

MACALISTER RESEARCH FARM CO-OPERATIVE LIMITED

ANNUAL REPORT 2006

Notice of Annual General Meeting

Notice is hereby given that the 47th Annual General Meeting of the Co-operative will be held at the Macalister Research Farm, Boggy Creek Rd, Riverslea on Wednesday October 4th, 2006 at 10.00 am

Agenda

1. Confirm the Minutes of the 46th Annual General Meeting of the Macalister Research Farm Co-operative Ltd. held on October 12th, 2005.
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, 2006.
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 B. Walker - Deputy Chairman

Mr J. Berryman

* Mr G. Green

* Retire 2006 # Retire 2007

Mr T. Henry

* Mr T. Platt

* Mrs M. Stewart

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 Wednesday October 4th

Field Day Programme

1. Analysis of MRF's physical and financial performance in 2005/6
2. Production targets for 2006/7, presented by Project Manager Frank Tyndall
3. 'Lameness' discussion and demonstration, led by Dr Jakob Malmo, Maffra Vet Centre
4. Light luncheon – provided by MRF

All visitors will be welcome to both the AGM and Field Day

MACALISTER RESEARCH FARM CO-OPERATIVE LIMITED

CHAIRMAN'S REPORT

It is again disappointing to report that your Co-operative operated at a loss during the last financial year despite favourable seasonal conditions and milk prices. This result follows a series of losses during the previous three years and indicates that the Board has been unable to implement a management system that is able to generate reliable returns from the commercial farm. It is of great concern to the Board as it results in the consumption of the Co-operative's capital; and reversing this trend remains the Board's highest priority.

The Co-operative has an investment in dairy land, and operates the farm as an absentee owner. It must employ a management system to manage the assets on its behalf. It is clear that the Board has been unable to find a profitable management system during the last five years, but the problem is longer standing than that. Over the last 20 years, the profitability of the farm has fluctuated widely depending on the capacity of the farm's management. This in itself reflects a substantial problem within the industry with a lack of adequate management skills available for larger dairy enterprises. Many owner operated farms have owners who are unable to leave the farm for long periods through fear of the management systems failing, and farms with absentee owners providing poor and variable returns.

As presented at last year's annual meeting, the Board believes that the Co-op must secure external funding to operate a successful extension program from the Farm. Otherwise the assets of the Co-operative would be better invested in a less risky enterprise. The Board spent considerable time during the year on the question of whether to retain the existing farm assets. The Board also pursued a number of avenues to obtain funding that will enable the assets of the Co-op to be better utilized.

I am pleased to report that the efforts of the Board and Bob Pitman in this direction have resulted in some success. Dairy Australia, GippsDairy, and the MRF have agreed to work together to enhance the use of the Farm's assets for the benefit of Gippsland dairy farmers.

The aim is to conduct projects on the Farm that are relevant to all farmers across Gippsland. To ensure this happens, there needs to be a close relationship between GippsDairy and the MRF Board. To this end, a member of the GippsDairy Board will be appointed to the MRF Board during the next few months. We believe the benefits of having a shared representative on both Boards will be significant.

The first task at the Farm is to implement and demonstrate a profitable management system. This will be achieved through the implementation of "Practical Management Plans". These plans will document in simple terms the key tasks and targets that must be achieved to ensure profitability. Dairy Australia has agreed to fund the employment of a part time Project Manager to undertake the development of these plans and to enable the extension of the results of the project.

I am pleased to report that Frank Tyndall has been appointed to the Project Manager's position. Frank will work closely with our new share farmers, Murray Wightman and Rhonda Hunter, to jointly develop the Practical Management Plans. By working together closely, we believe that Frank's technical and extension skills, combined with Murray's and Rhonda's input on the practical implementation of the proposed plans, will result in improved Farm profitability, but also a valuable resource for the industry. The Plans will provide a method for defining how key tasks on a commercial farm should be completed, and provide a resource for other farmers in developing job descriptions, identifying key tasks and targets. The results of the project will also document a pathway for increasing the profitability of a farm.

We welcome Frank, Murray and Rhonda and look forward to the fruits of their efforts on the Farm. We also thank Peter Rosenberg and Jenny Kaye for their input on the Farm during the last two seasons.

Our limited extension program in recent years has only been possible through the support of Genetics Australia and Gippsland Herd Improvement. Their inputs to the Farm in the form of donated semen and administrative office support are greatly appreciated, as the value of their input enables us to fund the reporting from the Farm. I would like to thank Richard Churchley and Bob Pitman for their input in providing this program.

We welcomed Ian Cogle to the Board as replacement for Margaret Stewart, who retired in July. Ian was the Chair of the Board of GippsDairy until his recent retirement from that Board. Ian's experience at Board level, his close understanding of GippsDairy's goals and objectives, and his farming skills and experience will be great assets to the Board in taking the MRF forward. Margaret deserves special thanks from the share holders and Board as she has been a member of the Board for 10 years and acted as Chair for 3 years. She and husband Peter have also stepped in voluntarily on many occasions to sort out problems on the Farm. Her input is greatly appreciated.

Brian Walker and Trevor Platt have also made a considerable contribution to the Board and will retire at this election. Brian was Deputy Chair during the last 3 years and both have worked hard and focused a large amount of energy and time on solving the difficulties at the Farm. We also thank them for their direct input to the pasture improvement program on the Farm. Their places on the Board will be taken by Steve Stead and Ben Thexton who nominated for their positions at this election.

I sincerely thank all the directors for their input and support at the Board during the last year. I would especially like to thank Garry Green, who in addition to his Board responsibilities has also stepped in on many occasions to manage and sort out mechanical issues and other problems on the Farm. Garry's voluntary input has been invaluable to the continuing operation of the Farm.

Bob Pitman has again done a great job in completing all the administration for the Farm and has played an important role in writing the applications to obtain funding. Thanks to Bob for his efforts during his 14th year of service.

Recent years have been difficult and challenging times for the Board, and the seasonal conditions are again posing serious challenges for the year ahead. We hope that the work of the Board during recent years will now start to bear fruit and we look forward to taking the Farm ahead, now an external funding source has been secured.

Michael Larcombe
Chairman



Recently appointed Sharefarmers Murray Wightman and Rhonda Hunter

FINANCIAL PERFORMANCE OF THE COMMERCIAL FARM
(assuming it to have been owned and operated by a single operator)

Farm production:	2005-6	2004-5
Irrigated hectares	120	120
Milking cows	380	420
Litres	2,098,490	2,335,150
Fat	86,472	99,945
Protein	73,167	79,540
Fat %	4.12	4.28
Prot %	3.49	3.41
Litres per cow	17,487	5,560
Kg fat per cow	228	238
Kg protein per cow	193	189
Supplementary feed purchases:		
Grain/pellets (t)	678	501
Grain by-products (t DM)	0	325
Hay (t)	349	370
Silage (t DM)	230	72
Nitrogen (t)	42	51
Fertiliser applications:		
Phosphorus (t)	6	9
Potassium (t)	4	7
Sulphur (t)	2	8
Milk Price (cents per litre)	33.46	33.37
(\$ per kg solids)	4.40	4.34
MILK INCOME (\$)		
Milk Sales	702,137	779,235
TOTAL MILK INCOME	702,137	779,235
FARM OPERATING COSTS (\$)		
Feed Costs		
Supplements		
Agistment	19,415	48,999
Conservation	23,042	2,924
Grain	146,375	136,965
Hay	60,880	58,890
Grain by-products	0	48,395
Nitrogen	49,186	55,128
Total Supplements	298,898	351,301
Other Feed		
Fertiliser	13,397	27,738
Fuel and Oil	14,995	11,408
Irrigation	44,671	40,186
Cropping	3,093	14,583
Rented land	20,497	11,597
Total Other Feed	96,653	105,512
Total Feed Costs	395,551	456,813
Herd Costs		
Semen	10,773	7,300
Insemination	2,863	2,651
Miscellaneous Breeding Costs	3,972	2,874
Calf Rearing	3,899	12,099
Herd Test	4,264	3,550
Mastitis	4,597	4,874
Herd Health	26,807	20,595
Total Herd Costs	57,175	53,943

Shed Costs		
Detergents and Supplies	5,692	5,786
Power	9,335	3,172
Rubberware	2,069	950
Total Shed Costs	17,096	9,908
Labour Costs		
Sharefarmer's share of income	323,398	389,617
less Sharefarmer's share of costs	-198,038	-261,665
Contract Manager (June)	14,696	0
Total Labour Costs	140,056	127,952
TOTAL FARM OPERATING COSTS	609,878	648,616
TOTAL FARM OPERATING SURPLUS	92,259	130,619
ADDITIONAL FARM INCOME		
Cattle Trading - Gross Profit	37,732	26,467
Calf Sales	7,694	7,871
Rebates	13,468	3,602
Sale of surplus machinery	0	42,900
Dairy Adjustment Package	14,388	14,388
Total Additional Farm Income	73,282	95,228
ADDITIONAL NON FARM INCOME		
Dividends Received	10,330	6,506
Total Additional Non Farm Income	10,330	6,506
TOTAL ADDITIONAL INCOME	83,612	101,734
OVERHEAD COSTS		
Depreciation	50,068	41,495
Repairs and Maintenance	37,240	28,750
Pasture Renovation	7,125	7,295
Occ. Health and Safety	58	325
Rates	5,154	4,864
Administration	304	1,324
UDV Subscription	472	420
Insurance	3,180	2,980
Rent of four-wheelers	0	2,022
TOTAL OVERHEAD COSTS	103,601	89,475
FINANCE COSTS		
Bank Fees	519	1,120
Interest - New Farm Loan (Comm Bank)	46,852	46,058
Interest - Tractor loan (NAB)	0	4,095
Interest - DAP Loan (Bank of Melb)	1,855	2,540
Interest - Cattle Loan (Suncorp)	5,296	6,354
Interest on overdraft	6,528	6,039
TOTAL FINANCE COSTS	61,050	66,206
TOTAL FARM INCOME	785,749	880,969
TOTAL FARM COSTS	774,529	804,297
NET FARM INCOME	11,220	76,672
EBIT (Earnings Before Interest and Tax)	72,270	142,878
EBIT/ ha	602	1,191

FIVE YEAR FARM PERFORMANCE SUMMARY

	2005/6	2004/5	2003/04	2002/03	2001/02
Irrigated hectares	120	120	120	120	80
Milking Cows	380	** 420	* 405	370	308
Litres – total	2,098,490	2,335,150	2,000,555	1,600,855	1,909,601
litres/cow	5,522	5,560	4,940	4,327	6,200
litres/ha	17,487	19,460	16,671	13,340	23,870
Fat - total kg	86,472	99,945	85,870	66,506	81,981
kg/cow	228	238	212	180	266
kg/ha	721	833	716	554	1,025
Protein - total kg	73,167	79,540	67,410	51,434	64,318
kg/cow	193	189	166	139	209
kg/ha	610	663	562	429	804
Milk Income \$	702,137	779,235	539,851	392,823	619,513
Cattle Trading Profit \$	37,732	26,467	24,460	11,630	63,744
Calf Sales \$	7,694	7,871	5,888	3,170	9,249
Total Farm Income \$	785,749	880,968	591,596	439,515	722,350
Grain tonnes	678	*** 826	454	102	519
Grain \$	146,375	185,360	110,348	30,400	149,392
Hay tonnes	349	370	104	98	167
Hay \$	60,880	58,890	17,193	18,814	27,330
Nitrogen tonnes	42	51	26	43	25
Nitrogen \$	49,186	55,128	30,736	48,281	25,563
Supplementary Feed Costs \$	363,838	351,301	216,742	158,936	272,141
Irrigation Water ML	984	999	898	728	468
Irrigation Water \$	44,671	40,186	33,825	25,028	12,214
Total Feed Costs \$	395,551	456,813	273,855	192,963	293,076
Feed Costs/cow	1,041	1,088	676	522	952
Total Herd Costs \$	57,175	53,943	44,641	42,677	40,943
Herd Costs/cow	150	128	110	115	133
Total Shed Costs \$	17,096	9,908	11,035	9,355	11,359
Shed Costs/cow	45	24	27	25	37
Total Labour Costs \$	140,056	128,548	128,283	122,045	111,286
Labour Costs/cow	369	306	317	330	361
Finance Costs \$	61,050	66,206	58,873	67,783	14,142
Total Farm Operating Costs \$	609,878	649,211	457,814	367,041	457,339
Farm Operating Costs/cow	1,605	1,546	1,130	992	1,485
Total Farm Operating Surplus \$	92,259	130,024	83,496	25,782	162,174
Operating Surplus/cow	243	310	206	70	527
Feeding Performance					
(Milk Income less Supp Feed Costs)	403,239	427,934	323,109	233,887	347,372
Feed Performance/cow	1,061	1,019	798	632	1,128
Feed Performance/ha	3,352	3,566	2,693	1,949	4,342
EBIT (Earnings Before Interest and Tax)	72,270	142,878	25,878	-34,003	-38,461
EBIT/ ha	602	1,191	216	-283	-481

* This figure includes an additional 80 cows purchased in Nov 2003

** This figure includes an additional 100 cows carried (on loan) in May/June, 2005

*** This figure includes 501 tonnes of grain and 325 tonnes of grain by-products fed in 2004/5

MACALISTER RESEARCH FARM CO-OPERATIVE LIMITED

Key Developments in the History of the Macalister Research Farm (MRF)

1. MRF is a farmer-owned co-operative that was set up in 1961 to acquire a commercial dairy farm on which it could test and demonstrate systems of farming that had the potential for improving the productivity, profitability and sustainability of farms in the Macalister Irrigation District (MID)
2. The co-op began with four hundred shareholders, each contributing around 12 pound and 10 shillings (\$25) for the purchase of 50 shares – thanks to the particular efforts and enthusiasm of inaugural chairman the Late Eric Rowley and Department of Agriculture Irrigation Officer the Late Ian Norman.
(Since then, the co-op has issued similar share packages to a further 200 shareholders).
3. In 1962, with an equity of about 10 percent, MRF purchased its initial farm (48 ha at Tinamba) and began both its farming and demonstration operations.



Official Opening of MRF, February 1962

4. Over 44 years, MRF has conducted numerous research and demonstration projects dealing with most issues relating to the management and operation of dairy farms in Victoria – but particularly to the operation of irrigated dairy farms in the Macalister Irrigation District.
5. From 1962 until the early '90s, the Department of Agriculture ran most of the research and demonstration projects at MRF. And during this period, MRF directed the profits from its commercial farm into agricultural scholarships and research grants.
6. In the early '90s, when the Department of Agriculture's priorities changed and it (the Department) was unable to conduct projects at MRF, the Co-op appointed its own project manager – initially on a part-time and later a full-time basis – to maintain its important research and demonstration role. At the same time it successfully sought external funding (particularly from the Dairy Research and Development Corporation) to help finance its research and demonstration programme
7. This led to two major split-herd projects being conducted at the farm – a stocking rate demonstration that compared the costs and benefits of two levels of stocking on irrigated pasture, over three successive seasons – and a supplementary feeding demonstration that compared the costs and benefits of two levels of supplementary feeding, again over three seasons. Both demonstrations provided Victorian farmers with valuable information for use in deciding on stocking rates and supplementary feeding programmes for their own farms.

8. At the same time MRF made its entire farm available to the Department of Primary Industries for a full-scale study of the movement of water and nutrients on to and off the farm. This project has thrown valuable light on the causes and extent of nutrient loss from farms, and procedures that can be put in place to retain water and nutrients on the farm, and minimise environmental impact.
9. In recent years, MRF has also established two demonstrations of automatic irrigation – automatic flood irrigation and automatic fixed sprinkler irrigation – in an effort to improve irrigation efficiency, while reducing the work load for the irrigator. These and other smaller demonstrations are on-going.
10. In 1989, MRF purchased an adjoining 44 ha farm to allow an increase in herd size to 300 cows, and improve farm viability. In 2002, it took the opportunity of further improving its long-term viability by purchasing another adjoining farm of 47 ha to allow herd size to eventually increase to 500 cows. At the same time it made substantial changes to its dairy shed and yard (by extending to 30 unit swing-over herringbone and constructing a new large round yard) to facilitate these proposed increases in herd size.
11. Because these most recent capital developments and associated borrowings coincided with difficult times for both the industry (through drought and price-downturn) and the Farm itself (through management difficulties), MRF had to delay the commencement of any new, major research and demonstration projects until it had reasonable prospects for restoring its level of profitability and returning to a position where it could again attract industry support.
12. Nevertheless, during this period of reduced activity, MRF still continued to monitor and regularly report on all management decisions made on the farm and their outcomes, for the benefit of Victorian dairyfarmers.
13. With the 2006/7 season now under way, MRF has appointed a new Sharefarmer, under a revised management structure, as a means of speeding up the restoration of farm profitability. And it has successfully negotiated with Dairy Australia for the re-employment of a part-time project manager, whose task will be to oversee the management of the commercial farm and to conduct, monitor and publicise a range of meaningful demonstration projects on the Farm, for the benefit of dairy farmers in Gippsland and other industry stakeholders.



*Sharefarmer Murray Wightman with
Project Manager Frank Tyndall
September 2006*

MACALISTER RESEARCH FARM CO-OPERATIVE LIMITED

DIRECTORS' DECLARATION

We, Trevor Henry and Brian Walker, 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 2006 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 28th day of August, 2006, on behalf of the Board



Trevor Henry, Director

Brian Walker, 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, 2006.

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 demonstration and the provision of information 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 \$18,962 (compared with net loss of \$9,815 in 2005).

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, 2006 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 (demonstration and the provision of information 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 \$74.38 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 28th day of August, 2006.



Trevor Henry, Director

Brian Walker, 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 Tinamba on the 28th day of August, 2006.



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 an operating statement, balance sheet, cashflow statement and notes to the financial report of Macalister Research Farm Co-operative Limited for the year ended 30 June 2006. 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.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

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 2006 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
WHK ARMITAGE DOWNIE

Sale
Dated: 30 August, 2006

MACALISTER RESEARCH FARM

ABN: 89 984 202 071

Operating Statement for year ended 30th June 2006

	Notes	2006	2005
		\$	\$
Revenue from Operating Activities	2	475,124	453,358
Expenses from Operating Activities			
Supplies and Consumables	3	(288,920)	(280,591)
Employee Benefits Expense	3	(33,076)	(21,398)
Depreciation and Amortisation Expense	3	(50,068)	(41,495)
Finance Costs	3	(60,530)	(65,086)
Other Expenses from Operating Activities	3	(61,492)	(54,603)
Net Loss from Operating Activities before Income Tax Expense	3	<u>(18,962)</u>	<u>(9,815)</u>
Income Tax Expense Relating to Operating Activities	1d		
Net Loss from Operating Activities after Income Tax Expense		<u><u>(18,962)</u></u>	<u><u>(9,815)</u></u>

Balance Sheet as at 30th June 2006

	Notes	2006	2005
		\$	\$
CURRENT ASSETS			
Inventories	5	<u>467,700</u>	<u>458,500</u>
TOTAL CURRENT ASSETS		<u>467,700</u>	<u>458,500</u>
NON-CURRENT ASSETS			
Other financial assets	6	75,070	67,773
Property, plant and equipment	7	<u>1,721,537</u>	<u>1,770,956</u>
TOTAL NON-CURRENT ASSETS		<u>1,796,607</u>	<u>1,838,729</u>
TOTAL ASSETS		<u><u>2,264,307</u></u>	<u><u>2,297,229</u></u>
CURRENT LIABILITIES			
Interest bearing liabilities	8	78,016	59,124
Net bank overdraft	13(a)	<u>54,091</u>	<u>59,272</u>
TOTAL CURRENT LIABILITIES		<u>132,107</u>	<u>118,396</u>
NON-CURRENT LIABILITIES			
Interest bearing liabilities	8	<u>763,228</u>	<u>791,174</u>
TOTAL NON-CURRENT LIABILITIES		<u>763,228</u>	<u>791,174</u>
TOTAL LIABILITIES		<u><u>895,336</u></u>	<u><u>909,570</u></u>
NET ASSETS		<u><u>1,368,972</u></u>	<u><u>1,387,659</u></u>
EQUITY			
Issued Share Capital	9	11,677	11,402
Reserves	10	604,683	604,683
Retained Profits	11	<u>752,612</u>	<u>771,574</u>
	12	<u><u>1,368,972</u></u>	<u><u>1,387,659</u></u>

The accompanying notes form part of this financial report

MACALISTER RESEARCH FARM

ABN: 89 984 202 071

Cash Flow Statement for the year ended 30th June 2006

	Notes	2006	2005
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from farm income		472,080	499,592
Receipts from research and extension account - grants		11,850	10,030
Receipts from house rental			
Dividends received		10,330	6,506
Borrowing costs		(58,675)	(99,147)
Payments to suppliers and employees		(413,678)	(394,644)
Net cash generated from Ordinary Activities	13(b)	21,907	22,337
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(649)	(49,418)
Proceeds from Asset Sales			42,900
Purchase of Shares		(7,297)	(3,598)
Net cash used in Investing Activities		(7,946)	(10,116)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of shares		275	
Repayment of Borrowings		(54,054)	(53,706)
Proceeds from Borrowings		45,000	44,920
Net cash used in Financing Activities		(8,779)	(8,786)
NET INCREASE IN CASH		5,181	3,434
CASH AT BEGINNING OF YEAR		(59,272)	(62,706)
CASH AT END OF YEAR	13(a)	(54,091)	(59,272)

The accompanying notes form part of this financial report

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2006

1 (a) Statement of Accounting Policies

This general purpose financial report has been prepared for the first time 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 2006 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.

(f) Property, Plant & Equipment

Each class of property, plant & equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Freehold land is measured at both cost and directors valuation. It is the directors' opinion that these assets are stated at fair value.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2 - REVENUE	2006	2005
OPERATING ACTIVITIES	\$	\$
Farm Income		
Milk Income	381,432	389,617
Additional Farm Income		
Cattle Trading - Gross Profit (Note 4)	37,732	26,467
Calf Sales	5,001	5,116
Rebates	13,468	1,964
Dairy Adjustment Package	14,388	14,388
Research and Extension Account - Grants		
Genetics Australia	10,773	7,300
Gippsland Herd Improvement	2,000	2,000
Other Income		
Dividends Received	10,330	6,506
Total Revenue	475,124	453,358
NOTE 3 - EXPENSES (DETAILED)		
Farm Expenses		
Feed Costs	230,711	228,407
Herd Costs	36,947	30,601
Shed Costs	9,515	5,099
Other Running Costs	1,185	
Labour Costs	14,696	596
Overhead Costs		
Depreciation	50,068	41,495
Repairs and Maintenance	37,240	28,750
Pasture Renovation	7,125	6,129
Occ. Health and Safety	58	276
Rates	5,154	4,814
Administration	304	1,196
UDV Subscription	472	420
Insurance	3,180	2,980
Rent of four-wheelers		2,021
Bank Fees	519	1,120
Borrowing Costs		
Interest - New Farm Loan (Comm Bank)	46,852	46,058
Interest - Tractor Loan (Nat Bank)		4,095
Interest - Cattle Loan (Suncorp)	5,296	6,354
Interest - DAP Loan (Bank of Melb)	1,855	2,540
Interest on overdraft	6,528	6,039
Co-operative Account		
Audit Fees	1,600	1,500
Advertising	832	690
Loss on Sale of Assets		4,794
Catering	488	861
Insurance	2,220	2,179
Operating	2,890	2,557
Repairs to Co-op equipment		782
Consulting Fees	213	215
Directors' Fees	7,700	7,700
Secretarial Fees (incl Superannuation)	12,470	12,470
Research and Extension Account		
Acting Project Manager	5,208	8,333
Workers Comp Insurance	703	
Office rent and administration	2,000	2,000
Bank Fees	60	102
Total Expenses	494,086	463,173

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2006

NOTE 4 - CATTLE TRADING ACCOUNT

	Number	Value
Sales	54	29,132
Deaths	34	
Opening Stock	567	458,500
Purchases	1	600
Natural Increase	113	
Closing Stock	593	467,700
Gross Profit from Trading		37,732

2006	2005
\$	\$

NOTE 5 - INVENTORIES

Livestock at Market Value	467,700	458,500
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NOTE 6 - OTHER FINANCIAL ASSETS

Shares in unlisted companies, at cost	75,070	67,773
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NOTE 7 - 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	788,438
Accumulated Depreciation	(355,142)	(316,404)
	433,296	472,034
Plant and Equipment at Cost	357,152	356,502
Accumulated Depreciation	(313,911)	(302,580)
	43,241	53,922
Total Property Plant and Equipment	1,721,537	1,770,956

NOTE 8 - INTEREST BEARING LIABILITIES

Current

Murray Goulburn Loan	39,262	20,592
Dairy Deregulation Loan	14,388	14,388
Suncorp-Cattle Loan	24,366	24,144
Total Current	78,016	59,124

Non-Current

Murray Goulburn Loan	26,250	22,380
Dairy Deregulation Loan	13,003	25,528
Suncorp-Cattle Loan	28,975	48,266
Commonwealth Bank Bills	695,000	695,000
Total Non-Current	763,228	791,174

NOTE 9 - ISSUED SHARE CAPITAL

Authorised Capital

100,000 Ordinary Shares of \$0.50

Issued and Paid Up Capital

23,155 Ordinary Shares	11,677	11,402
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NOTE 10 - 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

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
NOTE 11 - RETAINED PROFITS	\$	\$
Retained profits at the beginning of the financial year	771,574	781,389
Net loss for the year	(18,962)	(9,815)
Retained profits at the end of the financial year	<u>752,612</u>	<u>771,574</u>

Note 12 - STATEMENT OF CHANGES IN EQUITY

Balance at the beginning of the year	1,387,659	1,397,474
Net Loss for the year	(18,962)	(9,815)
Shares Issued	275	
Balance at the end of the year	<u>1,368,972</u>	<u>1,387,659</u>

NOTE 13 - CASH FLOW STATEMENT

(a) Cash at the end of the year, as shown in the Cash Flow Statement, is reconciled to the related items in the Balance Sheet as follows:

Cash at Bank - Farm Account	(54,626)	(59,867)
Cash at Bank - Research and Extension Account	535	595
	<u>(54,091)</u>	<u>(59,272)</u>

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

Net loss from Operating Activities	(18,962)	(9,815)
Add:		
Depreciation	50,068	41,495
Loss on Sale of Assets		4,794
Increase in Livestock	(9,200)	(18,700)
Movement in Other Assets		4,563
Net Cash used in Operating Activities	<u>21,906</u>	<u>22,337</u>

The Co-operative has an overdraft facility of \$85,000

Note 14 - Segment Reporting

	FARM ACCOUNT	CO-OP ACCOUNT	CO-OP ACCOUNT	TOTAL
	\$	\$	\$	\$
Income	462,352		12,773	475,125
Expenditure	457,704	28,412	7,971	494,087
Net Result	<u>4,648</u>	<u>(28,412)</u>	<u>4,802</u>	<u>(18,962)</u>