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# Prospectus

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Valetta Irrigation Limited

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## **VALETTA IRRIGATION LIMITED**

### **SUMMARY POSITION**

The Company has operated an irrigation scheme under which it distributes water to farmers through open races. The area within which the scheme operates is set out on a map attached to this Prospectus. The farmers taking water from the Company have not been utilising all of the water that is available to the Company from the Rangitata Division Race (RDR). The Company has available to it approximately 1,246 litres per second (1.246 cumecs) of water which is not currently being utilised. In addition the Scheme has been delivering water through open races and the Company now wishes to pipe all water so that it can be delivered to farmers under pressure. Accordingly the Company has decided to offer Shares under this Prospectus to raise funding to pipe the Scheme and also to allocate the 1,246 litres per second of water available to be delivered through the Scheme.

Shares under this offer should only be taken up by farmers who have properties within the area that can be serviced by the Scheme and where there is a connection available to take water from the Scheme. Any applicant applying for shares should discuss with the Company the ability to draw water from the Scheme to service the property controlled by that applicant that is within the Scheme Area.

#### **Directors:**

Alistair Morrison  
Peter Kevin Ormsby  
Gary Robert Wilson  
William Mark Dewhirst  
Graeme John Wall  
John David Stocker

#### **Accountant:**

Leech & Partners Limited  
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ASHBURTON 7740  
  
[www.leech.co.nz](http://www.leech.co.nz)

#### **Solicitor:**

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CHRISTCHURCH 8540

#### **Auditors for Financial Statements:**

Myers & Co  
Chartered Accountants  
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White Fox & Jones  
White Fox Jones Building  
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ASHBURTON 7700

#### **Auditors For Prospective Financial Statements:**

Polson Higgs  
127a Victoria Street  
Ashburton 7700

#### **Website for Company:**

[www.whitefox.co.nz/Valetta](http://www.whitefox.co.nz/Valetta) Irrigation

### **Documents Attached for Registration**

A copy of this Prospectus signed by or on behalf of the Directors of the Company, and having attached to it copies of the documents required by Section 41 of the Securities Act 1978, to be so attached have been delivered to the Registrar of Companies for registration under Section 42 of the Securities Act 1978. The documents attached are as follows:

- (a) The Water Agreement to be signed by all applicants for shares;
- (b) A Heads of Agreement dated 1 April 2011 with Bosch Irrigation Limited (*Bosch*) to enter into a contract to construct and install pipes to pipe the Company's irrigation scheme at an agreed price of \$31,926,000 of which \$6,000,000 is to be paid by an associated company of Bosch to gain electricity generation rights;
- (c) A Heads of Agreement dated 1 April 2011 to enter into an agreement with CanPower Limited (*CanPower*) to construct a pipeline and operate generation equipment using water that is available from the scheme with CanPower paying an access fee of \$6,000,000 which will be used to construct the pipeline above the 200 m contour to connect to the Rangitata Diversion Race.
- (d) An Agreement to Lease dated 11 March 2011 with the Ashburton District Council to lease 11 hectares of land on which a settling pond is to be constructed. The lease is for a 35 year term at a total rental of \$182,000 for the term.
- (e) An agreement for sale and purchase dated 11 April 2011 relating to the purchase of 5.4 hectares of land for \$151,200 from Winchmore Farmlands Limited. This agreement requires an offer of 4000 Ordinary Shares under this Prospectus to the said vendor.

### **Restriction on Distribution**

This Prospectus is intended for use in New Zealand and the offer is only available for acceptance by farmers within the Scheme Area who will become or are Shareholders of the Company. The offer is not made to any person outside New Zealand and is not available to any person who requires delivery of water outside the Scheme Area.

This Prospectus is dated 27 May 2011.

### **Glossary:**

The following definitions are used in this Prospectus:

*applicant and shareholders* means an existing shareholder of the Company at the date of this Prospectus or an applicant who will become a transacting shareholder;

*Valetta and Company* means Valetta Irrigation Limited;

*Board* means the board of directors of the Company;

*Closing Date for applications under this Prospectus* means the 17<sup>th</sup> day of June 2011 (subject to extension);

*Conversion Shares* are the shares to be offered and paid for by a transfer of moneys from the Shareholder Loan Account as set out in clause 1.10;

*Exemption Notice* means the Securities Act (Co-operative Companies) Exemption Notice 2011 (SR2011/59);

*Infrastructure* means all pipes, valves, ponds, races and other structures required to deliver water within the Scheme Area;

*l/s/ha* means litres of water per second per hectare;

*Offer Document* and *Prospectus* include this Prospectus as registered;

*Ordinary Shares* and *Shares* are the 124,658 new shares to be offered by the Company under clauses 1.2(a) and ranking equally with all other shares of that class.

*RDR* means the Rangitata Diversion Race;

*RDRML* means Rangitata Diversion Race Management Limited;

*Scheme* means the infrastructure provided to distribute water from the RDR to farmers within the Scheme Area which is to be enhanced by piping the current open race scheme and then distributing water through pipes infrastructure to properties approved by the Board within the Scheme Area;

*Scheme Area* means the area shown on the map attached to this Prospectus within which the Company has the ability to deliver water to farms;

*Shareholder Loan Account* means the amount of \$396,962 showing in the financial statements of the Company as at 31 March 2010 which amount is held for the shareholders in proportion to the number of shares held on 31 March 2011;

*Water Agreement* is the agreement to be signed by all applicants for shares and which is attached to this Prospectus.

## VALETTA IRRIGATION LIMITED

Valetta Irrigation Limited (*the Company*) is a co-operative company registered under the Co-operative Companies Act 1996. This Prospectus is issued in compliance with the provisions of the Securities Act (Co-operative Companies) Exemption Notice 2011.

### 1 MAIN TERMS OF OFFER

1.1 The issuer is Valetta Irrigation Limited whose registered office is at Leech & Partners Limited, 248 East Street, Ashburton.

1.2 The securities being offered are:

(a) 124,658 Ordinary Shares being offered for \$112.00 each, comprising a nominal value of \$1 for each Ordinary Share and a premium of \$111.00. These Shares are being offered to farmers within the Scheme Area who wish to connect to the water distribution systems operated by the Company. For every 100 Ordinary Shares there is a right to 1 litre per second of water (*l/p/s*).

(b) 312,480 Conversion Shares being offered for \$1.25 each comprising a \$1.00 nominal value and a premium of 0.25 cents per Share. These Conversion Shares are to enable Shareholders as at 31 March 2011 to convert their proportionate share of the Shareholder Loan Account into Shares;

1.3 The Ordinary Shares are being offered in the order of priority set out in more detail in clause 4.3.

1.4 The Company is offering for application the 124,658 Ordinary Shares on the following basis:

(a) The first priority is to offer those Ordinary Shares to farmers within the Scheme Area who have agreed to sell land to the Company to facilitate the construction of the Scheme. The nominal value of all Ordinary Shares in the company is \$1.00 notwithstanding their issue price.

(b) Then all existing Shareholders shall have an entitlement to take up Ordinary Shares in accordance with the entitlement letter that will be sent to all Shareholders setting out the maximum number of Shares for which they can apply as of right under this Prospectus. Shares can only be applied for if the applicant has sufficient land within the Scheme Area to use the water attached to those Shares;

(c) Any applicant may apply for additional Ordinary Shares and if any Shareholder does not take up a full entitlement to the Ordinary Shares being offered then those Shares not taken up (Surplus Shares) will be made available to Shareholders who apply for Ordinary Shares in excess of their entitlements. Those surplus Shares will be allocated, at the discretion of the Board, taking into account the economic delivery of water, to Shareholders who so apply for further Ordinary Shares and who hold a sufficient area of land to distribute the irrigation water attached to those Shares;

(d) To the extent that existing Shareholders do not apply for the Ordinary Shares being offered under this Prospectus in full then any Ordinary Shares remaining available for application will be offered to persons who wish to have delivery of water within the Scheme Area, who own properties within the Scheme Area for that purpose, and apply

for any Ordinary Shares for which applications have not been made by existing Shareholders of the Company. Those applicants must have sufficient land within the Scheme Area for the water rights acquired;

- 1.5 Up to 24,456 Ordinary Shares will be offered to selected Shareholders who will have the right to pay for these Shares by paying an initial amount of \$5.00 per share with the balance of \$107.00 per share being payable on or before 30 April 2014. Holders of those Shares will pay interest monthly in arrears on the outstanding calls at the Company's bank overdraft rate applying from time to time. As at the date of this Prospectus this is 9.75% per annum.
- 1.6 The price payable for each Ordinary Share is \$112.00 which amount is payable as to:
  - (a) \$5.00 for each Ordinary Share on application; and
  - (b) \$107.00 for each Ordinary Share on the 26 August 2011
- 1.7 A Shareholder may enter into an arrangement with the Company on terms approved by the Board under which the water to which that Shareholder will be entitled by holding or taking up Ordinary Shares under this offer may be delivered to a property within the Scheme boundary including a property which overlaps the Scheme boundary. Any such applicant for Ordinary Shares must enter into arrangements with the Company relating to the costs of delivering that water, and any additional costs that may be incurred in so delivering that water, prior to making an application for Shares under this Prospectus.
- 1.8 The offer of Ordinary Shares under clause 1.2(a) is only open for applications from those farmers who own properties within the Scheme Area or properties which overlap the boundaries of the Scheme Area.
- 1.9 The Company may allot Shares as determined by the Board and may in its absolute discretion determine whether the property to which water is to be delivered in accordance with an application can be delivered to that property and accordingly whether the application for Shares can be approved or should be declined.

#### **1.10 Offer of Conversion Shares**

- (a) The offer of Ordinary Shares in 1.2(a) and 1.3 to 1.8 is to enable moneys to be raised to pay for enhancements to the irrigation Scheme of the Company by piping that Scheme. The second offer of Shares under this Prospectus is of the 312,480 Conversion Shares. These will be paid for by Shareholders transferring to the Company their proportionate part of the Shareholders Loan Account held by the Company which will pay for the Conversion Shares in full. No cash will need to be paid for the Conversion Shares.
- (b) The existing shares of the Company of \$20 nominal value each have been subdivided into 20 ordinary shares with a nominal value of \$1.00 each. There are now 6720 shares on issue. Each Shareholder on the register as at 31 March 2011 will be offered 46.5 Conversion Shares rounded to the nearest whole share for every one (1) share held, after conversion as set out above, at an issue price of \$1.25 per share. No cash payment will be required for these shares as each Shareholder will give authority to the Company to set off that Shareholders proportionate share of the Shareholder Loan Account against the amount payable for the new Conversion Shares. The amount set off will be approximately \$1.25 per Conversion Share.

- (c) Each Shareholder will be requested to apply for the new Conversion Shares which will have a nominal value of \$1.00 and be issued at \$1.25, each with the Company being authorised to make that payment from each Shareholders proportionate share of the Shareholder Loan Account. Those persons applying for Conversion Shares have an existing right to water which will remain unaffected.

## 2 DETAILS OF INCORPORATION OF ISSUER

- 2.1 The Company is registered under the Companies Act 1993 and the Co-operative Companies Act 1996 and was initially registered under the Co-operative Companies Act 1996 on the 3<sup>rd</sup> day of February 2011.
- 2.2 The registered number of the Company is 3258987 and the public file of the Company can be accessed on the public register at the Companies Office of the Ministry of Economic Development. All documents and other papers are available from the Companies Office website [www.business.govt.nz/companies](http://www.business.govt.nz/companies) or by telephoning the Companies Office Call Centre on 0508 266 726.

## 3 SUBSIDIARIES

There are no subsidiaries of the Company.

## 4 MINIMUM SUBSCRIPTIONS

### 4.1 Monies Held Until Minimum Amount Raised

This Prospectus requires an initial payment on application for the shares of \$5.00 for each share and a further payment of \$107.00 by Friday 26 August 2011. The minimum amount which is required to be raised by the issue of shares is \$11,200,000 which is the amount payable if 100,000 shares are applied for and are payable on the dates set out above. If applications are not received for at least 100,000 Shares by the Closing Date, then this offer will be withdrawn and cannot proceed. Until the minimum amount of \$500,000 is reached all monies received in this offer will be banked into a Trust Account at Leech & Partners Limited and will not be distributed or available to the Company. In the event that this offer does not proceed by the minimum amount being received then all application monies will be refunded to all Shareholders and other applicants for Shares. No interest will be paid on those monies. The Board reserves the right to extend the Closing Date notwithstanding that Shareholders receive no interest on any application monies held by or on behalf of the Company.

### 4.2 Minimum Amount To Be Raised

It is estimated that the total cost of piping the distribution system, costs and other expenses excluding any contingency amount and the prepayment in respect of the electricity generation and associated piping will be \$27.5 million. There is a 10% contingency on top of this amount as a buffer for any cost overruns. Of that amount the Company will arrange bank funding of up to \$17.920 million as a contribution towards the capital costs of piping the existing open race distribution system. Discussions are well advanced with banks and an indicative offer has been received from a trading bank. The Board is confident that such funding can be put in place. It is estimated by the Board that with the amount held by the Company, and costs paid to date, including a reasonable contingency amount of approximately \$2.5 million, if a total of \$11,200,000 is raised by an initial 100,000 shares being applied for and \$500,000 being received by the Company, with unpaid calls for the balance, then this will be sufficient to provide the equity required to fund the infrastructure

development. If all of the Shares under this offer are taken up, and are fully paid, this will raise \$13,961,696. Notwithstanding the amount that it is intended to raise under this Prospectus the minimum number of shares for which the Company would need to receive applications, based on there being no deferred payment for those shares, is 100,000 Shares.

Accordingly if at least 100,000 Shares are applied for and allotted under this Prospectus then the piping of the irrigation infrastructure can proceed.

#### **4.3 Provisions relating to Initial Flotation**

The plans which the Directors of the Company intend to implement in the year from the date of this Prospectus are:

- (a) to confirm the contracts to pipe the current irrigation distribution system and grant access to the Scheme to generate electricity;
- (b) to purchase and lease land to create two settling ponds for that system;
- (c) to finalise bank funding and put in place bank securities to enable bank funding to be drawn down;
- (d) to commence work on piping the existing open race irrigation system.

The above work will be financed from shareholder equity raised under this issue of shares of at least \$11,200,000 and bank funding of up to \$17,920,000. There is a substantial contingency amount of over \$2 m in the financial projections so these amounts should be sufficient to pay for the project.

- 4.4 The moneys raised under this Prospectus can only be used for the costs and expenses relating to the project to pipe the irrigation system of the Company and associated expenditure. Those moneys cannot be used for any other purpose.
- 4.5 The prospective financial information required by clause 11(1)(c) of the First Schedule to the Securities Regulations is set out on pages 17 to 28.
- 4.6 The minimum amount, that in the opinion of the Directors, must be raised from the issue of the Ordinary Shares, in order to provide for the following, is \$11,200,000:
  - (a) The purchase price of the property as set out in the material contracts;
  - (b) All expenses of this issue;
  - (c) Working capital; and
  - (d) The equity contribution needed to complete the piping of the Irrigation Scheme.

The Company has no moneys borrowed for the purposes set out above.

## 5 OTHER TERMS OF OFFER

### 5.1 Restriction on application for Ordinary Shares

Each person who applies for Ordinary Shares, and who is allotted Ordinary Shares by the Company, will be entitled to an allocation of water to irrigate land. Every applicant for Shares will also be required to enter into a water agreement with the Company, a copy of which will be sent to every applicant for Ordinary Shares under this Prospectus. That water agreement is available for inspection on the website of the Company.

### 5.2 Criteria for Issue of Ordinary Shares

The Ordinary Shares are being allocated, so that each existing Shareholder will have an entitlement to approximately 37% of the 124,658 Shares being offered. The entitlement to the Ordinary Shares will be set out in a letter sent to each Shareholder (see 5.3(b) below). The criteria applied by the Board in making Ordinary Shares available under this Prospectus is that an applicant will be required to hold 100 Ordinary Shares for every 1 litre per second of water made available with the cost of those 100 Ordinary Shares being \$11,200 (\$112.00 each). Persons who are applying for Ordinary Shares should take into account their requirements for water when calculating the number of Ordinary Shares for which they apply.

### 5.3 Priority on Issue of Ordinary Shares

New Ordinary Shares will be offered in the following order of priority:

- (a) To those landowners whose land is within the Scheme Area and with whom the Board has entered into agreements to give those landowners an entitlement to shares in exchange for the acquisition of interest in land essential for the construction of the piped irrigation scheme;
- (b) To existing Shareholders on a proportionate basis calculated at approximately 37% of Shareholders' existing Shareholding and water entitlements (with minor adjustment for fractions and anomalies) provided that no Shareholder will be entitled to water in excess of 0.58 litres per second or 5 mm per day per hectare of land owned by the Shareholder (*Maximum Application Rate*). Each Shareholder will receive a letter of entitlement setting out their entitlement. This entitlement will not be transferable except to purchaser of the property and the shares to which that entitlement relates;
- (c) Some Shareholders as selected by the Board shall be entitled to pay for new shares on terms agreed between the Board and those Shareholders as set out in the letter of entitlement sent to those Shareholders. For those shares the call of \$107.00 is deferred for 3 years but with interest at the company's bank overdraft rate (currently 9.75%) being payable monthly in arrears on the unpaid call. Any change to the overdraft rate will be notified to those holders of partly paid shares;
- (d) To the extent that any Shareholder does not apply for Ordinary Shares to which a Shareholder is entitled under (b) above, those shares will be available to existing Shareholders who apply for additional Ordinary Shares and who own land within the Scheme Area provided that no Shareholder will be entitled to water in excess of the Maximum Application Rate. A Shareholder may apply for a maximum number of shares based on the title area of land owned by a Shareholder within the Scheme Area and at the Maximum Application Rate. Applications for additional Ordinary Shares will be determined by the Board at its discretion;

- (e) If there are any Ordinary Shares remaining, these will be offered as determined by the Board:
  - (i) to farmers in the Scheme Area who have agreed to grant easements over their properties to facilitate the construction of the piped infrastructure; and then
  - (ii) to farmers in the Scheme Area who require water and whose properties can be connected to the piped infrastructure with the shares being allocated by the Board in its absolute discretion.

#### **5.4 Timing for Delivery of Infrastructure Works**

It is expected that the work to be carried out to complete the piped system will commence mid year 2011 and be completed by the commencement of the 2012/2013 irrigation season in September 2012. By that date it is expected that the scheme will have the ability to deliver piped water under pressure to farmers within the Scheme Area.

#### **5.5 Delay in Respect of Works**

The date upon which water can be delivered under the enhanced piped infrastructure will be dependent on the completion of the works to be carried out on the Scheme. No certainty can be given that water will be available to a particular property by a specified date and applicants for Shares must take this into account when assessing their farming operations.

#### **5.6 Relationship of Shares to Water**

The offer of Shares under this Prospectus has been based on the Company having available to it from the RDR 4440 litres per second of water (which is the current entitlement of the Company to water from the RDR) and the ability to deliver the full volume of water to farmers within the Scheme Area. The actual volume to be delivered will be affected by the reliability of the water available through the RDR and there may be times during the irrigation season where due to the inability of RDR to draw water from the Rangitata or Ashburton Rivers under its resource consents that the full volume of water will not be available to farmers for irrigation.

The basis upon which the rights to volumes of water that relate to Share allocations have been determined is that for every 100 Shares held in the Company the holder of those Shares will be entitled to the delivery of 1 litre per second of water to a property that is within the Scheme Area. This volume will reduce in proportion to all water entitlement if there is a shortfall of water.

#### **5.7 Maximum Use of Water for Irrigation**

The maximum amount of water that any Shareholder may take and apply will be determined as follows:

- (a) Where the Scheme is the only available supply of water the maximum amount of water that can be delivered to, or used on, any property is 0.58 l/sec/ha [5.0mm/day].
- (b) Where the Shareholder has an alternative source of water such as a well or another water scheme supply the regulatory authority may determine how much water can be taken and how this is regulated between bore water and other water sources. If this direction from the authority is exceeded the Company will have the right to reduce or terminate the supply of water to a Shareholder.

#### **5.8 Minimum Number of Shares to be Held**

Existing Shareholders who hold less than 50 hectares will not have their rights affected. For any new Shareholder the minimum economic area for delivery of water will be 50 hectares. No shares will be issued to or transferred to a person who requires water for less than 50 hectares provided an existing holder with less than 50 hectares will still have the right to transfer shares and the water rights held by that Shareholder.

#### **5.9 Assumptions Relating To Use of Water**

The use of water on any individual farm will be dependent on a range of factors, including but not limited to, soil type, farming programmes, irrigation systems and rainfall. Farmers who require more or less than the assumed volume of water per hectare should accordingly vary the number of Shares for which they wish to make application.

#### **5.10 Water Agreement**

Applicants applying for Shares under this Prospectus will be required to enter into a water agreement with the Company when making this application for Shares. The form of that agreement is attached to this Prospectus and is also available on the Company's website [www.whitefox.co.nz](http://www.whitefox.co.nz) (click on Valetta Irrigation).

#### **5.11 Infrastructure Annual Charge**

Under this agreement unless specific arrangements have been made with the Company each Shareholder will have an obligation to pay the annual services charges to the Company relating to the operation of the Scheme. From the date of completion of the piped infrastructure the annual charges payable for water to the Company under a water agreement, which includes charges which are made by RDRML to the Company for operating the RDR, are estimated to be as follows:

- (a) There will be a fixed charge in each year to cover the costs of servicing loan and capital requirements. For the first three (3) years this will be \$2.25 per share and after three (3) years this will increase to approximately \$3.10 per share to take into the amortisation of the bank debt over a 25 year period. As interest rates and bank charges fluctuate this amount will need to be adjusted. If a surplus arises this will be rebated to Shareholders.
- (b) An operational charge not exceeding for the initial two years \$1.15 per Share will be levied annually to cover all regular recurring costs including repairs and maintenance, administration, expenses, RDR costs, supervision of the network and other like costs.

In addition those Shareholders holding partly paid shares will be required to pay interest monthly in arrears on any unpaid calls at the overdraft rate charged to the Company by its bankers.

#### **5.12 Applications for Shares**

Applications will only be accepted by the Company where the Shareholder has returned to the Company.

- (a) An application form properly completed;
- (b) A cheque or bank confirmation of electronic transfer of the amount payable for the shares payable on that date, or by electronic transfer to the Company into the Trust Account of Leech & Partners Limited – Trust Account, Ashburton Branch, BNZ Account No. 02-0836-0065605-00; and

- (c) The water agreement signed by the applicant with all details having been completed by the applicant.

#### **5.13 No Guarantee on Water Supply**

The Company gives no assurance that water will be available to a particular property. Any applicant must ensure that the property to which the applicant requires water to be delivered is within the Scheme Area set out on the attached map.

#### **5.14 Regulatory Position on Water Supply**

The provision of water will be subject to a regulatory regime or a policy statement that may be enforced by Environment Canterbury relating to the use of water in the proposed Scheme Area. Full details of the above are not known and those who apply for shares should be aware of the changing regulatory environment for the use of water in Canterbury.

#### **5.15 No Dividends or Rebate**

It is not intended that the Company will make distributable profits or pay rebates or dividends to its Shareholders in the foreseeable future. The Company will be operated for the benefit of Shareholders being supplied with water and purchasing services from the Company.

#### **5.16 Transfer of Shares**

The Shares of this issue (including existing shares on issue) will be entitled to water and will be transferable together with the water rights attached to those Shares. The seller and buyer of those Shares will need to satisfy themselves that the Company will have the ability to deliver water under the distribution system to the farm to which those Shares relate and which has been receiving water. If the Shares are being transferred to a holder who wishes to receive delivery of water to another property within the Scheme Area then such a transfer is subject to Board approval. Where a farm, that has the benefit of water supplied by the Company, is sold, to transfer the rights to the water allocated to that farm, the purchaser of that farm, must also purchase the Shares in the Company held by the vendor of that farm and agree to enter into a new water supply agreement with the Company.

### **6 RELEVANT DATES**

The offer under this Prospectus will close at 5.00 pm on the Closing Date subject to the right of the Directors to extend the closing date to no later than 5.00 pm Thursday 30 June 2011.

### **7 FINANCIAL STATEMENTS**

On 3 February 2011, the Company was converted from an Industrial and Provident Society registered under the Industrial and Provident Societies Act 1908. The Company is a continuity of that society. The last audited Financial Statements to 30 June 2010 which were prepared for The Valetta Irrigation Co-operative Society Limited (which is now Valetta Irrigation Limited) were sent to all Shareholders on the 1st day of April 2011. A copy of those Financial Statements is available on the website of the Company [www.whitefox.co.nz](http://www.whitefox.co.nz) (click on Valetta Irrigation/annual report 30 June 2010).

### **ADDITIONAL INFORMATION**

### **8 RISKS**

There are a number of risks for Shareholders of the Company and in applying for Shares applicants should take account the risks set out below. The risks set out below are those which the directors foresee could or may arise for the Company. There may be other unforeseen risks that also arise. Applicants should take these risks into account when applying for shares under this Prospectus.

### 8.1 Water Risk

There are a number of risks in delivering water to a Shareholder's land including:

- (a) a reliability of supply risk as the ability to draw water from the RDR, and deliver it for irrigation, is dependent on seasonal water flows and the terms of the resource consents held by RDRML which may prevent water being taken from the Rangitata and Rakaia rivers;
- (b) the use of the RDR Canal being restricted arising from maintenance or other performance matters;
- (c) a flood, earthquake, other act of god or mechanical failure so affecting the delivery infrastructure that water cannot be delivered through that infrastructure.
- (d) Losses during conveyance of water from the RDR to a farm.

### 8.2 Take up of Water

The Company has rights to 4.440 cumecs of water from the RDR. There is a risk that the full volume may not be available from RDRML.

### 8.3 Construction Risks

During the construction of the piped infrastructure for the Scheme there are a number of risks. These risks have been addressed as part of the contractual arrangements but can arise. In particular matters may arise that are not contemplated and create unforeseen costs.

### 8.4 Banking Risk

There is a risk that bank funding on terms acceptable to the Company may not be available. Although the Board is satisfied from indicative offers received to date from banks that funding will be available there is a risk that the market will change and that such funding may not be approved or the terms and conditions of funding may materially alter.

### 8.5 Financing Risks

There are a number of financial risks including:

- (a) interest rates increasing beyond the expected range of rates contained in the assumptions made by the Company;
- (b) exchange rate risks during the course of constructing the piped scheme for imported materials;
- (c) farmers having the capacity to pay the water charges to be levied under water agreements from the date the Company can commence delivery of water;
- (d) the uptake of water by farmers not being at the times expected by the Company;
- (e) If either the full amount of water is not taken up by farmers, or the additional water cannot be delivered, there is a risk that the annual charges will not be covered by income under the Water Agreements. If this arises the charge may need to be increased.

- (f) The Company not being able to receive income from the temporary trading of water until the full volume is delivered to Shareholders.

#### **8.6 Shortfall Risk**

A shortfall of capital may arise that has to be covered by bank loans so increasing the cost of operating the Scheme. If only 100,000 Ordinary Shares are applied for interest costs may increase so resulting in increased annual charges to all Shareholders.

#### **8.7 Cashflow Risk**

There is a risk that the piping of the Scheme may take longer to complete than expected. This will create cashflow risks in meeting bank debt obligations where water has not been delivered to farmers.

#### **8.8 Economic Risk**

There is a risk that farming will not maintain current levels of profitability which results in the annual charges for water users not being paid on time to the Company so resulting in additional costs being incurred.

Prices available for milk, grain, lambs or other farm production could materially reduce, so affecting the ability of water users to pay charges due to the Company.

#### **8.9 Resource Consent Risk**

The resource consents held by RDRML expire on 31 January 2042 (30.7 cumecs) and 16 April 2043 (7.1 cumecs). There is risk that the consents may not be renewed or the terms of renewal may be onerous. The Company, or water users, could act in a way that creates a breach of the terms of resource consents held by RDRML. This could lead to a cancellation or suspension of the resource consents including the right to take water by the Company for delivery to water users. Additional consents required for the full implementation of the Scheme, and the granting of the use consents in the extended Scheme Area, may not be given or may be given on conditions that make delivery of water impractical or uneconomic. Also those consents could be reviewed by Ecan and varied to the detriment of the Company.

#### **8.10 RDRML Water Risk**

Resource Consents to take water are held by RDRML. Ecan (Environment Canterbury) have determined that water may be used to irrigate land within the expanded Scheme Area up to 13,245 hectares. TrustPower Limited also claims rights to this water that could affect the ability to irrigate land in the Scheme Area that is not currently irrigated. There is a risk that if Ecan or Trust Power change their positions this could affect the ability of the Company to deliver water to Shareholders.

#### **8.11 Ecan Consent Risk**

Environment Canterbury (*Ecan*) has the right to determine the boundaries of the Scheme. There is a risk that if Ecan determines that a particular property is outside those Scheme boundaries that water may not be able to be delivered to that property.

#### **8.12 Access/Easement Risk**

There is a risk that access to land needed to implement the Scheme may not be available and as a consequence the easements needed may not be available and created.

### 8.13 Statutory Intervention

The Government or other regulatory bodies could introduce new legislation, regulations or by-laws that affect the ability of the Company to continue to delivery water or substantially affect the ability of the Company to deliver water effectively and/or economically.

### 8.14 Design Risks

There are risks in ensuring the designs for the irrigation scheme can deliver water at the expected volumes and water pressures to enable the benefits to be available to water users to irrigate farms. If any of the designs do not meet their expected performance criteria this would be detrimental to the effectiveness and/or economics of the irrigation Scheme.

### 8.15 RDR Canal Risk

The delivery of water is dependent on using the RDR Canal to deliver water into the Scheme Area. If water from the RDR was terminated, or suspended, the Company could not deliver water to water users.

### 8.16 Major Agreement Risk

The Company has arrangements to enter into a number of major agreements and deeds that are material to the Scheme. There is a risk that such agreements, once entered into, could be breached resulting in their cancellation or, in implementing the terms and provisions of those agreements issues arise that materially affect the ability of the Company to ensure performance under those agreements and deeds. These factors all create contractual performance risks for the Company with major contractors on which the Company is relying for performance.

## 9 MATERIAL CONTRACTS

### 9.1 Material Contracts

The Company has negotiated a number of material contracts relating to the construction, operation and commitments of the proposed infrastructure, these being:

- (a) The Water Agreement to be signed by all applicants for shares;
- (b) A Heads of Agreement dated 1 April 2011 with Bosch Irrigation Limited (*Bosch*) to enter into a contract to construct and install pipes to pipe the Company's irrigation scheme at an agreed price of \$31,926,000 of which \$6,000,000 is to be paid by an associated company of Bosch to gain electricity generation rights;
- (c) A Heads of agreement dated 1 April 2011 to enter into an agreement with CanPower Limited (*CanPower*) to construct a pipeline and operate generation equipment using water that is available from the scheme with CanPower paying an access fee of \$6,000,000 which will be used to construct the pipeline above the 260 m contour to connect to the Rangitata Diversion Race.
- (d) An agreement to lease dated 11 March 2011 with the Ashburton District Council to lease 11 hectares of land on which a settling pond is to be constructed. The lease is for a 35 year term at a total rental of \$182,000 for the term.
- (e) An agreement for sale and purchase dated 11 April 2011 relating to the purchase of 5.4 hectares of land for \$151,200 from Winchmore Farmlands Limited. This agreement requires an offer of 4000 Ordinary Shares under this Prospectus to the said vendor.

## 9.2 Application of Funds

The money raised from the issue of shares under this Prospectus will be used to pay for the construction costs of piping the existing water distribution system for the Scheme Area.

## 10 SHARE RIGHTS

### 10.1 Ranking of Shares of this Offer/Application Rights

The Shares contained in this offer including the Conversion Shares and Ordinary Shares will rank equally as between the holders of all Shares. The Shares are only available for application by Shareholders of the Company, who are within the proposed Scheme Area, and who are entitled to receive water from the Company and persons selected by the Board.

### 10.2 Allocation of Shares not Taken up

If the offer of shares is not fully applied for by the Closing Date then in respect of any surplus shares available under this Prospectus the Board has the right to offer those shares to farmers in the Scheme Area on such terms and conditions as determined by the Board.

### 10.3 Transacting Shareholders

It is intended that any applicants for shares under this issue who are not existing shareholders will become transacting shareholders with the Company under water supply agreements.

## 11 SECURITIES REGULATIONS 2009

11.1 The Company has registered this Prospectus under the Securities Regulations 2009 and those regulations apply to the offer of equity securities under this Prospectus.

11.2 The shares being offered under this Prospectus are being offered under the Securities Act (Co-operative Companies) Exemption Notice 2011.

## 12 INSPECTION OF DOCUMENTS

12.1 The constitution of the Company, the financial statements referred to in clause 7, and all material contracts set out in clause 9.1 may be inspected during normal office hours at the registered office of the Company at Leech & Partners Limited, 248 East Street, Ashburton, without payment of a fee.

12.2 The constitution, the financial statements referred to in clause 7, and all material contracts set out in clause 9.1 can also be examined on the website of the Company at [www.whitefox.co.nz](http://www.whitefox.co.nz) (click on Valetta Irrigation) and on the public file of the Company at the Companies Office website [www.business.govt.nz/companies](http://www.business.govt.nz/companies).

## **PROSPECTIVE FINANCIAL STATEMENTS**

### **Basis of Preparation**

The following prospective Financial Statements of Valetta Irrigation Ltd include a Prospective Statement of Comprehensive Income, Prospective Statement of Financial Position, Prospective Statement of Changes to Equity and Prospective Statement of Cashflows, prepared in accordance with Financial Reporting Standard 42: Prospective Financial Statements ("FRS 42"). Also included are assumptions pertaining to the Prospective Financial Statements and accounting policies.

The Prospective Financial Statements, including the assumptions on which they are based, are the responsibility of, and has been prepared by the Directors. In preparing the Prospective Financial Statements, the Directors have had access to and reference to the historical financial information of both Valetta Irrigation Ltd for the period 3 February to 31 March 2011 and its predecessor Industrial and Provident Society for the period 1 April 2010 to 3 February 2011. In preparing the Prospective Financial Statements for the years ending 30 June 2011, 2012 and 2013, the actual figures for the nine months ending 31 March 2011 have been incorporated into the figures for the year ending on 30 June 2011. The Prospective Financial Statements set out in this section have been prepared on a basis consistent with the accounting policies the Company intends to implement. The Directors have given due care and attention to the preparation of the Prospective Financial Statements, including their underlying assumptions.

Prospective Financial Statements are by their nature inherently uncertain. They are predictions of future events that cannot be assured. They involve risks and uncertainties, many of which are beyond the control of the Company. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated. Various risk factors and the management of those risks (see information provided in this Offer Document under the headings "Risks" and "Financial Instrument Risks") may influence the success of the Company's business. Accordingly, actual results may vary from the Prospective Financial Statements, and these variations may be significantly more or less favourable. Therefore, the Directors cannot and do not guarantee the achievement of the Prospective Financial Statements.

The Prospective Financial Statements were prepared and authorised by the Board on 4 May 2011 for use in this Offer Document and not for any other purpose. The Prospective Financial Statements cover the period from 1 July 2010 to 30 June 2011 and the following years to 30 June 2013.

There is no present intention to update the Prospective Financial Statements or to publish prospective financial information in the future. Investors must consider the assumptions in order to fully understand the Prospective Financial Statements. The Company will report actual financial results in accordance with generally accepted account principles in the Financial Statements to 30 June 2011, 30 June 2012 and 30 June 2013. Information will also be provided to Shareholders on request under Section 54B of the Securities Act and regulation 44 of the Securities Regulations 2009.

## Prospective Financial Statements

### Valetta Irrigation Ltd

#### Prospective Statement of Comprehensive Income

For the Years Ending:

	30 June 2011	30 June 2012	30 June 2013	Notes
<b>Income</b>				
Water Fees	1,307,300	750,000	1,320,000	1
Access Fees			366,663	2
Interest	9,278	78,016	7,635	3
Less/Add Rebates	-767,445	-469,488	730,725	4
<b>Total Income</b>	<b>549,133</b>	<b>358,528</b>	<b>2,425,023</b>	
<b>Expenses</b>				
Operating Expenses	170,802	174,008	174,008	5
Administration Expenses	33,475	18,300	18,300	6
Audit Fees	12,000	10,000	10,000	
Directors Fees	17,000	17,000	20,000	7
Prospectus Cost	31,500	0	0	8
Legal Costs re Company Matters	180,000	20,000	0	9
Project Management Costs	80,000	50,000	10,000	10
Fixed Expenses	18,930	18,520	19,520	
Loan Interest & Fees	0	45,076	862,393	11
	<b>543,707</b>	<b>352,904</b>	<b>1,114,221</b>	
<b>Operating Surplus</b>	<b>5,426</b>	<b>5,624</b>	<b>1,310,802</b>	
<b>Non Cash Adjustments</b>				
Depreciation	5,426	5,624	1,310,802	12
<b>Surplus (Deficit) Before Taxation</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Net Surplus /(Deficit) for Period</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Total Comprehensive Income (Loss) For Year</b>	<b>0</b>	<b>0</b>	<b>0</b>	

## Valetta Irrigation Ltd

### Prospective Statement of Financial Position

	30 June 2011	As at: 30 June 2012	30 June 2013	Notes
<b>Assets</b>				
<b>Current Assets</b>				
Bank credit	1,522,663	324,178	310,312	13
Expenses Paid in Advance	5,670	183,350	178,130	14
Accounts Receivable	15,672	17,685	13,085	
Advance RDR Management	272,118	313,118	354,118	15
<b>Total Current Assets</b>	<b>1,816,123</b>	<b>838,331</b>	<b>855,645</b>	
<b>Non-Current Assets</b>				
Deferred Tax	18,586	18,586	18,586	16
Share Capital RDR Management Ltd	30,000	30,000	30,000	17
	<b>48,586</b>	<b>48,586</b>	<b>48,586</b>	
<b>Property, Plant &amp; Equipment</b>				
Land & Buildings	63,792	217,792	217,792	18
Plant & Equipment	3,784	6,774	4,742	
Irrigation Scheme	72,279	68,665	65,232	19
Irrigation Scheme Piping	0	28,909,000	34,294,663	20
	<b>139,855</b>	<b>29,202,231</b>	<b>34,582,429</b>	
<b>Total Non Current Assets</b>	<b>188,441</b>	<b>29,250,817</b>	<b>34,631,015</b>	
<b>Total Assets</b>	<b>\$2,004,564</b>	<b>\$30,089,148</b>	<b>\$35,486,660</b>	
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts Payable	47,397	54,087	48,987	
Prepayments			5,633,337	21
Rebates Owing	767,445	1,236,933	506,208	22
<b>Total Current Liabilities</b>	<b>814,842</b>	<b>1,291,020</b>	<b>6,188,532</b>	
<b>Non Current Liabilities</b>				
Westpac Term Loan		14,250,000	14,750,000	23
<b>Total Non Current Liabilities</b>		<b>14,250,000</b>	<b>14,750,000</b>	
<b>Total Liabilities</b>		<b>15,541,020</b>	<b>20,938,532</b>	
<b>Net Assets</b>	<b>\$1,189,722</b>	<b>\$14,548,128</b>	<b>\$14,548,128</b>	
<b>Equity</b>	<b>1,189,722</b>	<b>14,548,128</b>	<b>14,548,128</b>	
<b>Total Equity</b>	<b>\$1,189,722</b>	<b>\$14,548,128</b>	<b>\$14,548,128</b>	

**Valetta Irrigation Ltd**

**Prospective Statement of Changes to Equity**

	For the Years Ending:			Notes
	30 June 2011	30 June 2012	30 June 2013	
<b>Opening Balance</b>	189,470	1,189,722	14,548,128	
Total Comprehensive Income	0	0	0	
Contribution From Investors	1,000,252	13,358,406	0	24
Less Distribution to Investors	0	0	0	
<b>Closing Balance</b>	<b>\$1,189,722</b>	<b>\$14,548,128</b>	<b>\$14,548,128</b>	

**Valetta Irrigation Ltd**

**Prospective Statement of Cash Flows**

	For the Years Ending:			Notes
	30 June 2011	30 June 2012	30 June 2013	
<b>Cash Flows from Operating Activities</b>				
Cash Provided from:				
Water Fees Received	1,316,270	748,250	1,324,000	1
Access Fees			6,000,000	2
	1,316,270	748,250	7,324,000	
Cash Distributed to:				
Directors Fees	17,000	17,000	20,000	
Suppliers	522,019	507,157	231,168	
	539,019	524,157	251,168	
<b>Net Cash Flow from Operating Activities</b>	<b>777,251</b>	<b>224,093</b>	<b>7,072,832</b>	
<b>Cash Flows from Investing Activities</b>				
Interest Received	9,278	78,016	7,635	3
Cash paid for RDR Management Ltd Loan		41,000	41,000	15
Cash paid for Property, Plant & Equipment		29,068,000	6,691,000	20
Cash Paid for Interest		0	862,333	11
<b>Net Cash Flows from Investing Activities</b>	<b>9,278</b>	<b>-29,030,984</b>	<b>-7,586,698</b>	

Valetta Irrigation Ltd

Prospective Statement of Cash Flows (Cont.)

	For the Years Ending:			Notes
	30 June 2011	30 June 2012	30 June 2013	
<b>Cash Flows from Financing Activities</b>				
Share Capital Issued	1,000,252	13,358,406	0	24
Bank Term Loan		14,250,000	500,000	23
Shareholder Loans repaid	396,962	0	0	24
<b>Net Cash Flows from Financing Activities</b>	<u>603,290</u>	<u>27,608,406</u>	<u>500,000</u>	
Opening Cash & Cash Equivalents	132,844	1,522,663	324,178	
<b>Closing Cash &amp; Cash Equivalents</b>	<u>\$1,522,663</u>	<u>\$324,178</u>	<u>\$310,312</u>	13

Reconciliation of Net Surplus to Cash Flows

<b>Net Surplus After Tax</b>	0	0	0	
Deferrals or Accruals of past or future operating cash receipts or payments				
Non Cash Items				
Member Rebates	767,445	469,488	-730,725	22
Depreciation	5,426	5,624	1,310,802	12
	<u>772,871</u>	<u>475,112</u>	<u>580,077</u>	
Increase/(Decrease) in Current Liabilities	3,342	6,690	5,628,237	
Decrease/(Increase) in Current Assets	10,316	-179,693	9,820	
	<u>13,658</u>	<u>-173,003</u>	<u>5,638,057</u>	
Less Items Classified as Investing Activities				
Interest Received	9,278	78,016	7,635	
Interest Paid		0	862,333	11
<b>Net Cash from Operating Activities</b>	<u>\$777,251</u>	<u>\$224,093</u>	<u>\$7,072,832</u>	

## **ASSUMPTIONS**

The Prospective Financial Statements are based on events and conditions existing at the date of this Offer Document.

The principal assumptions on which the Prospective Financial Statements are based is summarised below and should be read in conjunction with the other information in this Offer Document including, in particular, the information under the headings "Risks" and "Financial Instrument Risks".

### **GENERAL ASSUMPTIONS**

1. **Economic Environment** – There will be no material change in the general economic environments in which the Company operates or provides services.
2. **Political, Legislative and Regulatory Environment** – There will be no material change to the political, legislative or regulatory environments in which the Company operates and provides services.
3. **Competitive Environment** – There will be no material change to the markets in which the Company operates.
4. **Industry Conditions** – There will be no material change in the general industry structure, third party relationships or employee environments.
5. **Taxation** – Other than already announced by the Government, there will be no material change to the Income Tax or Goods and Services Tax regime in New Zealand.
6. **Management of the Company** – No key directors will leave the Company.
7. **Operating Environment** – There will be no material costs incurred through either industrial or contractual disputes.
8. **Disruption to Operations** – There will be no material disruption to operations, including through natural disasters, fires or explosions or through normal hazards associated with the Company's activities (including disruptions to or affecting any of the Company's key clients).
9. **Key Customers/Suppliers** – There will be no loss of key customers or suppliers.

## SPECIFIC ASSUMPTIONS

### Notes

#### 1 Water Fees

Water Fees are set each year by the Directors and are based on the budgeted cash requirements of the Company for that year. An additional water charge of \$300 per water day was made in April 2011 to cover the estimated initial costs incurred on the project. The budgeted cash requirements for the year were:

	2011	2012	2013
Operating Expenses	170,801	174,008	174,008
Other Administration	372,905	133,820	77,820
Interest	-	45,076	862,393
Bank Commitments, Scheme Development and Investments	763,594	397,096	205,779
Total Water Fees	\$1,307,300	\$750,000	\$1,320,000

#### 2 Access Fees

Access fees are the fees charged by Valetta Irrigation Ltd to CanPower for the access rights to use the power generation equipment being installed as part of the proposed irrigation scheme development. The access fee is payable in advance and will be spread over the 15 year term of the agreement. The access fee will commence from commissioning of the scheme in the 2013 year with eleven month's fees of \$366,663 included in these Statement for that year. The total access fee for the 15 year term of the contract is \$6,000,000 which is \$400,000 per year or \$33,333 per month.

#### 3 Interest

Interest is received on surplus funds held by the Company. A rate of 3% for funds held has been included. The funds raised in the 2012 year from the share issue will result in additional interest revenue with funds held to meet progress payments during the construction period.

#### 4 Rebates

Rebates are allowed for each year and rebated to members based on shareholding and usage. As a co-operative Company the rebate is allowed as a tax deduction in the year they relate to. Rebates have been calculated to return any surpluses to shareholders. Rebates are usually credited against the following years water charges.

#### 5 Operating Expenses

Operating expenses includes estimates of the RDR scheme charges set annually by RDR, race maintenance, race man wages, electricity and weed control. These charges have been based on the actual costs to date in the 2011 year with estimates for the full year. The 2012 and 2013 years have been based on the full 2011 estimates.

#### 6 Administration Expenses

Administration includes estimates of accountancy, secretarial, and other general expenses. These costs have been based on the actual costs to date and anticipated costs for the 2011 year. The 2011 year includes one off additional accountancy and secretarial costs in relation to the restructure of the Company and has been excluded from the following year's expenses.

#### 7 Directors Fees

Directors fees and allowances have been estimated based on previous years fee. These are set annually by members at the annual general meeting. An increase has been anticipated in the 2013 year.

- 8 **Prospectus Costs**  
Prospectus preparation costs are estimated at \$30,000 with printing and distribution of \$1,500.
- 9 **Legal Costs**  
Legal costs have been estimated based on indications from the Company's legal representatives and have been apportioned between revenue and capital where they relate to the scheme construction costs.
- 10 **Project Management Costs**  
Estimated project management costs have apportioned between revenue and those directly relating to the construction of the scheme piping.
- 11 **Loan Interest**  
Interest has been estimated on the bank term loan at a rate of 6.5%pa. The term loan interest cost will vary depending on the bank 30 day bill rate, loan drawdown dates and interest rate fixing arrangements. The directors review the interest rate fixing and hedging rate options on a regular basis. Interest costs during the construction period have been capitalised to the construction costs. For the 2012 year \$309,000 and 2013 year \$91,000 were capitalised.
- 12 **Depreciation**  
Depreciation has been allowed on Company assets on the same basis as previous years. On completion, the piping scheme depreciation has been allowed for at 4% which is an estimated life of 25 years. The life expectancy of the scheme is expected to be greater than 50 years. Tax depreciation rates allow up to 6% depreciation giving a life of 16.67 years.
- 13 **Bank Credit**  
Estimated bank balance as at the end of each respective balance date.
- 14 **Expenses Paid in Advance**  
Expenses paid in advance include the Ashburton District Council prepaid lease charges of \$182,000 which have been spread over the 35 year term of the lease. The lease would commence in the 2012 year with \$5220 of lease charges allowed in each year.
- 15 **Advance RDR Management**  
Any development of the RDR scheme is funded by advances from the shareholding Companies. An estimate has been made of future advances required based on previous years.
- 16 **Deferred Tax**  
No significant changes are expected in the Company's deferred tax liability.
- 17 **Share Capital RDR Management**  
No change is expected in the share capital held in RDR Management Ltd and is shown at cost.
- 18 **Land & Buildings**  
The cost of purchasing land for the piping scheme is based on the purchase contract plus estimated legal and surveying costs.
- 19 **Irrigation Scheme**  
The existing irrigation scheme and development is shown at valuation less depreciation.
- 20 **Irrigation Scheme Piping**  
Estimated piping scheme costs are based on the current contract price (\$31,926,000 including \$6,000,000 for power generation piping and equipment, which is a prepayment against the contract price) plus a contingency of 10%, allowance for contract supervision, engineering services and surveying costs. Estimated interest costs up to the date of commissioning have been also capitalised to the scheme costs. Depreciation has been allowed from the expected commissioning date. The current contract price is based on a \$US exchange rate of NZD \$0.735 to USD \$1.00. Any variations in the exchange rate will be reflected in scheme cost.

The Directors can minimise the variations by taking out exchange rate contracts to fix the cost to the Company. No allowance has been made in these prospective statements for exchange rate fluctuations or hedging of currency.

**21 Prepayments**

Prepayments include the unexpended portion of access fee paid in advance by CanPower for the proposed power generation plant and piping. The annual access fee would be \$400,000.

**22 Rebates Owing**

Rebates are allowed each year to members and are usually deducted from the following year's water charges.

**23 Westpac Term Loan**

A bank term loan facility has been negotiated with Westpac bank by the directors to assist in funding the piping scheme up to \$17,920,000 which provides for the difference between the minimum level of share subscription and the full share subscription level included in these prospective financial statements. The above facility is an indicative offer and is still subject to Board approval and formal bank approvals. The loan repayment terms are for interest only during the construction period then an additional 36 months interest only then amortised over a 25 year period.

**24 Contributions from Investors**

Shareholder contributions are based on the members' loan accounts being converted to shares and the share issues being fully subscribed.

## SENSITIVITY ANALYSIS

The Prospective Financial Statements are sensitive to variations in certain assumptions used in their preparation. A summary of the likely effect variations to certain assumptions may have on the Prospective Financial Statements is detailed below. The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes.

Care should be taken in interpreting the information set out below. Each movement in an assumption is treated in isolation from possible movements in other assumptions, which is not likely to be the case. Movements in one assumption may have offsetting or compounding effects on other variables, the impact of which is not reflected in the Prospective Financial Statements. In addition, it is possible that more than one assumption may move at any point in time, giving rise to cumulative effects, which are not reflected in the Prospective Financial Statements.

The factors that Valetta Irrigation Ltd considers to have the most significant impact on projected financial performance of the Company during the year to 30 June 2011, 30 June 2012 and 30 June 2013 are interest cost and exchange rate variance on project cost.

Both factors relate to the project commencing in the years ending 30 June 2012 and 30 June 2013 and the analysis has been prepared for these years only.

### Movements in Interest Rates

The sensitivity shows the estimated impact on prospective comprehensive income prior to member rebates of an increase or decrease in the assumed interest rate on unhedged borrowings by applying a percentage change to the cost of borrowing.

	\$ Impact on Comprehensive Income (Loss)				
	-2%	-1%	Prior to Rebates	+1%	+2%
31 March 2012	Nil	Nil	767,445	Nil	Nil
31 March 2013	265,333	132,666	(730,725)	(132,666)	(265,333)

### Movement in Scheme Piping Cost

This sensitivity shows the estimated impact in project cost with an increase or decrease in the exchange rate from the contract rate from of NZD\$0.735 to USD\$1.00.

	\$ Impact on Project Cost				
	-0.05	-0.01	Contract Price	+0.01	+0.05
31 March 2012	Nil	Nil	Nil	Nil	Nil
31 March 2013	2,033,504	428,537	(31,926,000)	(428,537)	(2,033,504)

## **Significant Accounting Policies**

### **1 Reporting Entity**

Valetta Irrigation Ltd is a Co-operative Company registered under the Co-operative Company's Act 1996 and domiciled in New Zealand.

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis have been used, with the exception of certain items for which specific accounting policies have been identified.

### **2 Basis of Preparation**

#### **(a) Basis of Measurement**

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the Company, with the exception that certain assets and liabilities specified below have been revalued.

The information is presented in New Zealand Dollars (NZD) and is rounded to the nearest dollar.

#### **(b) Judgement & Estimation Uncertainty**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of judgement in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

3(a) – A valuation of property, plant and equipment.

## **3 Specific Accounting Policies**

The following specific accounting policies which materially affect the measurement of financial performance and position have been applied:

### **(a) Property, Plant & Equipment**

#### **(1) Owned Assets**

Except for land & buildings, items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Land & Buildings held at 30 June 2008 were revalued to fair value based on a 30 June 2008 valuation completed by an independent valuer and this fair value was treated as the deemed cost at the date of transition to New Zealand equivalents to IFRS.

In applying this one off transitional adjustment the Company has applied the cost model in the recognition of property, plant and equipment assets.

#### **(2) Subsequent Costs**

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when the cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably.

All other costs are recognised in the Statement of Comprehensive Income as an expense as incurred.

#### **(b) Depreciation**

Depreciation is provided on the diminishing balance method on all property, plant and equipment where a greater allocation of the depreciable amount is charged earlier in its useful life. Depreciation is charged to the Statement of Comprehensive Income. Land is not depreciated.

The following rates have been used:

Buildings	3%
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Plant & Equipment	12% - 60%
Irrigation Scheme	2.4% - 6%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

**(c) Financial Instruments**

Financial instruments are recognised in the Statement of Financial Position when the Company becomes a party to a financial contract. They include bank funds, bank overdrafts, receivables, payables, investments in and loans to others.

**(i) Receivables and Payables**

Receivables and payables are initially recorded at fair value and subsequently carried at amortised cost using the effective interest method. Due allowance is made for impaired receivables (doubtful debts). The carrying amount for receivables is not materially different from estimated realisable value.

**(ii) Investments**

Shares in unlisted companies cannot be reliably valued. They are therefore carried at cost less any impairment losses.

Should any impairment losses be suffered they will not be reversed even if the circumstances leading to the impairment are resolved.

**(d) Revenue**

Revenue of water supply is recognised when the season for water delivery commences and is available for use by the shareholder.

**(e) Cash Flows**

For the purposes of the cash flow statement, cash includes cash on hand and bank overdrafts.

**(f) Impairment**

If the recoverable amount of an item of property, plant & equipment is less than its carrying amount, the item is written down to its recoverable amount.

The write down of an item recorded at historical value is recognised as an expense in the Statement of Comprehensive Income. When a revalued item is written down to its recoverable amount, the writedown is recognised as a downward revaluation to the extent of the corresponding revaluation reserve, and any balance recognised in the Statement of Comprehensive Income.

The carrying amount of an item of property, plant & equipment that has been written down to its recoverable amount is increased to its current recoverable amount if there has been a change in the estimates used to determine the amount of the writedown. The increased carrying amount of the item will not exceed the carrying amount that would have been determined if the writedown to the recoverable amount had not occurred.

Reversals of impairment writedowns are accounted for as follows:

- on property, plant & equipment that are not revalued, there reversal is recognised in the Statement of Comprehensive Income; and
- on revalued property, plant & equipment, the reversal is recognised as an upward revaluation in equity.

**(g) Income Tax Expense**

Income Tax expense comprises current & deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The deferred tax liability has been calculated at the Society's effective tax rate for the year in which the temporary differences are expected to be utilised. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets & liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(h) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised exclusive of GST, except for receivables and payables, which are reported inclusive of GST.

Cash flows are included in the Statement of Cash Flows on an exclusive basis.

**(i) Contingencies & Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(j) Determination of Fair Values**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets & liabilities. Fair values have been determined for measurement and/or disclosure and are detailed in the notes specific to that asset or liability.

**(k) Assets Available for Sale**

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A significant or prolonged decline in the fair value of the asset below its cost is evidence that the asset is impaired. The shares in RDR Management Ltd are an example of financial assets available for sale. The Company has not received any information that would provide evidence that the carrying amount of these financial assets are impaired. It is not the intention of the Company to ever sell the shares.

**(l) Changes in Company Accounting Policies**

All policies have been applied on bases consistent with those adopted by the Company's predecessor Industrial and Provident Society.

**Financial Instrument Risks**

**(a) Credit Risk**

To the extent that the Company has a receivable from another party, there is a credit risk in the event of non-performance by that counter party. Financial instruments which potentially subject the Company to credit risk principally consist of bank balances, loans and receivables.

The Company manages its exposure to credit risk to minimise losses from bad debts.

The Company continuously monitors the credit quality of major financial institutions that are counter parties to its financial instruments, and does not anticipate non-performance by the counter parties.

**(b) Concentration of Credit Risk**

The Company's balance date cash was with one bank. The Company does not have any other significant concentrations of credit risk.

**(c) Liquidity Risk**

Liquidity risk represents the Company's ability to meet its financial obligations on time. The Company generates sufficient cash flows from its operating activities to make timely payments.

**(d) Currency Risk**

The Company may have exposure to foreign exchange risk as a result of transactions denominated in foreign currencies.

**(e) Interest Risk**

The Company is exposed to interest rate risk to the extent that it borrows or invests for a fixed term at fixed rates.

The Directors  
Valetta Irrigation Limited  
248 East Street  
ASHBURTON

Dear Directors

#### **INDEPENDENT AUDITORS REPORT**

As auditor of Valetta Irrigation Ltd ("the company"), and in accordance with the requirements of the Securities Act 1978 and clause 28 of Schedule 1 of the Securities Regulations 2009, we report as follows.

We have prepared this report for inclusion in the prospectus (the Offer Document) dated 27 May 2011 and for no other purpose.

We have audited the prospective financial statements of the company on pages 18 to 30 which comprise prospective statements of financial position, statements of comprehensive income, statements of changes to equity, statements of cash flows and a statement of significant accounting policies, assumptions and other explanatory information, for the years ending 30 June 2011, 30 June 2012 and 30 June 2013. These prospective financial statements are provided pursuant to clause 11 of Schedule 1 of the Securities Regulations 2009.

#### **Directors' Responsibilities**

The directors are responsible for the preparation and presentation of the prospective financial information for the company for the years ending 30 June 2011, 30 June 2012 and 30 June 2013 including the assumptions on which the prospective financial information is based as required by clause 11 of Schedule 1 of the Securities Regulations 2009 and FRS-42 *Prospective Financial Statements*.

#### **Auditor's Responsibilities**

We are responsible for reporting, in accordance with clause 28(2) of Schedule 1 of the Securities Regulations 2009, on the prospective financial information for the years ending 30 June 2011, 30 June 2012 and 30 June 2013 prepared for inclusion in the Offer Document. We disclaim any assumption of responsibility for reliance on this report or the amounts included in the prospective financial information for any other purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Offer Document not mentioned in this report.

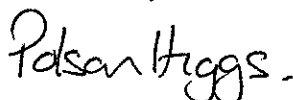
Other than in our capacity as auditor we have no relationship with, or interests in the Company.

#### **Opinion on the Prospective Financial Information**

In our opinion, the prospective financial information so far as the accounting policies and calculations are concerned, has been properly compiled on the footing of the assumptions made or adopted by the Company set out on pages 24 to 26 of this Offer Document and is presented on a basis consistent with the accounting policies adopted by the Company.

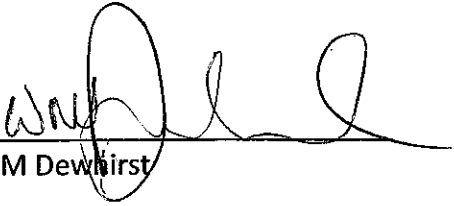
Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Accordingly we express no opinion as to whether the prospective financial information will be achieved. We have no responsibility to update our opinion on the prospective financial statements for events and circumstances occurring after the date of this report.

Yours faithfully



Polson Higgs  
Ashburton

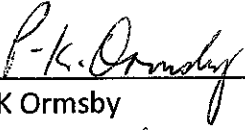
27 May 2011



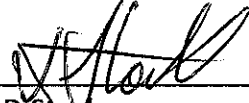
W M Dewhurst



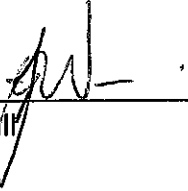
A Morrison



P K Ormsby



J D Stocker



G J Wall



G R Wilson

**VALETTA IRRIGATION LIMITED**  
*(the Company)*

**ENTITLEMENT FORM AND APPLICATION FOR FULLY PAID SHARES**

This entitlement and application form is important. If you are in any doubt please contact your professional adviser. You should read the Prospectus before signing this form. As an existing Shareholder of the Company you have an entitlement to shares under this offer that is valuable.

As a Shareholder of the Company your entitlement to shares of this offer and the water rights attached to those shares are:

Share Entitlement \_\_\_\_\_ Shares

Water Volume attached to Entitlement Shares at 1 l/p/s for each 100 shares \_\_\_\_\_ l/p/s

**Name(s) of Applicant(s):**

\_\_\_\_\_  
**Surname:**

\_\_\_\_\_  
**Given Names:**

\_\_\_\_\_  
**Surname:**

\_\_\_\_\_  
**Given Names:**

\_\_\_\_\_  
**Name of Company:**

\_\_\_\_\_  
**Address:**

\_\_\_\_\_  
**Area of Land/Title  
Description**

\_\_\_\_\_  
**Address:**

\_\_\_\_\_  
**ADC property number**

**Email:**

**Telephone:**

**Fax:**

**IRD No:**

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I/we hereby make application for the number of shares set out below which shares shall be allotted on the terms and conditions set out in the Prospectus which contains this application form and the Investment Statement. I/we confirm that the information provided by me/us is correct.

A. Volume of water for entitlement shares \_\_\_\_\_ **[Note 1]**

B. Number of shares applied for \_\_\_\_\_

C. Number of further shares applied for \_\_\_\_\_

Total Volume of water applied for including water already held (See Note 2) \_\_\_\_\_

Total amount payable \$ \_\_\_\_\_

Initial payment due on application (\$5.00 per share) \$ \_\_\_\_\_

One further equal payments of \$107.00 per share of the total amount is due on 26 August 2011. Payment can be made in full on application.

Cheques must be payable to Valetta Irrigation Limited, c/- Leech & Partners Limited - Trust Account Ashburton Branch, BNZ Account No. 02-0836-0065605-00.

Return this form to Valetta Irrigation Limited, c/- Leech & Partners Limited, Chartered Accountants, 248 East Street, (PO Box 180), Ashburton 7740.

\_\_\_\_\_  
Signature

Date:

\_\_\_\_\_  
Signature

Date:

**Note 1** Please refer to clauses 5.4 to 5.8 of the Prospectus.  
Each 100 shares give a right to 1 litre per second per hectare at a cost of \$1,200.

**Note 2** A Shareholder can only apply for shares that will give the right to water based on [(Area of land owned x 0.58 l/p/s) x 100 shares] (less shares already held) = Shares entitlement.

**VALETTA IRRIGATION LIMITED**  
*(the Company)*

**ENTITLEMENT FORM AND APPLICATION FOR PARTLY PAID SHARES**

This entitlement and application form is important. If you are in any doubt please contact your professional adviser. You should read the Prospectus before signing this form. As an existing Shareholder of the Company you have an entitlement to shares under this offer that is valuable.

As a Shareholder of the Company your entitlement to shares of this offer and the water rights attached to those shares are:

Share Entitlement \_\_\_\_\_ Shares

Water Volume attached to Entitlement Shares at 1 l/p/s for each 100 shares \_\_\_\_\_ l/p/s

**Name(s) of Applicant(s):**

\_\_\_\_\_  
**Surname:**

\_\_\_\_\_  
**Given Names:**

\_\_\_\_\_  
**Surname:**

\_\_\_\_\_  
**Given Names:**

\_\_\_\_\_  
**Name of Company:**

\_\_\_\_\_  
**Address:**

\_\_\_\_\_  
**Area of Land/Title Description**

\_\_\_\_\_  
**Address:**

\_\_\_\_\_  
**ADC property number**

\_\_\_\_\_  
**Email:**

\_\_\_\_\_  
**Telephone:**

\_\_\_\_\_  
**Fax:**

**IRD No:**

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I/we hereby make application for the number of shares set out below which shares shall be allotted on the terms and conditions set out in the Prospectus which contains this application form and the Investment Statement. I/we confirm that the information provided by me/us is correct.

A. Volume of water for entitlement shares \_\_\_\_\_ **[Note 1]**

B. Number of shares applied for \_\_\_\_\_

C. Number of further shares applied for \_\_\_\_\_

Total Volume of water applied for including water already held (*See Note 2*) \_\_\_\_\_

Total amount payable \$ \_\_\_\_\_

Initial payment due on application (\$5.00 per share) \$ \_\_\_\_\_

I/we agree that the Ordinary Shares will be partly paid and I/we agree to:

(a) Pay \$107 for each share on or before 30 April 2014;

(b) Pay interest monthly to the Company on all unpaid calls at 9.75% or such other rate as advised to me/us by the Company being the Company's overdraft rate.

I/we agree that if I fail to make any payments as above my shares may be forfeited and my rights to water cancelled.

Cheques must be payable to Valetta Irrigation Limited, c/- Leech & Partners Limited - Trust Account Ashburton Branch, BNZ Account No. 02-0836-0065605-00.

Return this form to Valetta Irrigation Limited, c/- Leech & Partners Limited, Chartered Accountants, 248 East Street, (PO Box 180), Ashburton 7740.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

Date:

Date:

**Note 1** Please refer to clauses 5.4 to 5.8 of the Prospectus.

Each 100 shares give a right to 1 litre per second per hectare at a cost of \$1,200.

**Note 2** A Shareholder can only apply for shares that will give the right to water based on [(Area of land owned x 0.58 l/p/s) x 100 shares] (less shares already held) = Shares entitlement.



**VALETTA IRRIGATION LIMITED**

*(the Company)*

**TERMS AND CONDITIONS OF APPLICATION**

1.1 By signing this Application Form the applicant:

- offers to subscribe for Shares on the terms and conditions set out in the Prospectus dated 27 May 2011, the Investment Statement of the same date, this Application form and the applications instructions in respect of the Application Form;
- acknowledges that this form was distributed with the Prospectus;
- acknowledges that he/she/it has read and understood the Investment Statement and Prospectus;
- agrees to be bound by the Constitution.

1.2 Applicants must pay for the Shares applied for in this Application Form by attaching a cheque to the Application Form or authorising the Company to deduct the amount payable from moneys held for the Applicant by the Company.

1.3 An application cannot be withdrawn or revoked.

1.4 The Company reserves the right to decline any application, in whole or in part, without giving any reason. Unless otherwise expressly agreed to by the Company in its absolute discretion, Application Forms received after the Closing Time will not be accepted.

1.5 Applicants must confirm with the application instructions in the section of the Prospectus entitled 'Application Instructions'.

1.6 Joint applications must be signed by all applicants. Only the address provided on the Application Form will be recorded on the register for Shares and all notices and communications will be sent to that address.

1.7 If the Application Form is signed by an attorney or an agent, the relevant non-revocation form below must be completed.

1.8 Terms defined in the Prospectus have the same meaning in this Application Form. This Application Form, the offer of Shares by the Company and any contract arising out of its acceptance is governed by New Zealand Law.

**CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY**

(Complete this section if you are acting on behalf of someone for whom you have a Power of Attorney)

NAME OF ATTORNEY

ADDRESS AND OCCUPATION OF ATTORNEY

I \_\_\_\_\_ of \_\_\_\_\_

hereby certify that:

DATE OF POWER OF ATTORNEY

NAME OF PERSON FOR WHOM ATTORNEY IS SIGNING

By Power of Attorney Dated: \_\_\_\_\_

ADDRESS AND OCCUPATION OF PERSON FOR WHOM ATTORNEY IS SIGNING

(‘The Donor’) appointed me his/her/its attorney on the terms and conditions set out in that Power of Attorney.

- I have completed and executed this application for I Shares and D Shares as attorney under that Power of Attorney and pursuant to the powers thereby conferred upon me.
- At the date of this certificate I have not received any notice or information of the revocation of that Power of Attorney, whether by the death or dissolution of the Donor or otherwise.

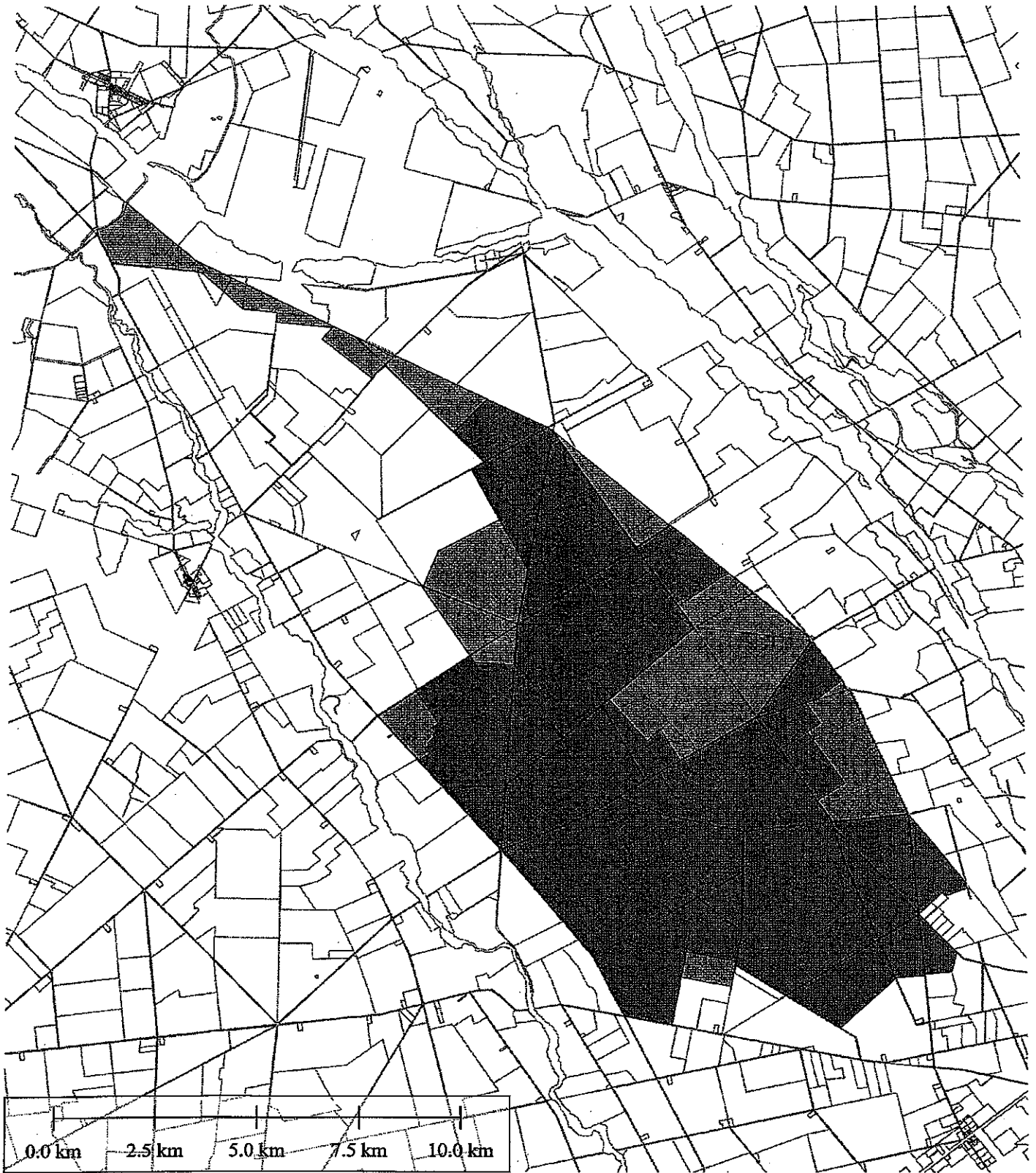
SIGNATURE OF ATTORNEY

\_\_\_\_\_

Signed at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 2011

<b>APPLICATION INSTRUCTIONS</b>	
<p><b>1 Complete Details.</b></p> <ul style="list-style-type: none"> <li>• Insert your title, full name(s), address and telephone numbers.</li> <li>• Applications must be in the name(s) of natural persons, companies or other legal entities.</li> <li>• Applications by a minor, trust, fund, estate, business, firm or partnership, club or other unincorporated body cannot be accepted unless they are made in the individual name(s) of the person(s) who is (are) the legal guardian(s), trustee(s), proprietor(s), partner(s) or office bearer(s) (as appropriate).</li> <li>• Insert your IRD number.</li> </ul> <p><b>2 Signing.</b></p> <ul style="list-style-type: none"> <li>• Read the application form carefully and sign (and date) the form.</li> <li>• The form must be signed by the applicant(s) personally, or by two directors of the Company (or one director if there is only one director), or (in either case) by an attorney.</li> <li>• If the application form is signed by an attorney, an original or certified copy of the relevant Power of Attorney must be lodged with the application form (originals will be returned). The attorney must complete the certificate of non-revocation below.</li> </ul> <p><b>3 Closing Date</b></p> <ul style="list-style-type: none"> <li>• The initial closing date for the offer is 17 June 2011. The Board may extend the Closing Date until Thursday 30 June 2011 for Shareholders. The final closing date for the offer (if extended) is Thursday 30 June 2011.</li> </ul>	

# Valetta Scheme with Extensions



Extensions 3389 ha, Total 13245 ha