \$2,693 in the season just finished, and we have budgeted for a result above \$3,700 per hectare at the end of the present season.

BUDGET OUTLOOK AND VIABILITY STATISTICS

	Budget 04/05	2003/04	2002/03	2001/02	2000/01
Irrigated hectares	120	120	120	80	80
Milking Cows	440	405	370	308	307
Litres – total	2,735,225	2,000,555	1,600,855	1,909,601	1,816,690
litres/cow	6,216	4,940	4,327	6,200	5,918
litres/ha	22,794	16,671	13,340	23,870	22,709
Fat + Protein kg	204,710	153,280	117,940	146,299	140,182
kg/cow	465	378	319	475	457
kg/ha	1706	1277	983	1829	1752
Grain tonnes	597	454	102	519	568
Grain \$	151,899	110,348	30,400	149,392	132,461
Hay tonnes	277	104	98	167	553
Hay \$	47,818	17,193	18,814	27,330	73,691
Nitrogen tonnes	63	26	43	25	18
Nitrogen \$	56,987	30,736	48,281	25,563	18,397
Supplementary Feed Costs \$	323,858	216,742	158,936	272,141	271,234
Total Feed Costs \$	383,207	273,855	192,963	293,076	302,186
Feed Costs/cow	871	676	522	952	984
Total Herd Costs \$	47,537	44,641	42,677	40,943	40,816
Herd Costs/cow	108	110	115	133	133
Total Shed Costs \$	10,842	11,035	9,355	11,359	10,880
Shed Costs/cow	25	27	25	37	35
Total Labour Costs \$	150,000	128,283	122,045	111,286	106,359
Labour Costs/cow	341	317	330	361	346
Finance Costs \$	58,873	58,873	67,783	14,142	10,882
Total Farm Operating Costs \$	650,459	457,814	367,041	457,339	460,718
Fixed Farm Overhead Costs \$	54,186	57,282	56,796	41,989	38,956
Depreciation \$	53,000	53,012	54,137	41,891	69,796
Total Farm Expenses to be recouped	757,646	568,108	477,974	541,219	569,470
Assets employed	1,397,474	1,453,599	1,559,229	1,439,829	1,391,234
10% return on equity	139,747	145,360	155,923	143,983	139,123
Income required	897,393	713,468	633,897	685,202	708,593
Cattle Trading Profit \$	20,000	24,460	11,630	63,744	32,056
Calf Sales \$	5,000	5,888	3,170	9,249	4,862
Income required from milk	872,393	683,120	619,097	612,209	671,675
Milk price required for 10% return					
\$/kg solids	4.26	4.46	5.25	4.18	4.79
cents/litre	31.9	34.1	38.7	32.1	37.0
Milk price to break even					
\$/kg solids	3.58	3.51	3.93	3.20	3.80
cents/litre	26.8	26.9	28.9	24.5	29.3
Actual milk price					
\$/kg solids	3.83	3.52	4.58	2.69	4.42
cents/litre	28.7	27.0	33.7	20.6	34.1

‘PADDOCK TO FARM SCALING OF NUTRIENT TRANSFER’ PROJECT SUMMARY OF THE PROJECT FINDINGS

Introduction

The ‘Paddock to farm scaling of nutrient transfer processes’ project (DAV447) was designed to measure water and nutrient inputs to and outputs from five intensively monitored bays and five farm sections at MRF, and the Macalister Research Farm as a whole, in a nested configuration.

Field scale

From analyses of the intensively monitored bays key observations were:

1. As might be expected, the volumes of irrigation water applied to the sites varied between years depending on the rainfall and other climatic conditions.
For example, 300 ML (6.5 ML/ha), 201 ML (4.0 ML/ha) and 451 ML (9.0 ML/ha) were used for irrigation in 2000/2001, 2001/2002 and 2002/2003. The rainfall for those years was 419, 684 and 286 mm.
2. The volume of drainage from the border-check irrigation sites varied more between sites than between years, perhaps indicating that ‘how irrigation is managed’ has a larger effect on nutrient exports than ‘climate’.
For example, the effects of over-watering one border-check irrigation bay resulted in runoff and deep drainage of 13% and 29% of the applied irrigation water. The equivalent averages for the other three intensively monitored border-check irrigation bays were 9% and 12%.
3. The nutrients contained in the irrigation water varied depending on the water source. In general the channel water had less nutrients than water from the reuse system and both contained less nutrients than effluent from the ponds holding the dairy shed wastes.
For example in 2000/2001 the mixture of dairy pond effluent and channel water that was used for irrigation contained 19.8 mgP/L and 78.3 mgN/L, water from the reuse system 4.0 mgP/L and 6.3 mgN/L, and channel water <0.2 mgP/L and <2 mgN/L.
4. Significant quantities of nutrients were added to some sites with irrigation water (i.e. >70 kgP/ha and >300 kgN/ha) and significant quantities of nutrients were also exported from some sites in drainage (>20 kgP/ha and >50 kgN/ha).
5. More nutrients were generally added to the sites receiving dairy shed effluent and reuse water than were exported in drainage, while the sites receiving channel water generally exported more nutrients than were added during irrigation.

Section scale

The section monitoring was important, as the scale of the measurements (i.e. bigger area) tended to remove fluctuations that were evident in the bay scale data.

Important observations were:

1. The results from the sections generally reflected the results from the intensively monitored sites suggesting the drains had little effect on nutrient concentrations.
There may be a slight decrease in nutrient concentrations when nutrients are taken up by drains; but generally, well established on-farm drains seem to have little effect on nutrient exports. Ms. Kirsten Barlow through her PhD is investigating the effects of farm drains further.
2. Despite a wide variation in the nutrient concentrations in the water used for irrigation, the concentrations of nutrients in drainage were similar.
This is an important finding. It suggests that areas receiving dairy shed effluent are probably no more prone to nutrient exports than any other area of the farm. This is a surprising result given that on average >25 kgP/ha were added with the effluent annually. Soil testing suggests that these additional phosphorus applications did not have much effect on this farm.
3. The high loads of nutrient exported from some of the intensively monitored sites were not reflected in the section data where other bays in the section had been laser graded and re-sown during the monitoring period.

It would appear that laser grading significantly reduced nutrient exports, perhaps by as much as a factor of ten, by breaking down and probably burying the phosphorus and organic matter rich topsoil.

Farm scale

The farm scale monitoring (i.e. drainage entering the reuse system from above the farm and drainage exiting the farm) was generally in line with the results from other scales.

Important observations were:

1. The concentration of nutrients in the water discharged from the Macalister Research Farm was an order of magnitude or more in excess of water quality targets for the region.
It should be noted that as a result of dilution and sorption during transport, phosphorus concentrations measured in drainage from the Macalister Research Farm and stream targets are not directly comparable. However, the phosphorus concentrations in drainage being so high in comparison to the stream targets suggests a potential problem exists.
2. The reuse system on the Macalister Research Farm reduced water and nutrient exports by up to 98%.
The reuse system reduced phosphorus exports by 48% and 98%, and nitrogen by 52% and 97% in 2001/2002 and 2002/2003. Water savings in that period were 54 ML (42%) and 93ML (96%). These savings show that a well-managed reuse system can significantly reduce water and nutrient exports from irrigated dairy farms.
3. In the drought year of 2002/2003 more nutrients entered the Macalister Research Farm in drainage from higher in the catchment than left the farm in drainage.
This result again emphasises the importance of a well-managed reuse system for reducing water and nutrient exports from irrigated dairy farms.

Summary

In summary the 'Paddock to farm scaling of nutrient transfers' project has shown that with appropriate infrastructure (i.e. a reuse system) and good management, irrigation farms need not adversely affect the water quality in their catchment. By reapplying to the paddocks the nutrients that were collected in the dairy shed and the reuse system, in the drought year of 2002/2003, the Macalister Research Farm helped remove nutrients from the Macalister Irrigation District that would otherwise have entered the Gippsland Lakes.

As part of the underlying science associated with the 'Paddock to farm scaling of nutrient transfers' project, since 1999 the project team has contributed to 17 journal papers that were prepared or published during the project, one book chapter, one Ph.D. thesis and five reports. This output is evidence of the scientific success of the 'Paddock to farm scaling of nutrient transfers' project.

Extension activities were an important component of the 'Paddock to farm scaling of nutrient transfers' project. Extension activities included publication of sixty seven (67) extension articles (i.e. Newspaper, How Now Gippy Cow), contributions of extension officers to fifty six (56) extension events (i.e. field days, site inspections), distribution of T-shirts (100) and fridge magnets (3,500), radio interviews (10), production of technical booklets (5) and direct mail contact with 2000 farmers.

The market research that was undertaken at the start of the project and again at the end confirms that attitudes and behaviour in the Macalister Irrigation District have changed during this project. The role of this project in these changes has not been established. However, given that this was the major vehicle for enhancing on-farm management change in the region it is reasonable to suspect that the project has contributed to reducing nutrient exports from the Macalister Irrigation District.

David Nash, Project Leader
DPI, Ellinbank

PASTURE RENOVATION PROGRAMME

In common with many district farms, pastures on the Macalister Research Farm have deteriorated over the years. This has significantly impacted on the farm's ability to adequately feed the cows without too great a reliance on purchased feeds.

The variation in pasture performance around the farm has been clearly evident through pasture growth rate measurements taken over the last 5 months using an electronic probe. The extremes were highlighted in late autumn measurements where one paddock under laterals measured about 10 kg dry matter/ha/day while a fescue paddock oversown with short-term ryegrass measured in excess of 100 kg dry matter/ha/day.

A recently reported Dairy Industry study indicated that the more profitable dairy farms were those that produced most milk /ha even with a high use of feed supplements. However it also showed that farms that focused more on achieving the high milk production using home grown crops or pasture were clearly the most profitable.

The Farm Board and the new management team of Peter and Jenny Rosenberg recognised the need to improve the performance of the pastures if they were to achieve their productivity goals and as a result they have started a pasture renovation programme that is likely to be ongoing each year. Initially about 20 ha of existing pasture were oversown with a number of both short rotation ryegrasses and perennial ryegrasses. In addition, a further 10 ha were sprayed out and direct drilled to annual ryegrass. The paddocks sown to annual pastures will be cultivated and sown to summer crops this spring.

While all the oversown paddocks have shown improved pasture availability, by far the most successful have been where the short rotation ryegrass has been sown into fescue paddocks. These short rotation ryegrasses have far greater seedling vigour than a perennial grass and are better able to compete with the existing pasture than a perennial ryegrass can. Sowing following the use of a spray is more successful when a perennial ryegrass is sown.

The direct-drilled paddocks developed well, although the seedling emergence was very much slower where it was sown into a strong thatch and had to wait for adequate soil moisture for germination compared with where it was sown under the fixed sprinklers and given an autumn irrigation.

The direct drilling also provided an opportunity to sow a number of test strips of perennial ryegrasses in one paddock and annual ryegrasses in another. Already there are some early indications of varietal differences that have prompted seed selection for further pasture renovation this spring with both Matrix and Banquet sown. It is not a good policy to make judgements on one variety or another too early because of the longer term effects of seasonal performance or persistence, but in this case, both these varieties have performed well either over two years with Matrix or longer for Banquet.

The results of all the above methods of pasture renovation, along with perennial and annual ryegrass test strips, will be on show at the Annual Field Day at the Farm on Thursday October 28.

Richard Churchley
Consultant

DIRECTORS' DECLARATION

We, Margaret Stewart and Garry Green, being two of the Directors of the MACALISTER RESEARCH FARM CO-OPERATIVE LIMITED state on behalf of and in accordance with a resolution of the Directors, declare that, in the opinion of the Directors:

- 1) The accompanying financial statements and notes for the financial year ended 30th June 2004 are prepared in accordance with the requirements of the Co-operative Act 1996, and:
 - a) give and true and fair view of the financial position and performance of the Co-operative at the end of the financial year, and
 - b) comply with applicable accounting standards.
- 2) At the date of this declaration, there are reasonable grounds to believe that the Co-operative will be able to pay its debts as and when they become due and payable.
- 3) The Co-operative has kept such accounting records that correctly record and explain the transactions and financial position of the Co-operative.

Declared at and dated at Tinamba this thirtieth day of August 2004, on behalf of the Board

Margaret Stewart, Director

Garry Green, Director

DIRECTORS' REPORT

To the Members of the Macalister Research Farm Co-operative Limited,
Your Directors submit their Report, together with the audited financial statements of the Co-operative for the year ended 30th June, 2004.

Directors

The Directors of the Co-operative in office at any time during or since the end of the financial year and up to the date of this Report are: M. Larcombe (Chairman), B. Walker (Deputy Chairman), J. Berryman, G. Green, T. Henry, T. Platt and M. Stewart.

Principal Activities

The primary activity of the Co-operative in the course of the financial year was the provision of research, information and extension services to its Members.

No significant changes in either the nature of this primary activity or the Co-operative's state of affairs took place during the financial year.

Review and Result for the Year

As the Commissioner of Taxation has exempted your Co-operative from liability for Income Tax, no provision is required. Net loss for the year was \$56,225 (compared with net loss of \$145,655 in 2003).

At the date of this report your Directors are not aware of any circumstances that would render the values attributed to current assets in the financial statements misleading.

No charge on the assets of the Co-operative has arisen since the end of the financial year to the date of this report, nor has any contingent liability arisen.

No contingent or other liability in the Co-operative has become enforceable or is likely to become enforceable within a period of 12 months after the end of the financial year, which, in the opinion of the Directors of the Co-operative, will or may affect the ability of the Co-operative to meet its obligations as and when they fall due.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in the report or the financial statements that would render any amount stated in the financial statements misleading.

The results of the operations of the Co-operative during this financial year have not, in the opinion of the Directors, been substantially affected by any item, transaction or event of a material or unusual nature.

Dividends

In accordance with its current Rules, the Co-operative does not declare dividends for members

Matters Subsequent to the End of the Financial Year

From the 30th June, 2004 to the date of this report, no item, transaction or event of a material or unusual nature, which is likely, in the opinion of the Directors, to affect substantially the results of the Co-operative's operations for the next succeeding year has arisen, other than mentioned elsewhere in this report.

Future Developments and Results

Your Co-operative will be operated to continue and enhance its primary activity (the provision of research, information and extension services for its members). This will require continuing improvements to the long term viability of its farming enterprise, to retain both the relevance of the farm to members and its role as a major source of funding.

Environmental Regulation

The operations of the Co-operative are subject to the same environmental regulations as apply to all irrigated dairy farms in the State of Victoria.

Share Options

The Co-operative has not during the course of the year or since the end thereof granted to a person a formal option to have issued to him/her shares in the Co-operative or any controlled entity.

Directors' and Executives' Benefits and Contracts

During or since the end of the previous financial year, no Director/Executive of the Co-operative has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors/Executives shown in the accounts or the fixed salary of a full-time employee of the Co-operative), by reason of a contract made by the Co-operative with the Director/Executive or with a firm of which he/she is a member or with a Company in which he/she has a substantial interest.

Indemnification and Insurance of Officers/Auditor

Indemnities and insurance premiums paid during or since the end of the financial year for a person who is or has been an officer or auditor of the Co-operative were \$72.96 for AMP Business Insurance (Fraud and Dishonesty).

This report is made in accordance with a resolution of the Board and is signed for and on behalf of the Directors.

Signed at Tinamba on the 30th day of August, 2004

Margaret Stewart, Director

Garry Green, Director

STATEMENT BY PRINCIPAL ACCOUNTING OFFICER

I, Bob Pitman, being the Principal Accounting Officer of the Macalister Research Farm Co-operative Limited, state that to the best of my knowledge and belief, the accompanying financial statements of the Co-operative give a true and fair view of the matters required by Section 238 of the Co-operatives Act 1996, to be dealt with in the financial statements.

Declared at and dated at Tinamba on the 30th day of August 2004

Bob Pitman, Secretary

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
MACALISTER RESEARCH FARM CO-OPERATIVE LIMITED**

Scope

We have audited the attached financial report consisting of a statement of financial performance, statement of financial position, statement of cash flows and notes to the financial report of Macalister Research Farm Co-operative Limited for the year ended 30 June 2004. The Co-operative's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on them to the members of the co-operative.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free from material misstatement. Our procedures included examinations, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements so as to present a view which is consistent with our understanding of the co-operative's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion the financial report of Macalister Research Farm Co-operative Limited is in accordance with:

- (a) The provisions of the Co-operatives Act 1996, including:
- (1) giving a true and fair view of the co-operative's financial position as at 30 June 2004 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and
 - (2) the other matters required by Section 238 of that Act to be dealt with in the financial report;
 - (3) the accounting records and other records, and the registers required by the Act to be kept by the co-operative have been properly kept in accordance with the provisions of the Act.



**JOHN K HOWSON CA RCA
Partner
ARMITAGE DOWNIE & CO**

Sale
Dated: 6 September 2004

MACALISTER RESEARCH FARM
ABN: 89 984 202 071
Statement of Financial Performance for the year ended 30th June 2004

	Notes	2004 \$	2003 \$
Revenue from Ordinary Activities	2	616,506	476,278
Expenses from Ordinary Activities			
Supplies and Consumables	3	346,416	244,996
Employee Benefits Expense	3	158,042	165,971
Depreciation and Amortisation Expense	3	53,012	54,137
Borrowing Expenses	3	57,943	63,326
Other Expenses from Ordinary Activities	3	57,317	93,503
Loss from Ordinary Activities before Income Tax Expense	3	<u>(56,225)</u>	<u>(145,655)</u>
Income Tax Expense Relating to Ordinary Activities	1d		
Net Loss from Ordinary Activities after Income Tax Expense		(56,225)	(145,655)
Total Changes in Equity other than those resulting from transactions with Owners as Owners		<u><u>(56,225)</u></u>	<u><u>(145,655)</u></u>

Statement of Financial Position for the year ended 30th June 2004

CURRENT ASSETS			
Inventories	5	439,800	367,100
Other	6	4,563	5,623
TOTAL CURRENT ASSETS		<u>444,363</u>	<u>372,723</u>
NON-CURRENT ASSETS			
Other financial assets	7	64,175	64,175
Property, plant and equipment	8	1,810,726	1,710,773
TOTAL NON-CURRENT ASSETS		<u>1,874,901</u>	<u>1,774,948</u>
TOTAL ASSETS		<u><u>2,319,264</u></u>	<u><u>2,147,671</u></u>
CURRENT LIABILITIES			
Interest bearing liabilities	9	51,087	27,033
Net bank overdraft	13	62,706	49,954
TOTAL CURRENT LIABILITIES		<u>113,793</u>	<u>76,987</u>
NON-CURRENT LIABILITIES			
Interest bearing liabilities	9	807,997	617,085
TOTAL NON-CURRENT LIABILITIES		<u>807,997</u>	<u>617,085</u>
TOTAL LIABILITIES		<u>921,790</u>	<u>694,072</u>
NET ASSETS		<u><u>1,397,474</u></u>	<u><u>1,453,599</u></u>
EQUITY			
Issued Share Capital	10	11,402	11,302
Reserves	11	604,683	604,683
Retained Profits	12	781,389	837,614
TOTAL EQUITY		<u><u>1,397,474</u></u>	<u><u>1,453,599</u></u>

The accompanying notes form part of this financial report

MACALISTER RESEARCH FARM
ABN: 89 984 202 071
Statement of Cash Flows for the year ended 30th June 2004

	Notes	2004 \$	2003 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from farm income		588,793	404,274
Receipts from research and extension account - grants		26,810	36,684
Receipts from house rental		2,400	4,160
Interest received			128
Dividends received		3,103	8,708
Borrowing costs		(76,025)	(63,326)
Payments to suppliers and employees		(619,934)	(459,822)
Net cash used in Operating Activities	13	<u><u>(74,853)</u></u>	<u><u>(69,194)</u></u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(152,965)	(501,152)
Purchase of Shares			(10,406)
Net cash used in Investing Activities		<u><u>(152,965)</u></u>	<u><u>(511,558)</u></u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of shares		100	25
Proceeds from Borrowings		214,966	470,274
Net cash from Financing Activities		<u><u>215,066</u></u>	<u><u>470,299</u></u>
NET DECREASE IN CASH		(12,752)	(110,453)
CASH AT BEGINNING OF YEAR		(49,954)	60,499
CASH AT END OF YEAR		<u><u>(62,706)</u></u>	<u><u>(49,954)</u></u>

The accompanying notes form part of this financial report

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30th JUNE 2004

NOTE 1

(a) Statement of Accounting Policies

This general purpose financial report has been prepared in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Co-operatives Act 1996. The financial report has also been prepared on the basis of historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets.

(b) Depreciation

All improvements, plant and equipment are depreciated on a straight-line basis to write off the assets over their useful life.

(c) Inventories

Livestock on hand at reporting date is valued at Market Value. Values used at 30 June 2004 were: mature cows \$900, heifers \$800, yearling heifers \$400 and bulls \$500.

(d) Income Tax

As the Commissioner of Taxation has exempted the Co-operative from liability for income tax, no provision has been made and accordingly tax effect accounting has not been adopted.

(e) Goods and Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30th JUNE 2004

NOTE 2 – REVENUE	2004	2003
OPERATING ACTIVITIES	\$	\$
Farm Income		
Milk Income	539,851	392,823
Additional Farm Income		
Cattle Trading - Gross Profit (Note 4)	24,460	11,630
Calf Sales	5,888	3,170
Rebates	1,506	4,587
Dairy Adjustment Package	14,388	14,388
Research and Extension Account - Grants		
Genetics Australia	11,430	11,208
Other	13,480	25,475
Other Income		
Interest Received		128
Dividends Received	3,103	8,708
House Rental	2,400	4,160
Total Revenue	616,506	476,277

NOTE 3 - EXPENSES (DETAILED)

Farm Expenses		
Feed Costs	273,855	192,963
Herd Costs	44,641	42,677
Shed Costs	11,035	9,355
Labour Costs	128,283	122,045
Overhead Costs		
Depreciation	53,012	54,137
Repairs and Maintenance	36,509	33,313
Pasture Renovation	5,294	
Occ. Health and Safety	442	485
Rates	5,472	5,027
Administration	1,774	4,203
UDV Subscription	720	576
Insurance	2,604	3,327
Rent of four-wheelers	3,536	5,408
Bank Fees	931	4,457
Borrowing Costs		
Borrowing Costs - Suncorp Loan/ Bank Bills	1,138	24,889
Interest - New Farm Loan (Comm Bank)	44,584	28,779
Interest - Old Farm Loan (Nat Bank)		420
Interest - Tractor Loan (Nat Bank)	2,091	4,286
Interest - Cattle Loan (Suncorp)	4,270	
Interest - DAP Loan (Bank of Melb)	3,203	3,843
Interest - Short Term Loan (Murray Goulb)	1,810	
Interest on overdraft	847	1,109

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30th JUNE 2004

	2004	2003
	\$	\$
NOTE 3 – EXENSES (CONT.)		
Co-operative Account		
Audit Fees	2,500	900
Advertising	1,697	855
Catering	504	532
Insurance	1,875	2,093
Operating	3,386	1,930
Consulting Fees	225	2,560
Directors' Fees	6,564	7,000
Secretarial Fees (incl Superannuation)	12,470	12,571
Research and Extension Account		
Extension	13	13,300
Research Support	120	1,456
Project Manager	14,666	19,935
Acting Project Manager	2,624	10,468
Work Cover for R and E Staff		953
Office rent and administration		6,000
Bank Fees	37	79
Total Expenses	672,730	621,931
NOTE 4 - CATTLE TRADING ACCOUNT	Number	Value
Sales	65	29,060
Deaths	16	
Opening Stock	467	367,100
Purchases	82	77,300
Natural Increase	70	
Closing Stock	538	439,800
Gross Profit from Trading		24,460
NOTE 5 – INVENTORIES		
Livestock at Market Value	439,800	367,100
NOTE 6 - OTHER ASSETS		
Prepaid Interest Tractor Loan	4,563	5,623
NOTE 7 - OTHER FINANCIAL ASSETS		
Shares in unlisted companies, at cost	64,175	64,175
NOTE 8 - PROPERTY, PLANT & EQUIPMENT		
Land at Directors' Valuation 06/95	805,000	805,000
Land at Cost	440,000	440,000
Total Land	1,245,000	1,245,000
Improvements at Cost	788,438	635,473
Accumulated Depreciation	(277,666)	(239,614)
	510,772	395,859
Plant and Equipment at Cost	381,331	381,331
Accumulated Depreciation	(326,377)	(311,417)
	54,954	69,914
Total Property Plant and Equipment	1,810,726	1,710,773

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30th JUNE 2004

	2004	2003
	\$	\$
NOTE 9 - INTEREST BEARING LIABILITIES		
Current		
Dairy Deregulation Loan	14,388	14,388
NAB-Tractor Loan	12,645	12,645
Suncorp-Cattle Loan	24,054	
Total Current	51,087	27,033

Non-Current		
Dairy Deregulation Loan	37,367	44,955
NAB-Tractor Loan	9,484	22,130
Suncorp-Cattle Loan	66,146	
Commonwealth Bank Bills	695,000	550,000
Total Non-Current	807,997	617,085

NOTE 10 - ISSUED SHARE CAPITAL

Authorised Capital		
100,000 Ordinary Shares of \$0.50		
Issued and Paid Up Capital		
22,605 Ordinary Shares	11,402	11,302

NOTE 11 – RESERVES

General Reserve	33,095	33,095
Land Revaluation Reserve	506,468	506,468
Livestock Revaluation Reserve	65,120	65,120
	604,683	604,683

NOTE 12 - RETAINED PROFITS

Retained profits at the beginning of the financial year	837,614	983,269
Net loss for the year	(56,225)	(145,655)
Retained profits at the end of the financial year	781,389	837,614

NOTE 13 - STATEMENT OF CASHFLOWS

(a) Cash at the end of the year, as shown in the Statement of Cashflows, is reconciled to the related items in the Statement of Financial Position as follows:

Cash at Bank - Farm Account	(63,349)	(71,667)
Cash at Bank - Research and Extension Account	643	21,713
	(62,706)	(49,954)

(b) Reconciliation of Net Cash used in operating activities to Net Loss from Ordinary Activities

Net Loss from Ordinary Activities	(56,225)	(145,655)
Add:		
Depreciation	53,012	54,137
Reduction in Livestock	(72,700)	23,800
Movement in Other Assets	1,060	(1,476)
Net Cash used in Operating Activities	(74,853)	(69,194)

Note 14 - SEGMENT REPORTING

	FARM ACCOUNT	CO-OP ACCOUNT	R & D ACCOUNT	TOTAL
	\$	\$	\$	\$
Income	591,596	35,000	24,910	651,506
Expenditure	626,051	29,221	52,459	707,730
Net Result	(34,455)	5,779	(27,549)	(56,225)