

# **Gisborne Holdings Limited**

## **Annual Report**

**For the Year Ended 30 June 2011**

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## CHAIRMAN’S REPORT 2011

### *Financial Results*

Gisborne Holdings made a net operating profit after tax of \$8.96 million for the year ended 30 June 2011, compared with \$961,000 for 2009/10. This profit resulted from the performance of the only trading subsidiary Tauwhareparae Farms Ltd. The result is exceptional as all of the conditions required to produce income for the year were positive. This is an unusual situation and the chances of this occurring to the same extent in the year ahead are low. The net operating profit is calculated under International Financial Reporting Standards and brings into account all valuation gains from the investment in Tauwhareparae Farms Ltd.

The total income for the year of \$10.28 million includes gains in the revaluation of land and buildings of \$1.33 million from the company’s investment in Tauwhareparae Farms Ltd. This amount (\$10.28 million) is the total gain in shareholder value for the year and compares with a reduction in shareholder value of \$2.29 million in 2009/10.

The Board is mindful that every business relies on cashflows and the company net cash inflow from operating activities increased from \$1.53 million in 2009/10 to \$2.76 million in the year ended 30 June 2011 – an increase of 80%.

The company met its financial objectives during the year as follows:

- Earnings before interest and taxation as a percentage of average shareholders’ equity of 31.2% v target of 2.0% (2010: 3.0%).
- Net debt as a percentage of shareholders’ equity 10.1% v target of 11.9% (2010: 11.4%).
- 5 year rolling average dividend return on investment 2.0% v target of 1.9% (2010: 2.0%).
- Net return on shareholders’ equity of 23.7% v target of 2.1% (2010: negative 6.8%).

### *Dividends*

During the year the company paid the Gisborne District Council a dividend of \$500,000. The company will also pay a dividend in October 2011 of \$1,061,000 as agreed in the Statement of Intent for the year ended 30 June 2011.

### *People*

The Board acknowledges the commitment and hard work performed by the supervisor and all employees of Tauwhareparae Farms Ltd during the year without whom such an impressive result would not have been achieved by the company.

The Board also wishes to acknowledge the dedication, skill and knowledge provided to the Board by the three directors that left the Board during the year. Don Green and Dan Griffin retired at last year’s Annual General Meeting and sadly Bob Elliott died near the end of the financial year. Both Don Green and Bob Elliott had been on the Board since 2003 when the company purchased the investment in Tauwhareparae Farms Ltd and were instrumental in the development of the company since that date.

## **CHAIRMAN’S REPORT 2011 (continued)**

### ***The Future***

It must be recognised that a major contributor to the increase in net profit and shareholders’ equity for the year was the increase in the valuation of livestock, forests, carbon credits and land from the subsidiary company Tauwhareparae Farms Ltd. Future increases in these values is uncertain but the underlying business of the subsidiary is sound and the expected cash returns for the 2011/12 year look promising, based on the information available. The Board is budgeting on a net operating profit for the year of \$1.8 million before revaluation adjustments. Our prediction is based on favourable weather and a 75 cent US/NZ exchange rate, both factors being beyond our control.



**CM Egan**  
**Chairman**

# AUDIT REPORT



## INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF GISBORNE HOLDINGS LIMITED AND GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2011

The Auditor-General is the auditor of Gisborne Holdings Limited (the company) and group. The Auditor-General has appointed me, G J Taylor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and performance information of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 5 to 44, that comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company and group on pages 45 to 48.

#### Opinion on the financial statements and the performance information

In our opinion,

- the financial statements of the company and group on pages 5 to 44:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the company and group's:
    - financial position as at 30 June 2011; and
    - financial performance and cash flows for the year ended on that date; and
- the performance information of the company and group on pages 45 to 47:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2011.

#### Opinion on other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 15 September 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

#### Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

## AUDIT REPORT



An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and performance information whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and performance information that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and performance information; and
- the overall presentation of the financial statements and performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

### Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

### Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

### Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the company or any of its subsidiaries.

A handwritten signature in black ink, appearing to read 'G J Taylor', with a long horizontal flourish extending to the right.

G J Taylor  
Ernst & Young  
On behalf of the Auditor-General  
Wellington, New Zealand

## Statement of comprehensive income for the year ended 30 June 2011

|   | Notes | Group                   |                         |                         | Company                 |                         |                         |
|---|-------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   |       | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
| <b>Continuing operations</b>                  |       |                         |                         |                         |                         |                         |                         |
| - Sheep Sales                                 | 17    | 3,531                   | 2,005                   | 2,462                   | -                       | -                       | -                       |
| - Cattle Sales                                | 17    | 1,633                   | 1,618                   | 1,623                   | -                       | -                       | -                       |
| - Wool Sales                                  |       | 580                     | 335                     | 299                     | -                       | -                       | -                       |
| - Forestry Grants Received                    |       | 37                      | -                       | 138                     | -                       | -                       | -                       |
| - Forestry Value Increase                     | 17    | 3,823                   | 175                     | -                       | -                       | -                       | -                       |
| - Carbon Credits Allocated                    |       | 2,149                   | -                       | -                       | -                       | -                       | -                       |
| <b>Total Revenue</b>                          |       | <b>11,753</b>           | 4,133                   | 4,522                   | -                       | -                       | -                       |
| <b>Cost of Sales</b>                          |       |                         |                         |                         |                         |                         |                         |
| - Sheep                                       | 17    | (2,327)                 | (59)                    | (102)                   | -                       | -                       | -                       |
| - Cattle                                      | 17    | (1,214)                 | (101)                   | 280                     | -                       | -                       | -                       |
| - Forestry Value Decrease                     | 17    | -                       | -                       | 136                     | -                       | -                       | -                       |
| - Carbon Credits Value Decrease               |       | 64                      | -                       | -                       | -                       | -                       | -                       |
| <b>Total Cost of Sales</b>                    |       | <b>(3,477)</b>          | (160)                   | 314                     | -                       | -                       | -                       |
| <b>Gross Profit</b>                           |       | <b>15,230</b>           | 4,293                   | 4,208                   | -                       | -                       | -                       |
| <b>Other Income</b>                           |       |                         |                         |                         |                         |                         |                         |
| - Dividends received                          |       | -                       | -                       | 8                       | 500                     | 500                     | 1,000                   |
| - Other income                                |       | 58                      | 51                      | 63                      | -                       | -                       | -                       |
| - Subvention Payment - TFL                    |       | -                       | -                       | -                       | 251                     | -                       | -                       |
| <b>Total Other Income</b>                     |       | <b>58</b>               | 51                      | 71                      | <b>751</b>              | 500                     | 1,000                   |
| <b>Total Income</b>                           |       | <b>15,288</b>           | 4,344                   | 4,279                   | <b>751</b>              | 500                     | 1,000                   |
| <b>Expenditure from continuing operations</b> |       |                         |                         |                         |                         |                         |                         |
| - Farming Expenditure                         |       | 1,734                   | 1,662                   | 1,583                   | -                       | -                       | -                       |
| - Salaries and Wages                          |       | 717                     | 627                     | 804                     | -                       | -                       | -                       |
| - Administrative Expenditure                  |       | 470                     | 473                     | 499                     | -                       | -                       | -                       |
| - Depreciation                                |       | 299                     | 298                     | 307                     | -                       | -                       | -                       |
| - Fair value losses on financial instruments  |       | (45)                    | (64)                    | 14                      | -                       | -                       | -                       |
| - Loss on sale of assets                      |       | 11                      | -                       | 17                      | -                       | -                       | -                       |
| - Financing Expenditure                       |       | 343                     | 348                     | 294                     | -                       | -                       | -                       |
| <b>Total expenditure</b>                      |       | <b>3,529</b>            | 3,344                   | 3,518                   | -                       | -                       | -                       |
| <b>Net Operating Profit before taxation</b>   | 5     | <b>11,759</b>           | 1,000                   | 761                     | <b>751</b>              | 500                     | 1,000                   |
| Taxation (expense) / credit                   | 8     | (2,803)                 | (230)                   | 200                     | (75)                    | -                       | (1)                     |
| <b>Net Profit for the year</b>                |       | <b>8,956</b>            | 770                     | 961                     | <b>676</b>              | 500                     | 999                     |

**Statement of comprehensive income (continued)  
for the year ended 30 June 2011**

|  |       | <b>Group</b>                     |                                  |                                  | <b>Company</b>                   |                                  |                                  |
|--|-------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|  | Notes | <b>Actual<br/>2011<br/>\$000</b> | <b>Budget<br/>2011<br/>\$000</b> | <b>Actual<br/>2010<br/>\$000</b> | <b>Actual<br/>2011<br/>\$000</b> | <b>Budget<br/>2011<br/>\$000</b> | <b>Actual<br/>2010<br/>\$000</b> |
| <b>Other comprehensive income</b>                                  |       |                                  |                                  |                                  |                                  |                                  |                                  |
| Net fair value gain/(loss) on available-for-sale financial assets  | 7     | -                                | -                                | 1                                | -                                | -                                | -                                |
| Fair revaluation gain/(loss) on property, plant & equipment        | 16    | <b>1,344</b>                     | -                                | (3,234)                          | -                                | -                                | -                                |
| Deferred Tax on Building Revaluations                              |       | <b>(17)</b>                      | -                                | (17)                             | -                                | -                                | -                                |
|  |       | <hr/>                            | <hr/>                            | <hr/>                            | <hr/>                            | <hr/>                            | <hr/>                            |
| <b>Profit for the year is attributable to owners of the parent</b> |       | <b>1,327</b>                     | -                                | (3,250)                          | -                                | -                                | -                                |
| Net profit for the year  |       | <b>8,956</b>                     | 770                              | 961                              | <b>676</b>                       | 500                              | 999                              |
|  |       | <hr/>                            | <hr/>                            | <hr/>                            | <hr/>                            | <hr/>                            | <hr/>                            |
| <b>Total comprehensive income for the year</b>                     |       | <b>10,283</b>                    | 770                              | (2,289)                          | <b>676</b>                       | 500                              | 999                              |
|  |       | <hr/>                            | <hr/>                            | <hr/>                            | <hr/>                            | <hr/>                            | <hr/>                            |

## Statement of changes in equity for the year ended 30 June 2011

| Group   | \$000<br>Ordinary<br>Shares | \$000<br>Asset<br>Revaluation<br>Reserve | \$000<br>Available<br>For sale<br>Reserve | \$000<br>Retained<br>Earnings | \$000<br>Total |
|---|-----------------------------|--|---|-------------------------------|----------------|
| At 1 July 2010  | 21,200                      | 18,585                                   | (4)                                       | (6,120)                       | 33,661         |
| Net profit for the year   |                             |  |   | 8,956                         | 8,956          |
| Other comprehensive income                                      |                             | 1,327                                    | -   | -                             | 1,327          |
| Total comprehensive income for the year                         |                             | 1,327                                    | -   | 8,956                         | 10,283         |
| <b>Transactions with owners in<br/>Their capacity as owners</b> |                             |  |   |                               |                |
| Dividends paid  |                             |  |   | (500)                         | (500)          |
| At 30 June 2011   | 21,200                      | 19,912                                   | (4)                                       | 2,336                         | 43,444         |
| <b>Company</b>  |                             |  |   |                               |                |
| As at 1 July 2010   | 21,200                      | -  | -   | (1,122)                       | 20,078         |
| Net profit for the year   |                             |  |   | 676                           | 676            |
| Total comprehensive income for the year                         |                             |  |   | 676                           | 676            |
| <b>Transactions with owners in<br/>their capacity as owners</b> |                             |  |   |                               |                |
| Dividends paid  |                             |  |   | (500)                         | (500)          |
| At 30 June 2011   | 21,200                      | -  | -   | (946)                         | 20,254         |

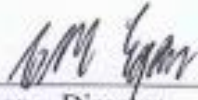
## Statement of changes in equity for the year ended 30 June 2010

| Group   | \$000<br>Ordinary<br>Shares | \$000<br>Asset<br>Revaluation<br>Reserve | \$000<br>Available<br>For sale<br>Reserve | \$000<br>Retained<br>Earnings | \$000<br>Total |
|---|-----------------------------|--|---|-------------------------------|----------------|
| At 1 July 2009  | 21,200                      | 21,836                                   | (5)                                       | (6,081)                       | 36,950         |
| Net profit for the year   |                             |  |   | 961                           | 961            |
| Other comprehensive income                                      |                             | (3,251)                                  | 1   |                               | (3,250)        |
| Total comprehensive income for the year                         |                             | (3,251)                                  | 1   | 961                           | (2,289)        |
| <b>Transactions with owners in<br/>Their capacity as owners</b> |                             |  |   |                               |                |
| Dividends paid  |                             |  |   | (1,000)                       | (1,000)        |
| At 30 June 2010   | 21,200                      | 18,585                                   | (4)                                       | (6,120)                       | 33,661         |
| <b>Company</b>  |                             |  |   |                               |                |
| As at 1 July 2009   | 21,200                      |  |   | (1,121)                       | 20,079         |
| Net profit for the year   |                             |  |   | 999                           | 999            |
| Total comprehensive income for the year                         |                             |  |   | 999                           | 999            |
| <b>Transactions with owners in<br/>their capacity as owners</b> |                             |  |   |                               |                |
| Dividends paid  |                             |  |   | (1,000)                       | (1,000)        |
| At 30 June 2010   | 21,200                      |  |   | (1,122)                       | 20,078         |

## Statement of financial position as at 30 June 2011

|   | Notes | Group                   |                         |                         | Company                 |                         |                         |
|---|-------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   |       | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
| Contributed equity                      | 6     | 21,200                  | 21,200                  | 21,200                  | 21,200                  | 21,200                  | 21,200                  |
| Retained earnings                       | 7     | 2,336                   | (5,913)                 | (6,120)                 | (946)                   | (1,122)                 | (1,122)                 |
| Reserves                                | 7     | 19,908                  | 21,756                  | 18,581                  | -                       | -                       | -                       |
| <b>Total equity</b>                     |       | <b>43,444</b>           | <b>37,043</b>           | <b>33,661</b>           | <b>20,254</b>           | <b>20,078</b>           | <b>20,078</b>           |
| Represented by:                         |       |                         |                         |                         |                         |                         |                         |
| <b>Current assets</b>                   |       |                         |                         |                         |                         |                         |                         |
| Bank balances, deposits and cash        |       | 1,911                   | 154                     | 15                      | 3                       | 3                       | 3                       |
| Trade and other receivables             | 10    | 169                     | 280                     | 50                      | 251                     | -                       | -                       |
| Inventories                             | 11    | 71                      | 46                      | 42                      | -                       | -                       | -                       |
| Taxation                                |       | -                       | -                       | -                       | -                       | -                       | -                       |
| <b>Total current assets</b>             |       | <b>2,151</b>            | <b>480</b>              | <b>107</b>              | <b>254</b>              | <b>3</b>                | <b>3</b>                |
| <b>Current liabilities</b>              |       |                         |                         |                         |                         |                         |                         |
| Bank (secured)                          | 12    | -                       | -                       | 5                       | -                       | -                       | -                       |
| Derivative financial instruments        | 15    | 62                      | -                       | 90                      | -                       | -                       | -                       |
| Payables and accruals                   | 13    | 446                     | 180                     | 261                     | -                       | -                       | -                       |
| Taxation                                |       | 206                     | (4)                     | -                       | -                       | -                       | -                       |
| Financial liabilities – Current Portion | 14    | 3,233                   | -                       | -                       | -                       | -                       | -                       |
| <b>Total current liabilities</b>        |       | <b>3,947</b>            | <b>176</b>              | <b>356</b>              | <b>-</b>                | <b>-</b>                | <b>-</b>                |
| <b>Net working capital</b>              |       | <b>(1,796)</b>          | <b>304</b>              | <b>(249)</b>            | <b>254</b>              | <b>3</b>                | <b>3</b>                |
| <b>Non-current assets</b>               |       |                         |                         |                         |                         |                         |                         |
| Property plant & equipment              | 16    | 29,137                  | 30,940                  | 27,995                  | -                       | -                       | -                       |
| Biological assets                       | 17    | 17,284                  | 10,424                  | 9,707                   | -                       | -                       | -                       |
| Available-for-sale-financial assets     | 18    | 201                     | 200                     | 200                     | -                       | -                       | -                       |
| Investments in subsidiaries             |       | -                       | -                       | -                       | 20,000                  | 20,000                  | 20,000                  |
| Deferred tax                            | 8     | -                       | -                       | -                       | -                       | 75                      | 75                      |
| Intangible assets – NZ Emission Units   | 19    | 1,474                   | -                       | -                       | -                       | -                       | -                       |
| <b>Total non-current assets</b>         |       | <b>48,096</b>           | <b>41,564</b>           | <b>37,902</b>           | <b>20,000</b>           | <b>20,075</b>           | <b>20,075</b>           |
| <b>Non current liabilities</b>          |       |                         |                         |                         |                         |                         |                         |
| Derivative financial instruments        | 15    | 101                     | 64                      | 117                     | -                       | -                       | -                       |
| Financial liabilities - term loan       | 14    | -                       | 3,733                   | 3,733                   | -                       | -                       | -                       |
| Deferred Tax                            | 8     | 2,755                   | 1,028                   | 142                     | -                       | -                       | -                       |
| <b>Total non-current liabilities</b>    |       | <b>2,856</b>            | <b>4,825</b>            | <b>3,992</b>            | <b>-</b>                | <b>-</b>                | <b>-</b>                |
| <b>Net assets</b>                       |       | <b>43,444</b>           | <b>37,043</b>           | <b>33,661</b>           | <b>20,254</b>           | <b>20,078</b>           | <b>20,078</b>           |

For and on behalf of the Board, who authorise the issue of these financial statements on 15<sup>th</sup> September 2011.

|  |  |
|--|--|
| <br><hr/> C M Egan – Director | <br><hr/> P D Andrews - Director |
|--|--|

## Statements of cash flows for the year ended 30 June 2011

|  | Notes     | Actual<br>2011 | Group<br>Budget<br>2011 | Actual<br>2010 | Actual<br>2011 | Company<br>Budget<br>2011 | Actual<br>2010 |
|--|-----------|----------------|-------------------------|----------------|----------------|---------------------------|----------------|
| <b>Cash flows from operating activities</b>                  |           |                |                         |                |                |                           |                |
| Cash was provided from:                                      |           |                |                         |                |                |                           |                |
| Receipts from customers                                      |           | 5,688          | 3,954                   | 4,625          | -              | -                         | -              |
| Income tax refunds / (payments)                              |           | -              | -                       | 1              | -              | -                         | -              |
| Goods and services tax (net)                                 |           | 73             | 64                      | 25             | -              | -                         | -              |
|  |           | <u>5,761</u>   | <u>4,018</u>            | <u>4,651</u>   | <u>-</u>       | <u>-</u>                  | <u>-</u>       |
| Cash was disbursed to:                                       |           |                |                         |                |                |                           |                |
| Payments to suppliers & employees                            |           | 2,997          | 2,958                   | 3,118          | -              | -                         | -              |
|  |           | <u>2,997</u>   | <u>2,958</u>            | <u>3,118</u>   | <u>-</u>       | <u>-</u>                  | <u>-</u>       |
| <b>Net cash inflow / (outflow) from operating activities</b> | <b>23</b> | <u>2,764</u>   | <u>1,060</u>            | <u>1,533</u>   | <u>-</u>       | <u>-</u>                  | <u>-</u>       |
| <b>Cash flows from investing activities</b>                  |           |                |                         |                |                |                           |                |
| Cash was provided from:                                      |           |                |                         |                |                |                           |                |
| Proceeds from sale of fixed assets                           |           | 17             | 7                       | 46             | -              | -                         | -              |
| Proceeds from sale of carbon credits                         |           | 611            | -                       | -              | -              | -                         | -              |
|  |           | <u>628</u>     | <u>7</u>                | <u>46</u>      | <u>-</u>       | <u>-</u>                  | <u>-</u>       |
| Cash was applied to:   |           |                |                         |                |                |                           |                |
| Purchase of fixed assets                                     |           | 87             | 49                      | 165            | -              | -                         | -              |
| Purchase of available-for-sale financial assets              |           | -              | -                       | -              | -              | -                         | -              |
| Forest asset expenditure                                     |           | 67             | 73                      | 134            | -              | -                         | -              |
|  |           | <u>154</u>     | <u>122</u>              | <u>299</u>     | <u>-</u>       | <u>-</u>                  | <u>-</u>       |
| <b>Net cash inflow / (outflow) from investing activities</b> |           | <u>474</u>     | <u>(115)</u>            | <u>(253)</u>   | <u>-</u>       | <u>-</u>                  | <u>-</u>       |
| <b>Cash flows from financing activities</b>                  |           |                |                         |                |                |                           |                |
| Cash was provided from:                                      |           |                |                         |                |                |                           |                |
| Dividends received   |           | -              | -                       | -              | 500            | 500                       | 1,000          |
| Interest received  |           | 7              | -                       | -              | -              | -                         | -              |
|  |           | <u>7</u>       | <u>-</u>                | <u>-</u>       | <u>500</u>     | <u>500</u>                | <u>1,000</u>   |
| Cash was applied to:   |           |                |                         |                |                |                           |                |
| Dividends paid   |           | 500            | 500                     | 1,000          | 500            | 500                       | 1,000          |
| Interest paid  |           | 344            | 348                     | 295            | -              | -                         | -              |
| Term loan repayment  |           | 500            | -                       | -              | -              | -                         | -              |
|  |           | <u>1,344</u>   | <u>848</u>              | <u>1,295</u>   | <u>500</u>     | <u>500</u>                | <u>1,000</u>   |
| <b>Net cash inflow / (outflow) from financing activities</b> |           | <u>(1,337)</u> | <u>(848)</u>            | <u>(1,295)</u> | <u>0</u>       | <u>0</u>                  | <u>0</u>       |
| Net increase / (decrease) in cash held                       |           | 1,901          | 97                      | (15)           | -              | -                         | -              |
| Opening cash brought forward                                 |           | 10             | 57                      | 25             | 3              | 3                         | 3              |
| <b>Ending cash carried forward</b>                           |           | <u>1,911</u>   | <u>154</u>              | <u>10</u>      | <u>3</u>       | <u>3</u>                  | <u>3</u>       |
| <b>Cash at year end:</b>                                     |           |                |                         |                |                |                           |                |
| Cash balances  |           | 1,911          | 154                     | 15             | 3              | 3                         | 3              |
| Bank wholesale advances                                      |           | -              | -                       | (5)            | -              | -                         | -              |
| <b>Ending cash carried forward</b>                           |           | <u>1,911</u>   | <u>154</u>              | <u>10</u>      | <u>3</u>       | <u>3</u>                  | <u>3</u>       |

## Notes to and forming part of the financial statements

### 1. Corporate Information

Gisborne Holdings Limited (the Company) is a Council-Controlled Organisation as defined in section 6 of the Local Government Act 2002. The Company is wholly owned by Gisborne District Council and is registered under the Companies Act 1993.

The Group consists of Gisborne Holdings Limited, its 100% owned subsidiaries, Tauwhareparae Farms Limited and Tauwhareparae Forests Limited.

The Financial Statements for Gisborne Holdings Limited are for the year ended 30 June 2011. The Financial Statements were authorised for issue on 15<sup>th</sup> September 2011.

The principal activities during the year were:

- The production and supply of livestock
- The planting, growing and tendering of forestry
- The maintenance and reversion of native forestry areas

There have been no significant changes in the nature of these activities during the year.

### 2. Summary of significant accounting policies

#### (a) Basis of Preparation

The financial statements of the Group have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993, and the Financial Reporting Act 1993. The financial statements have also been prepared on a historical cost basis, except for land and buildings, derivative financial instruments and available-for-sale investments, which have been measured at fair value.

The financial report is presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

#### (b) Statement of Compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

#### (c) New accounting standards and interpretations

##### (i) Changes in accounting policy and disclosures.

The accounting policies adopted are consistent with those of the previous financial year except as follows:

## Notes to and forming part of the financial statements

### 2. Summary of significant accounting policies (continued)

The Company has adopted the following new and amended New Zealand Equivalents to International Financial Reporting Standards and interpretations as of 1 January 2009.

*Improvements to NZ IFRSs effective 1 July 2010*

#### ***Improvements to NZ IFRS***

Various amendments to NZ IFRS were issued as part of the Annual Improvements Project

The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes (some of which are summarised below), while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on the financial position or financial performance of the company.

*NZ IAS 7 Statement of Cashflows:* States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

*NZ IAS 39 Financial Instruments: Recognition and Measurement:* The main change to NZ IAS 39 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.

## Notes to and forming part of the financial statements

### Notes to and forming part of the financial statements

#### 2. Summary of significant accounting policies (continued)

(ii) *Accounting standards and interpretations issued but not yet effective.*

NZ IFRS Standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period ending 30 June 2011, outlined in the table below.

| Reference | Title                                       | Summary  | Application date of standard | Impact on Company's financial report | Application date for Company |
|-----------|---|--|------------------------------|--------------------------------------|------------------------------|
| NZ IFRS 9 | Financial Instruments                       | <p>This standard is part of the IASB's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The standard applies to financial assets, their classification and measurement.</p> <p>All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not a fair value through profit or loss, particular transaction costs and subsequently measured at amortised cost or fair value.</p> | 1 January 2013               | No or minimal effect.                | 1 July 2013                  |
| NZ IAS 24 | Related Party Disclosures<br>(Revised 2009) | <p>This Standard makes amendments to NZ IAS 24 <i>Related Party Disclosures</i>.</p> <p>The amendments simplify the definition of a related party and provide a partial exemption from the disclosure requirements for government-related entities.</p>  | 1 January 2011               | No or minimal effect.                | 1 July 2011                  |

## Notes to and forming part of the financial statements

### 2. Summary of significant accounting policies (continued)

#### (d) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

#### (e) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognized when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

#### (f) Inventories

In accordance with NZ IAS 41 – *Agriculture* wool on hand is valued at fair value less estimated point of sale costs at time of harvest. Consumable stocks are valued at the lower of cost, determined on a first-in first-out basis, and net realisable value. This valuation includes allowances for slow moving and obsolete inventories.

#### (g) Livestock

Livestock is valued at fair value less point of sale costs. These values are not the same as those used for calculating taxation. Changes in the value of existing productive livestock and the numbers and/or composition of the livestock are treated as revenue items.

#### (h) Forestry Assets

Forestry assets are valued on the basis of fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate. Forestry Assets are revalued annually by an independent valuer. Valuation movements pass through the statement of comprehensive income. The costs to maintain the forestry assets are included in the statement of comprehensive income.

## Notes to and forming part of the financial statements

### 2. Summary of significant accounting policies (continued)

#### (i) Derivative financial instruments

The Group uses derivative financial instruments (including interest rate swaps) to manage its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

Any gains or losses arising from changes in the fair value of derivatives, are taken directly to the statement of comprehensive income for the year.

#### (j) Investments and other financial assets

Investments and financial assets in the scope of NZ IAS 39 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit and loss, loans and receivables held to maturity, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

#### *Subsequent measurement*

##### *(i) Financial liabilities at fair value through profit or loss*

Financial liabilities classified as held for trading are included in the category “financial liabilities at fair value through the statement of comprehensive income”. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of comprehensive income.

##### *(ii) Loans and receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

##### *(iii) Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets, principally equity securities that are designated as available-for-sale or are not classified as any of the two preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to profit or loss.

## Notes to and forming part of the financial statements

### 2. Summary of significant accounting policies (continued)

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

#### **(k) Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance and revaluation costs are recognised in the statement of comprehensive income as incurred.

Land and buildings are measured at fair value, based on annual valuations by external independent valuers who apply the International Valuations Standards Committee International Valuation Standards, less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Land – not depreciated  
Land Improvements – 10 years  
Buildings – 40 years  
Plant and equipment – 10 years  
Motor vehicles – 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate at each financial year end.

Capital work in progress is not depreciated. The total cost of a project is transferred to freehold buildings and/or plant and equipment on its completion and then depreciated.

#### *Revaluations of land and buildings*

Any revaluation increment is credited to the asset revaluation reserve included in other comprehensive income, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

## Notes to and forming part of the financial statements

### 2. Summary of significant accounting policies (continued)

#### (k) Property, plant and equipment (continued)

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

Under disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

#### *Derecognition*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

#### (l) Emissions Trading Scheme

Gisborne Holdings Ltd subsidiary Tauwhareparae Farms Ltd has voluntarily entered the New Zealand Emissions Trading Scheme ("ETS") in respect of 1,138.2 hectares of forest land located in the Tauwhareparae area. This entitles the Company to receive emission units ("units") for carbon stored in the specified area, from a 1 January 2008 baseline.

Units received are recognised at fair value on the date they are received and subsequently measured at cost subject to impairment. While there are no specific conditions attached to units received, should carbon stored in the specified area fall below the amount compensated for, a portion of units received must be returned. Units received are deferred on the Statement of Financial Position until it is clear that they will not be required to meet future emissions obligations. The value of units is then recognised in the statement of comprehensive income.

Where there is an obligation to return units this liability is recognised on the Statement of Financial Position, measured with reference to the carrying value of units on hand. Where there are insufficient units on hand to meet the emissions obligation, this is measured by reference to the current market value for units held.

Future cash flows associated with units receivable/payable are taken into consideration in determining the valuation of the specified area.

#### (m) Impairment of non-financial assets other than goodwill and indefinite life intangibles

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

## Notes to and forming part of the financial statements

### 2. Summary of significant accounting policies (continued)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

#### **(n) Trade and other payables**

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

#### **(o) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### *Borrowing Costs*

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use of sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### **(p) Provisions and employee benefits**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

## Notes to and forming part of the financial statements

### 2. Summary of significant accounting policies (continued)

#### *Employee leave benefits*

#### *Wages, salaries, annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

#### **(q) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares of options are shown in equity as a deduction, net of tax, from the proceeds.

#### **(r) Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### *(i) Sale of goods*

Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer (through the execution of a sales agreement at the time of delivery of the goods to the customer), no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### *(ii) Interest revenue*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *(iii) Dividends*

Revenue is recognised when the Group's right to receive the payment is established.

#### **(s) Income tax and other taxes**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## Notes to and forming part of the financial statements

### 2. Summary of significant accounting policies (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables, which are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### (t) Government grants

The Group receives government grants from the Ministry of Agriculture and Forestry which subsidises the cost of forestry establishment, silviculture and thinning. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled. This is in accordance with NZ IAS 41: *Agriculture*

## Notes to and forming part of the financial statements

### 2. Summary of significant accounting policies (continued)

#### (u) Business combinations

The ‘pooling of interests’ method of accounting is used to account for all ‘common controlled’ business combinations. In accordance with the pooling of interests method, the assets and liabilities acquired are reflected at their original carrying amounts in the financial statements.

### 3. Financial risk management objectives and policies

The Group’s principal financial instruments comprise receivables, payables, bank loans and overdrafts, available-for-sale investments, cash and short-term deposits and derivatives.

#### Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate risk in accordance with the Group’s financial risk management policy. The objective of the policy is to support the delivery of the Group’s financial targets while protecting future financial security.

The Group enters into derivative transactions, principally interest rate swap contracts. The purpose is to manage the interest rate risks arising from the Group’s operations and its sources of finance. The main risks arising from the Group’s financial instruments are interest rate risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and assessments of market forecasts for interest rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the financial controller under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, interest rate risk, credit allowances, and future cash flow forecast projections.

## Notes to and forming part of the financial statements

### 3. Financial risk management objectives and policies (continued)

#### (1) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in note 14.

*At balance date, the Group had the following mix of financial assets and liabilities exposure to New Zealand variable interest rate*

|                              | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
|------------------------------|-------------------------|-------------------------|-------------------------|
| <b>Financial Assets</b>      |                         |                         |                         |
| Cash and cash equivalents    | 1,911                   | 154                     | 12                      |
|                              | <b>1,911</b>            | 154                     | 12                      |
| <b>Financial liabilities</b> |                         |                         |                         |
| Bank overdrafts              | -                       | -                       | (5)                     |
| Bank loans                   | (3,233)                 | (3,733)                 | (3,733)                 |
|                              | <b>(3,233)</b>          | (3,733)                 | (3,738)                 |
| Net exposure                 | <b>(1,322)</b>          | (3,733)                 | (3,726)                 |

Interest rate swap contracts outlined in note 15 with a fair value of \$(162,526), (2010: \$(207,473)), are exposed to fair value movements if interest rates change.

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. The Group's policy is to maintain 100% of its non-current borrowings at fixed rates which are carried at amortised cost and it is acknowledged that fair value exposure is a by product of the Group's attempt to manage its cash flow volatility arising from interest rate changes. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 30 June 2011, after taking into account the effect of interest rate swaps, 100% of the Group's borrowings are at a fixed rate of interest (2010: 100%)

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

## Notes to and forming part of the financial statements

### 3. Financial risk management objectives and policies (continued)

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

*At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:*

|                         | <b>Post tax profit<br/>higher/(lower)</b> |       |
|-------------------------|---|-------|
|                         | <b>2011</b>                               | 2010  |
|                         | <b>\$000</b>                              | \$000 |
| + 1% (100 basis points) | <b>52</b>                                 | 43    |
| - 1% (100 basis points) | <b>(54)</b>                               | (43)  |

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating and mix of debt relationships with finance institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.
- A price sensitivity of derivatives has been based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

#### **(ii) Credit risk**

Credit risk arises from the financial assets of the Group and comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets, and derivative instruments. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in a accordance with parameters set by the board. These risk limits are regularly monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group has not experienced any bad debts.

## Notes to and forming part of the financial statements

### 3. Financial risk management objectives and policies (continued)

#### *(iii) Liquidity risk*

Liquidity risk arises from the financial liabilities of the Group and Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and committed available credit lines.

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. The Group has established comprehensive risk reporting covering its business operations that reflect expectations of management of the expected settlement of financial assets and liabilities.

#### *A. Non-derivative financial liabilities*

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2011. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the company is required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows on non-derivative financial instruments. Trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant, equipment and investments in working capital (e.g. inventories and trade receivables).

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short term cash payments.

## Notes to and forming part of the financial statements

## 3. Financial risk management objectives and policies (continued)

|                                       | ≤ 6<br>months<br>\$000 | 6-12<br>months<br>\$000 | 1-5<br>years<br>\$000 | Total<br>\$000 |
|---------------------------------------|------------------------|-------------------------|-----------------------|----------------|
| <b>Year ended 30 June 2011</b>        |                        |                         |                       |                |
| <b>Financial Assets</b>               |                        |                         |                       |                |
| Cash and cash equivalents             | 1,911                  | -                       | -                     | 1,911          |
| Trade and other receivables           | 165                    | -                       | -                     | 165            |
|                                       | 2,076                  | -                       | -                     | 2,076          |
| <b>Financial liabilities</b>          |                        |                         |                       |                |
| Trade and other payables              | (380)                  | -                       | -                     | (380)          |
| Interest bearing loans and borrowings | -                      | (3,233)                 | -                     | (3,233)        |
|                                       | (380)                  | (3,233)                 | -                     | (3,613)        |
| <b>Net Inflow/Outflow</b>             | 1,696                  | (3,233)                 | -                     | (1,537)        |
| <b>Year ended 30 June 2010</b>        |                        |                         |                       |                |
| <b>Liquid financial assets</b>        |                        |                         |                       |                |
| Cash and cash equivalents             | 15                     | -                       | -                     | 15             |
| Trade and other receivables           | 45                     | -                       | -                     | 45             |
|                                       | 60                     | -                       | -                     | 60             |
| <b>Financial liabilities</b>          |                        |                         |                       |                |
| Trade and other payables              | (223)                  | -                       | -                     | (223)          |
| Interest bearing loans and borrowings | (5)                    | -                       | (3,733)               | (3,738)        |
|                                       | (228)                  | -                       | (3,733)               | (3,961)        |
| <b>Net Inflow/(Outflow)</b>           | (168)                  | -                       | (3,733)               | (3,901)        |

## Notes to and forming part of the financial statements

### 3. Financial risk management objectives and policies (continued)

#### *Fair Value*

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

|                                   | Year Ended 30 June 2011             |  |       | Year Ended 30 June 2010                |   |       |
|-----------------------------------|-------------------------------------|--|-------|--|---|-------|
|                                   | Quoted<br>market price<br>(Level 1) | Valuation<br>Technique<br>–<br>Market<br>Observable<br>Inputs<br>(Level 2) | Total | Quoted<br>market<br>price<br>(Level 1) | Valuation<br>Technique –<br>Market<br>Observable<br>Inputs<br>(Level 2) | Total |
|                                   | \$000                               | \$000  | \$000 | \$000                                  | \$000   | \$000 |
| <b>Financial assets</b>           |                                     |  |       |  |   |       |
| Available-for-sale<br>investments |                                     |  |       |  |   |       |
| Listed investments                | 1                                   | -  | 1     | 1                                      | -   | 1     |
| Unlisted investments              | -                                   | 200  | 200   | -                                      | 199   | 199   |
|                                   | 1                                   | 200  | 201   | 1                                      | 199   | 200   |
| <b>Financial liabilities</b>      |                                     |  |       |  |   |       |
| Derivative instruments            |                                     |  |       |  |   |       |
| Interest rate swaps               | -                                   | (163)  | (163) | -                                      | (207)   | (207) |
|                                   | -                                   | (163)  | (163) | -                                      | (207)   | (207) |

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market values.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps traded on a recognised exchange.

## Notes to and forming part of the financial statements

### 4. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

#### (I) Significant accounting judgements

##### *Impairment of non-financial assets other than goodwill and indefinite life intangibles*

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments and future product expectation. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period.

##### *Taxation*

The Group accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

## Notes to and forming part of the financial statements

### 4. Significant accounting judgements, estimates and assumptions (continued)

#### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

#### *Significance of inputs in fair value hierarchy*

An unobservable valuation input is considered significant if stressing the unobservable input to the valuation model would result in a greater than 10% change in the overall fair value of the instrument.

### (II) Significant accounting estimates and assumptions

#### *Valuation of investments*

The Group has decided to classify investments in listed and unlisted securities as “available-for-sale” investments and movements in fair value are recognised in other comprehensive income. The fair value of listed shares has been determined by reference to published price quotations in an active market. The fair values of unlisted securities not traded in an active market are determined by an appropriately qualified valuer by projecting the subsequent disposal of the securities.

#### *Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers’ warranties (for plant and equipment), and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustment to useful lives is made when considered necessary.

## Notes to and forming part of the financial statements

### 5. Net operating surplus before taxation

|  | Group                   |                         |                         | Company                 |                         |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
| <b>After crediting:</b>                      |                         |                         |                         |                         |                         |                         |
| Interest income                              | 17                      | -                       | -                       | -                       | -                       | -                       |
| Dividends income                             | -                       | -                       | 9                       | 500                     | 500                     | 1,000                   |
| Forest asset revaluation                     | 3,823                   | 175                     | -                       | -                       | -                       | -                       |
| Depreciation recovered                       |                         |                         |                         |                         |                         |                         |
| - Plant and equipment                        | -                       | -                       | -                       | -                       | -                       | -                       |
| - Motor vehicles                             | 2                       | -                       | 28                      | -                       | -                       | -                       |
| Gain on disposal of assets                   |                         |                         |                         |                         |                         |                         |
| - Buildings and improvements                 | -                       | -                       | -                       | -                       | -                       | -                       |
| - Plant and equipment                        | -                       | -                       | -                       | -                       | -                       | -                       |
| Subvention Payment – Tauwhareparae Farms Ltd | -                       | -                       | -                       | 251                     | -                       | -                       |
| <b>After charging:</b>                       |                         |                         |                         |                         |                         |                         |
| Audit fees and expenses                      | 38                      | 38                      | 36                      | -                       | -                       | -                       |
| Depreciation:                                |                         |                         |                         |                         |                         |                         |
| - Buildings & improvements                   | 227                     | 216                     | 227                     | -                       | -                       | -                       |
| - Plant and equipment                        | 26                      | 26                      | 26                      | -                       | -                       | -                       |
| - Motor vehicles                             | 46                      | 56                      | 54                      | -                       | -                       | -                       |
| Directors' fees                              | 87                      | 86                      | 106                     | -                       | -                       | -                       |
| Employee benefit expenditure                 | 717                     | 627                     | 804                     | -                       | -                       | -                       |
| Interest expense:                            |                         |                         |                         |                         |                         |                         |
| - Term loans                                 | 327                     | 348                     | 282                     | -                       | -                       | -                       |
| - Wholesale advance facility                 | 16                      | -                       | 12                      | -                       | -                       | -                       |
| Loss on sale of assets                       |                         |                         |                         |                         |                         |                         |
| - Plant and Equipment                        | 9                       | -                       | -                       | -                       | -                       | -                       |
| - Motor Vehicle                              | 2                       | -                       | 17                      | -                       | -                       | -                       |
| Forest asset impairment                      | -                       | -                       | 136                     | -                       | -                       | -                       |

### 6. Contributed equity

|                             |               |               |               |               |               |               |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Issued and paid up          |               |               |               |               |               |               |
| Balance at 1 July           | 21,200        | 21,200        | 21,200        | 21,200        | 21,200        | 21,200        |
| 1,200,090 ordinary shares * |               |               |               |               |               |               |
| <b>Balance at 30 June</b>   | <b>21,200</b> | <b>21,200</b> | <b>21,200</b> | <b>21,200</b> | <b>21,200</b> | <b>21,200</b> |

\* All shares are fully paid and have equal voting rights.

## Notes to and forming part of the financial statements

|   | Group                   |                         |                         | Company                 |                         |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
| <b>7. Retained Earnings and Reserves</b>      |                         |                         |                         |                         |                         |                         |
| <b>Retained Earnings</b>                      |                         |                         |                         |                         |                         |                         |
| Balance 1 July                                | (6,120)                 | (6,183)                 | (6,081)                 | (1,122)                 | (1,122)                 | (1,121)                 |
| Net Profit for the year                       | 8,956                   | 770                     | 961                     | 676                     | 500                     | 999                     |
| Dividends paid                                | (500)                   | (500)                   | (1,000)                 | (500)                   | (500)                   | (1,000)                 |
| Balance 30 June                               | 2,336                   | (5,913)                 | (6,120)                 | (946)                   | (1,122)                 | (1,122)                 |
| <b>Asset Revaluation Reserve</b>              |                         |                         |                         |                         |                         |                         |
| Balance 1 July                                | 18,585                  | 21,756                  | 21,836                  | -                       | -                       | -                       |
| Revaluation of Land                           | 1,015                   | -                       | (3,460)                 | -                       | -                       | -                       |
| Revaluation of other land improvements        | 196                     | -                       | 171                     | -                       | -                       | -                       |
| Revaluation of Buildings                      | 133                     | -                       | 55                      | -                       | -                       | -                       |
| Deferred tax on Revaluation of Buildings      | (17)                    | -                       | (17)                    | -                       | -                       | -                       |
| Balance 30 June                               | 19,912                  | 21,756                  | 18,585                  | -                       | -                       | -                       |
| <b>Available for sale Revaluation Reserve</b> |                         |                         |                         |                         |                         |                         |
| Balance 1 July                                | (4)                     | -                       | (5)                     | -                       | -                       | -                       |
| Revaluation/(Impairment) of Investments       | -                       | -                       | 1                       | -                       | -                       | -                       |
| Balance 30 June                               | (4)                     | -                       | (4)                     | -                       | -                       | -                       |
| Total Closing Balance Revaluation Reserves    | 19,908                  | 21,756                  | 18,581                  | -                       | -                       | -                       |

**Nature and Purpose of Reserves****Asset Revaluation Reserve**

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another.

**Available-for-sale Revaluation Reserve**

The available-for-sale revaluation reserve arises on revaluation of investments which are recognised as available-for-sale financial assets.

## Notes to and forming part of the financial statements

### 8. Income Tax

|  | Actual<br>2011<br>\$000 | Group<br>Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 | Actual<br>2011<br>\$000 | Company<br>Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
|--|-------------------------|----------------------------------|-------------------------|-------------------------|------------------------------------|-------------------------|
| <b>(a) Income Tax</b>  |                         |                                  |                         |                         |                                    |                         |
| The major components of income tax expense are:  |                         |                                  |                         |                         |                                    |                         |
| <b>Income Statement</b>  |                         |                                  |                         |                         |                                    |                         |
| <i>Current income tax</i>  |                         |                                  |                         |                         |                                    |                         |
| Prior period income tax charge   | 206                     | -                                | -                       | -                       | -                                  | -                       |
| <i>Deferred income tax</i>   |                         |                                  |                         |                         |                                    |                         |
| Relating to origination and reversal of temporary differences  | 2,597                   | 230                              | (200)                   | (75)                    | -                                  | (1)                     |
| Income tax expense reported in the income statement  | 2,803                   | 230                              | (200)                   | (75)                    | -                                  | (1)                     |
| <b>(b) Amounts charged or credited directly to other comprehensive income</b>  |                         |                                  |                         |                         |                                    |                         |
| Relating to revaluation of buildings   | 17                      | -                                | 17                      | -                       | -                                  | -                       |
| <b>Income tax expense reported in other comprehensive income</b>   | <b>17</b>               | <b>-</b>                         | <b>17</b>               | <b>-</b>                | <b>-</b>                           | <b>-</b>                |
| <b>(c) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate</b>        |                         |                                  |                         |                         |                                    |                         |
| <b>A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the company's applicable income tax rate is as follows:</b> |                         |                                  |                         |                         |                                    |                         |
| Accounting profit before tax from continuing operations  | 11,759                  | 1,000                            | 761                     | 751                     | 500                                | 1,000                   |
| Loss before tax from discontinued operations   | -                       | -                                | -                       | -                       | -                                  | -                       |
| <b>Total accounting profit before income tax</b>   | <b>11,759</b>           | <b>1,000</b>                     | <b>761</b>              | <b>751</b>              | <b>500</b>                         | <b>1,000</b>            |
| At the Group's statutory income tax rate of 30%  | 3,527                   | 300                              | 228                     | 225                     | 150                                | 300                     |
| Herd Livestock Adjustment  | (550)                   | (110)                            | (79)                    | -                       | -                                  | -                       |
| Tax exempt income  | -                       | -                                | -                       | (150)                   | (150)                              | (301)                   |
| Expenses not deductible for tax  | 47                      | 44                               | 46                      | -                       | -                                  | -                       |
| Expenses deductible for tax  | (26)                    | (4)                              | (393)                   | -                       | -                                  | -                       |
| Income not subject to tax  | (195)                   | -                                | -                       | -                       | -                                  | -                       |
| Imputation credits on dividends received   | -                       | -                                | (2)                     | -                       | -                                  | -                       |
| Aggregate income tax expense/(Credit)  | 2,803                   | 230                              | (200)                   | 75                      | -                                  | (1)                     |
| <b>Aggregate income tax expense is attributable to:</b>  |                         |                                  |                         |                         |                                    |                         |
| Continuing operations  | 2,803                   | 230                              | (200)                   | 75                      | -                                  | (1)                     |
| Discontinued operations  | -                       | -                                | -                       | -                       | -                                  | -                       |
|  | 2,803                   | 230                              | (200)                   | 75                      | -                                  | (1)                     |

## Notes to and forming part of the financial statements

## 8. Income Tax (continued)

|   | Actual<br>2011<br>\$000 | Group<br>Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 | Actual<br>2011<br>\$000 | Company<br>Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
|---|-------------------------|----------------------------------|-------------------------|-------------------------|------------------------------------|-------------------------|
| <b>(d) Recognised deferred tax assets and liabilities</b>                 |                         |                                  |                         |                         |                                    |                         |
| Deferred income tax at 30 June relates to the following:                  |                         |                                  |                         |                         |                                    |                         |
| <i>(i) Deferred tax liabilities</i>                                       |                         |                                  |                         |                         |                                    |                         |
| Biological Assets   | 2263                    | 842                              | 743                     | -                       | -                                  | -                       |
| Accelerated depreciation: buildings, plant & equipment,<br>motor vehicles | 165                     | 511                              | 161                     | -                       | -                                  | -                       |
| Other   | (64)                    | (26)                             | (74)                    | -                       | -                                  | -                       |
| NZ Emission Units   | 391                     | -                                | -                       | -                       | -                                  | -                       |
| Gross deferred tax liabilities  | 2,755                   | 1,327                            | 830                     | -                       | -                                  | -                       |
| Set-off of deferred tax assets  | -                       | 299                              | 688                     | -                       | -                                  | -                       |
| <b>Net deferred tax liabilities</b>                                       | 2,755                   | 1,028                            | 142                     | -                       | -                                  | -                       |
| <i>(ii) Deferred tax assets</i>   |                         |                                  |                         |                         |                                    |                         |
| Tax Losses  | -                       | 299                              | 688                     | -                       | -                                  | -                       |
| Gross deferred tax assets   | -                       | 299                              | 688                     | -                       | -                                  | -                       |
| Set-off of deferred tax assets against liabilities                        | -                       | (299)                            | (688)                   | -                       | -                                  | -                       |
| <b>Net deferred tax assets</b>  | -                       | -                                | -                       | -                       | -                                  | -                       |
| <b>9. Dividend Paid</b>   |                         |                                  |                         |                         |                                    |                         |
| Declared and paid during the year   |                         |                                  |                         |                         |                                    |                         |
| Final dividend for 2011 4.17c (2010: 8.33c)                               | 500                     | 500                              | 1,000                   | 500                     | 500                                | 1,000                   |
| <b>Imputation credit balance</b>  |                         |                                  |                         |                         |                                    |                         |
| Balance as at 1 July  | 4                       | 4                                | 1                       | -                       | -                                  | -                       |
| Resident withholding tax paid during the year                             | -                       | -                                | -                       | -                       | -                                  | -                       |
| Imputation credits attached to dividends received                         | -                       | -                                | 4                       | -                       | -                                  | -                       |
| Imputation credits attached to dividends paid                             | -                       | -                                | -                       | -                       | -                                  | -                       |
| Taxation refunds received during the year                                 | -                       | -                                | (1)                     | -                       | -                                  | -                       |
| Balance as at 30 June   | 4                       | 4                                | 4                       | -                       | -                                  | -                       |

## Notes to and forming part of the financial statements

|  | Group      |            |           | Company    |          |          |
|--|------------|------------|-----------|------------|----------|----------|
|  | Actual     | Budget     | Actual    | Actual     | Budget   | Actual   |
|  | 2011       | 2011       | 2010      | 2011       | 2011     | 2010     |
|  | \$000      | \$000      | \$000     | \$000      | \$000    | \$000    |
| <b>10. Trade and other receivables</b> |            |            |           |            |          |          |
| Trade receivables                      | 155        | 280        | 45        | -          | -        | -        |
| Accrued Interest                       | 10         | -          | -         | -          | -        | -        |
| Prepayments                            | 4          | -          | 5         | -          | -        | -        |
|  | <u>169</u> | <u>280</u> | <u>50</u> | <u>-</u>   | <u>-</u> | <u>-</u> |
| Related party receivables:             |            |            |           |            |          |          |
| Tauwhareparae Farms Ltd                | -          | -          | -         | 251        | -        | -        |
|  | <u>169</u> | <u>280</u> | <u>50</u> | <u>251</u> | <u>-</u> | <u>-</u> |

Gisborne Holdings Ltd had losses to carry forward of \$250,918. In order to utilise these losses a subvention payment of \$250,918 has been made from Tauwhareparae Farms Ltd to Gisborne Holdings Ltd.

There are no impaired trade and other receivables

### Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

|                        | Group     |           |           | Company  |          |          |
|------------------------|-----------|-----------|-----------|----------|----------|----------|
|                        | Actual    | Budget    | Actual    | Actual   | Budget   | Actual   |
|                        | 2011      | 2011      | 2010      | 2011     | 2011     | 2010     |
|                        | \$000     | \$000     | \$000     | \$000    | \$000    | \$000    |
| <b>11. Inventories</b> |           |           |           |          |          |          |
| Farm supplies on hand  | 21        | 21        | 18        | -        | -        | -        |
| Wool on hand           | 50        | 25        | 24        | -        | -        | -        |
|                        | <u>71</u> | <u>46</u> | <u>42</u> | <u>-</u> | <u>-</u> | <u>-</u> |

No inventories are pledged as security for liabilities nor are any inventories subject to retention of title clauses.

### 12. Bank (secured)

A wholesale advance facility with a limit of \$2 million is in place with Westpac NZ Ltd. The facility is secured by way of a general security agreement including a mortgage over the Group's freehold land. The balance at 30 June 2011 was Nil (2010: \$5,000).

|                                  | Group      |            |            | Company  |          |          |
|----------------------------------|------------|------------|------------|----------|----------|----------|
|                                  | Actual     | Budget     | Actual     | Actual   | Budget   | Actual   |
|                                  | 2011       | 2011       | 2010       | 2011     | 2011     | 2010     |
|                                  | \$000      | \$000      | \$000      | \$000    | \$000    | \$000    |
| <b>13. Payables and accruals</b> |            |            |            |          |          |          |
| Trade creditors and accruals     | 380        | 180        | 223        | -        | -        | -        |
| Accrued staff entitlements       | 66         | -          | 38         | -        | -        | -        |
|                                  | <u>446</u> | <u>180</u> | <u>261</u> | <u>-</u> | <u>-</u> | <u>-</u> |

### Fair Value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

### Interest rate, credit and liquidity risk

Information regarding interest rate, credit and liquidity risk exposure is set out in note 3.

## Notes to and forming part of the financial statements

### 14. Financial liabilities – term loans

|                      | Group                   |                         |                         | Company                 |                         |                         |
|----------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                      | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
| Westpac NZ Ltd.      | 3,233                   | 3,733                   | 3,733                   | -                       | -                       | -                       |
|                      | <hr/>                   | <hr/>                   | <hr/>                   | <hr/>                   | <hr/>                   | <hr/>                   |
| Less current portion | 3,233                   | 3,733                   | 3,733                   | -                       | -                       | -                       |
|                      | <hr/>                   | <hr/>                   | <hr/>                   | <hr/>                   | <hr/>                   | <hr/>                   |
| Term portion         | -                       | 3,733                   | 3,733                   | -                       | -                       | -                       |
|                      | <hr/>                   | <hr/>                   | <hr/>                   | <hr/>                   | <hr/>                   | <hr/>                   |

#### Assets pledged as security

The Company has a \$4 million wholesale term loan facility with Westpac NZ Ltd. The loan is secured by way of a general security agreement including a mortgage over all the Company's freehold land. The term loan is due to expire on the 30<sup>th</sup> of April 2012. One portion of the loan totalling \$1,733,312 (2010: \$1,733,312) is subject to a 30 day fixed interest rate of 4.90% expiring on the 12<sup>th</sup> July 2011. The second portion of the loan totalling \$1,500,000 (2010: \$2,000,000) is subject to a 30 day fixed interest rate of 4.90% expiring 30<sup>th</sup> July 2011.

#### Fair values

The carrying amount of the Company's borrowings approximate their fair value.

#### Interest rate and liquidity risk

Details regarding interest rate and liquidity risk are disclosed in note 3.

#### Defaults and Breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

### 15. Derivative financial instruments

|                                     | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
|-------------------------------------|-------------------------|-------------------------|-------------------------|
| <b>Interest rate swap contracts</b> |                         |                         |                         |
| Current liability                   | 62                      | -                       | 90                      |
| Non-current liability               | 101                     | 64                      | 117                     |
|                                     | <hr/>                   | <hr/>                   | <hr/>                   |
|                                     | 163                     | 64                      | 207                     |
|                                     | <hr/>                   | <hr/>                   | <hr/>                   |

Interest bearing loans of the Group currently bear an average variable interest rate of 4.90%. In order to put a cap on interest rates the Group has entered into interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover 100% (2010: 100%) of the principal outstanding. The Swaps cover loans due to expire on 30<sup>th</sup> April 2012. The fixed interest rates range between 5.67% and 7.85% (2010: 5.67% and 7.85%) and the variable interest rates are at the BKBM bill rate plus a margin of 1.20%.

#### Interest rate risk

The Group's financial assets and liabilities which are exposed to interest rate risk include cash and deposits and secured bank loans. The Group adopts a policy of reducing the exposure to changes in interest rates by utilising interest rate swaps to limit future interest costs.

## Notes to and forming part of the financial statements

## 16. Property plant &amp; equipment

| Group  | \$000<br>Freehold<br>Land &<br>Improvements | \$000<br>Buildings | \$000<br>Plant &<br>Equipment | \$000<br>Motor<br>Vehicles | \$000<br>Total |
|--|---|--------------------|-------------------------------|----------------------------|----------------|
| <b>Year ended 30 June 2011</b>                                       |   |                    |                               |                            |                |
| At 1 July net of<br>accumulated depreciation<br>and impairment       | 24,685                                      | 3,023              | 126                           | 161                        | 27,995         |
| Additions at cost  | -   | -                  | 55                            | 64                         | 119            |
| Disposals at net book value  | -   | -                  | (10)                          | (12)                       | (22)           |
| Revaluations   | 1,211                                       | 133                | -                             | -                          | 1,344          |
| Depreciation charged for<br>the year                                 | (151)                                       | (76)               | (26)                          | (46)                       | (299)          |
| At 30 June 2011 net of<br>accumulated depreciation<br>and impairment | 25,745                                      | 3,080              | 145                           | 167                        | 29,137         |

Carrying amounts of property plant & equipment were measured at cost less accumulated depreciation and impairment.

If property plant and equipment were measured using the cost model the carrying amounts would be as follows:

|  | \$000<br>Freehold<br>Land &<br>Improvements | \$000<br>Buildings | \$000<br>Plant &<br>Equipment | \$000<br>Motor<br>Vehicles | \$000<br>Total |
|--|---|--------------------|-------------------------------|----------------------------|----------------|
| <b>Cost or fair value</b>                  | 2,060                                       | 1,692              | 436                           | 424                        | 4,612          |
| Accumulated depreciation<br>And impairment | 747   | 452                | 291                           | 257                        | 1,747          |
| <b>Net Carrying Amount</b>                 | 1,313                                       | 1,240              | 145                           | 167                        | 2,865          |

## Notes to and forming part of the financial statements

## 16. Property plant &amp; equipment (continued)

| Group  | \$000<br>Freehold<br>Land &<br>Improvements | \$000<br>Buildings | \$000<br>Plant &<br>Equipment | \$000<br>Motor<br>Vehicles | \$000<br>Total |
|--|---|--------------------|-------------------------------|----------------------------|----------------|
| <b>Year ended 30 June 2010</b>                                       |   |                    |                               |                            |                |
| At 1 July net of<br>accumulated depreciation<br>and impairment       | 28,125                                      | 2,777              | 132                           | 115                        | 31,149         |
| Additions  | -   | 267                | 21                            | 137                        | 425            |
| Disposals/transfers to assets<br>held in sale                        | -   | -                  | (1)                           | (37)                       | (38)           |
| Revaluations   | (3,289)                                     | 55                 | -                             | -                          | (3,234)        |
| Depreciation charged for<br>the year                                 | (151)                                       | (76)               | (26)                          | (54)                       | (307)          |
| At 30 June 2010 net of<br>accumulated depreciation<br>and impairment | <u>24,685</u>                               | <u>3,023</u>       | <u>126</u>                    | <u>161</u>                 | <u>27,995</u>  |

Carrying amounts of property plant & equipment were measured at cost less accumulated depreciation and impairment.

If property plant and equipment were measured using the cost model the carrying amounts would be as follows:

|  | \$000<br>Freehold<br>Land &<br>Improvements | \$000<br>Buildings | \$000<br>Plant &<br>Equipment | \$000<br>Motor<br>Vehicles | \$000<br>Total |
|--|---|--------------------|-------------------------------|----------------------------|----------------|
| <b>Cost or fair value</b>                  | 2,060                                       | 1,692              | 417                           | 411                        | 4,580          |
| Accumulated depreciation<br>And impairment | 596   | 377                | 291                           | 250                        | 1,514          |
| <b>Net Carrying Amount</b>                 | <u>1,464</u>                                | <u>1,315</u>       | <u>126</u>                    | <u>161</u>                 | <u>3,066</u>   |

The fair value of freehold land (including forestry land) and improvements (including buildings) are determined by independent valuation. The independent valuation was performed by Bruce Cowper of Lewis Wright Valuation & Consultancy Ltd, an independent registered valuer. The fair value as per the valuation as at 30 June 2011 was \$28,825,000. (2010: \$27,685,000).

Fair value is the amount for which assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable to those held by the group.

## Notes to and forming part of the financial statements

### 17. Biological Assets (Consumable)

Biological Assets consist of sheep and cattle (Livestock) and plantation trees (Forestry)

The group farms livestock for the sale of sheep, lambs, cattle and calves.

#### (A) Reconciliation of opening balance to closing balance

##### For the year ended 30 June 2011

|   | Sheep    |         | Cattle   |         | Forestry |       | Total   |
|---|----------|---------|----------|---------|----------|-------|---------|
|   | Quantity | \$000   | Quantity | \$000   | Hectares | \$000 | \$000   |
| <b>Opening Balance</b><br>as at 1 July  | 33,679   | 3,483   | 5,527    | 3,741   | 1,442.1  | 2,483 | 9,707   |
| Natural Increase                        | 31,070   | 3,997   | 2,272    | 1,451   | -        | -     | 5,448   |
| Purchases                               | 56       | 36      | 37       | 110     | 9.2      | 66    | 212     |
| Change in Fair<br>Value                 | -        | 2,235   | -        | 1,460   | -        | 3,823 | 7,518   |
| Sales                                   | (30,816) | (3,531) | (1,814)  | (1,633) | -        | -     | (5,164) |
| Deaths & Killed                         | 2,424    | (374)   | (73)     | (63)    | (28.3)   | -     | (437)   |
| <b>Closing Balance</b><br>as at 30 June | 31,565   | 5,846   | 5,949    | 5,066   | 1,423.0  | 6,372 | 17,284  |

##### For the year ended 30 June 2010

|   | Sheep    |         | Cattle   |         | Forestry |       | Total   |
|---|----------|---------|----------|---------|----------|-------|---------|
|   | Quantity | \$000   | Quantity | \$000   | Hectares | \$000 | \$000   |
| <b>Opening Balance</b><br>as at 1 July  | 31,546   | 3,350   | 5,783    | 3,907   | 1,384.2  | 2,486 | 9,743   |
| Natural Increase                        | 33,708   | 2,998   | 2,172    | 1,168   | -        | -     | 4,166   |
| Purchases                               | 43       | 31      | 31       | 114     | 57.9     | 133   | 278     |
| Change in Fair<br>Value                 | -        | (249)   | -        | 346     | -        | (136) | (39)    |
| Sales                                   | (29,747) | (2,462) | (2,207)  | (1,623) | -        | -     | (4,085) |
| Deaths & Killed                         | (1,871)  | (185)   | (252)    | (171)   | -        | -     | (356)   |
| <b>Closing Balance</b><br>as at 30 June | 33,679   | 3,483   | 5,527    | 3,741   | 1,442.1  | 2,483 | 9,707   |

## Notes to and forming part of the financial statements

## 17. Biological Assets (Consumable) (continued)

(B) The fair value of biological assets as at end of the year was:

## Consumable Biological Assets Group

## Livestock

## SHEEP

|                       | 2011          |              | 2010          |              |
|-----------------------|---------------|--------------|---------------|--------------|
|                       | Quantity      | \$000        | Quantity      | \$000        |
| <b>Mature sheep</b>   |               |              |               |              |
| Mixed age ewes        | 16,160        | 3,200        | 17,395        | 1,802        |
| Two tooth ewes        | 6,379         | 1,391        | 5,529         | 685          |
| Breeding rams         | 200           | 29           | 170           | 13           |
| <b>Immature sheep</b> |               |              |               |              |
| Ewe hoggets           | 6,828         | 981          | 7,159         | 684          |
| Ram & wether hoggets  | 1,998         | 245          | 3,426         | 299          |
| <b>Total sheep</b>    | <b>31,565</b> | <b>5,846</b> | <b>33,679</b> | <b>3,483</b> |

## CATTLE

|                                  | 2011         |              | 2010         |              |
|----------------------------------|--------------|--------------|--------------|--------------|
|                                  | Quantity     | \$000        | Quantity     | \$000        |
| <b>Mature cattle</b>             |              |              |              |              |
| Mixed age cows                   | 1,808        | 1,910        | 1,476        | 1,118        |
| Rising three year heifers        | 634          | 713          | 688          | 594          |
| Rising two year heifers          | 949          | 769          | 996          | 747          |
| Rising three year & older steers | 6            | 5            | 19           | 16           |
| Rising two year steers & bulls   | 196          | 178          | 156          | 128          |
| Breeding bulls                   | 82           | 162          | 79           | 128          |
| <b>Immature cattle</b>           |              |              |              |              |
| R1 Heifers                       | 1,076        | 558          | 1,042        | 447          |
| R1 Steers & Bulls                | 1,198        | 771          | 1,071        | 563          |
| <b>Total cattle</b>              | <b>5,949</b> | <b>5,066</b> | <b>5,527</b> | <b>3,741</b> |

## FORESTRY

|  | 2011           |               | 2010           |              |
|--|----------------|---------------|----------------|--------------|
|  | Hectares       | \$000         | Hectares       | \$000        |
| <b>Forest tree crop</b>                      |                |               |                |              |
| <b>Total Forestry</b>                        | <b>1,423.0</b> | <b>6,372</b>  | <b>1,442.1</b> | <b>2,483</b> |
| <b>TOTAL BIOLOGICAL ASSETS AS AT 30 JUNE</b> |                | <b>17,284</b> |                | <b>9,707</b> |

## Notes to and forming part of the financial statements

### 17. Biological Assets (Consumable) (continued)

The fair value of livestock is determined by independent valuation as at 30 June 2011. The independent livestock valuation was performed by Gisborne East Coast Farmers, independent livestock agents, in accordance with the Group's accounting policy detailed in note 1.

The independent valuation used the quoted price in an active market as the appropriate basis for determining fair value. Where there is more than one active market that the group has access to, the most relevant market has been used.

The gain on initial recognition of livestock sold is recognised in the statement of comprehensive income in the year of harvest. At time of harvest, wool is recorded as inventory.

The fair value of the forest tree crop is determined by independent valuation. Independent forestry valuation as at 30 June 2011 was performed by P F Olsen and Company Limited, independent providers of professional forestry services. The fair value is assessed as follows:

- The maturity value of the existing tree crop and the future costs of realising that revenue are determined.
- Future costs and revenue are discounted from the year in which they occur to the date of the valuation by applying an appropriate discount rate.

The appropriate discount rate is determined by considering the recent sales of forests and the relative sensitivity of the value of the forest to future log prices.

Significant assumptions applied in this determination of fair value are:

|                                     | <u>2011</u> | <u>2010</u> |
|-------------------------------------|-------------|-------------|
| Appropriate Discount Rate (Pre tax) | 7.0%        | 7.0%        |
| Rate of inflation                   | 3.0%        | 3.0%        |
| Rate of tax                         | 28%         | 30%         |

During the year \$66,550 (2010: \$133,234) of forestry development expenditure was capitalised to the forest asset.

## Notes to and forming part of the financial statements

## 17. Biological Assets (Consumable) (continued)

## (C) Cost of sales and Gross Profit – Biological Assets

|                                   | Quantity | Average<br>Price \$ | 2011<br>\$000  | Quantity | Average<br>Price \$ | 2010<br>\$000 |
|-----------------------------------|----------|---------------------|----------------|----------|---------------------|---------------|
| <b>Livestock</b>                  |          |                     |                |          |                     |               |
| <b>Sheep</b>                      |          |                     |                |          |                     |               |
| Sales                             | 30,816   | 115                 | 3,531          | 29,747   | 83                  | 2,462         |
| <b>Less cost of sales</b>         |          |                     |                |          |                     |               |
| Opening stock                     | 33,679   | 103                 | 3,483          | 31,546   | 106                 | 3,350         |
| Add Purchases                     | 56       | 643                 | 36             | 43       | 723                 | 31            |
| Less closing stock                | 31,565   | 185                 | 5,846          | 33,679   | 103                 | 3,483         |
| <b>Total cost of sales</b>        |          |                     | <b>(2,327)</b> |          |                     | <b>(102)</b>  |
| <b>Gross profit from Sheep</b>    |          |                     | <b>5,858</b>   |          |                     | <b>2,564</b>  |
| <br>                              |          |                     |                |          |                     |               |
|                                   | Quantity | Average<br>Price \$ | 2011<br>\$000  | Quantity | Average<br>Price \$ | 2010<br>\$000 |
| <b>Cattle</b>                     |          |                     |                |          |                     |               |
| Sales                             | 1,814    | 900                 | 1,633          | 2,207    | 735                 | 1,623         |
| <b>Less cost of sales</b>         |          |                     |                |          |                     |               |
| Opening stock                     | 5,527    | 677                 | 3,741          | 5,783    | 675                 | 3,907         |
| Add Purchases                     | 37       | ,2981               | 110            | 31       | 3,661               | 114           |
| Less Closing stock                | 5,949    | 851                 | 5,065          | 5,527    | 677                 | 3,741         |
| <b>Total cost of sales</b>        |          |                     | <b>(1,214)</b> |          |                     | <b>280</b>    |
| <b>Gross profit from cattle</b>   |          |                     | <b>2,847</b>   |          |                     | <b>1,343</b>  |
| <br>                              |          |                     |                |          |                     |               |
|                                   |          |                     | 2011<br>\$000  |          |                     | 2010<br>\$000 |
| <b>Forestry</b>                   |          |                     |                |          |                     |               |
| Opening Valuation                 |          |                     | 2,483          |          |                     | 2,486         |
| Forestry Development Expenditure  |          |                     | 66             |          |                     | 133           |
| Less Closing Valuation            |          |                     | 6,372          |          |                     | 2,483         |
| <b>Gross Profit from forestry</b> |          |                     | <b>3,823</b>   |          |                     | <b>(136)</b>  |

## Notes to and forming part of the financial statements

### 18. Available-for-sale-Financial Assets

|                      | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
|----------------------|-------------------------|-------------------------|-------------------------|
| <b>At fair value</b> |                         |                         |                         |
| Shares – unlisted    | 199                     | 199                     | 199                     |
| Shares – listed      | 2                       | 1                       | 1                       |
|                      | <u>201</u>              | <u>200</u>              | <u>200</u>              |

Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

#### (a) Listed shares

The fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

#### Market risk

The Group has listed shares with a current market value of \$1,612 (2010: \$1,523). If the market value of the shares increased/decreased by 10% the fair value would increase/decrease by \$161 (2010: \$152).

There are no individually material investments.

#### (b) Unlisted shares

##### Valuation assumptions

The fair value of the unlisted available-for-sale investments has been estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates. Management believes the estimated fair value resulting from the valuation techniques and recorded in the Statement of Financial Position and the related changes in fair value recorded in equity are reasonable and the most appropriate at the Statement of Financial Position date.

### 19. Intangible Assets

Intangible assets consist of NZ Emissions Units

#### Reconciliation of opening balance to closing

For the year ended 30 June 2011

|  | NZ Emission Units |           |               |              | Total<br>\$000 |
|--|-------------------|-----------|---------------|--------------|----------------|
|  | Pre 1990          |           | Post 1989     |              |                |
|  | Quantity          | \$000     | Quantity      | \$000        | \$000          |
| <b>Opening Balance as at 1 July</b>        | 0                 | 0         | 0             | 0            | 0              |
| Received by government grant at fair value | 4,186             | 81        | 107,723       | 2,068        | 2,149          |
| Change in fair value                       | -                 | (4)       | -             | (60)         | (64)           |
| Sales                                      | -                 | -         | (32,000)      | (611)        | (611)          |
|  | <u>4,186</u>      | <u>77</u> | <u>75,723</u> | <u>1,397</u> | <u>1,474</u>   |
| <b>Closing Balance as at 30 June</b>       |                   |           |               |              |                |

## **Notes to and forming part of the financial statements**

### **20. Capital commitments**

There were no material capital commitments at balance date. (2010:NIL).

### **21. Segment information**

Gisborne Holdings Limited operates predominantly in one industry segment. Its primary business being sheep and beef farming with the sale of livestock and wool providing ongoing revenue. Those activities are conducted in one geographical location, inland from Tolaga Bay on the East Coast of the North Island of New Zealand.

### **22. Contingencies**

The Group has a contingent liability in respect of both its pre-1990 and post-1989 forests which are part of the New Zealand Emissions Trading Scheme. Should the Group deforest all of its pre-1990 forests, it would have a liability under the ETS to surrender New Zealand emissions units of approximately \$2.9708 million determined at 30 June 2011 (2010: \$Nil). Should the Group experience a decrease in total carbon stocks for all of its post-1989 forests, whether due to events such as harvest or forest fire, it would have a liability under the ETS to surrender New Zealand emissions units of approximately \$1.987 million determined at 30 June 2011 (2010: \$Nil). The amount and timing of any liability is uncertain and is dependent on the occurrence of the circumstances described above and the price of emissions units at the time of deforestation.

## Notes to and forming part of the financial statements

### 23. Cash flow statement reconciliation

#### Reconciliation of net operating surplus after taxation with cash inflow from operating activities

|   | Group                   |                         |                         | Company                 |                         |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 | Actual<br>2011<br>\$000 | Budget<br>2011<br>\$000 | Actual<br>2010<br>\$000 |
| Net operating surplus after taxation  | 8,956                   | 770                     | 961                     | 676                     | 500                     | 999                     |
| <b>Add back non-cash items:</b>   |                         |                         |                         |                         |                         |                         |
| Depreciation (net)  | 297                     | 298                     | 279                     | -                       | -                       | -                       |
| Forest Value Impairment (Revaluation)   | (3,823)                 | (175)                   | 136                     | -                       | -                       | -                       |
| Livestock revaluation   | (3,687)                 | (298)                   | 33                      | -                       | -                       | -                       |
| Loss/(gain) on disposal of assets   | 11                      | -                       | 17                      | -                       | -                       | -                       |
| Movement in derivative financial instruments taken to the Income Statement    | (45)                    | 64                      | 14                      | -                       | -                       | -                       |
| Increase/(decrease) in deferred tax liability excluding transfers to reserves | 2,597                   | 230                     | (200)                   | 75                      | -                       | 1                       |
| Other fixed and investment assets changes/(credits)                           | -                       | (1)                     | (11)                    | -                       | -                       | -                       |
| Subvention Payment  | -                       | -                       | -                       | (251)                   | -                       | -                       |
| Carbon Credits allocated  | (2,149)                 | -                       | -                       | -                       | -                       | -                       |
| Carbon Credits impairment (revaluation)                                       | 64                      | -                       | -                       | -                       | -                       | -                       |
|   | <u>(6,735)</u>          | <u>(10)</u>             | <u>268</u>              | <u>176</u>              | <u>500</u>              | <u>1</u>                |
| <b>Add back items classified as financing activity</b>                        |                         |                         |                         |                         |                         |                         |
| Dividends received  | -                       | -                       | -                       | (500)                   | (500)                   | (1000)                  |
| Interest received   | (17)                    | -                       | -                       | -                       | -                       | -                       |
| Interest paid   | 343                     | 348                     | 294                     | -                       | -                       | -                       |
|   | <u>326</u>              | <u>348</u>              | <u>294</u>              | <u>(500)</u>            | <u>(500)</u>            | <u>(1,000)</u>          |
| <b>Decrease/(increase) in working capital:</b>                                |                         |                         |                         |                         |                         |                         |
| Accounts receivable and prepayments excluding capital disposal accruals       | (113)                   | (56)                    | 43                      | -                       | -                       | --                      |
| Inventories   | (29)                    | -                       | 4                       | -                       | -                       | -                       |
| Accounts payable and accruals excluding capital expenditure accruals          | 153                     | 8                       | (38)                    | -                       | -                       | -                       |
| Taxation payable/receivable   | 206                     | -                       | 1                       | -                       | -                       | -                       |
|   | <u>217</u>              | <u>(48)</u>             | <u>10</u>               | <u>-</u>                | <u>-</u>                | <u>-</u>                |
| <b>Net cash inflow from operating activities</b>                              | <u>2,764</u>            | <u>1,060</u>            | <u>1,533</u>            | <u>-</u>                | <u>-</u>                | <u>-</u>                |

## Notes to and forming part of the financial statements

### 24. Transactions with related parties

During the year the Group paid rates for land and water, and paid for dog registrations, vehicle registrations, and consent fees to the Gisborne District Council, who is the ultimate sole shareholder of the Group. The amounts charged by the Gisborne District Council were based on normal terms and conditions of trade. The total sum paid in relation to these expenses for the year was \$96,054 (including GST) (2010: \$94,651). There was a balance outstanding at 30 June 2011 of \$3,612 (2010:\$2,920).

| Related Party Consolidated | Sales to related parties |               | Purchases from related parties |               | Other transactions with related parties |               |
|----------------------------|--------------------------|---------------|--------------------------------|---------------|---|---------------|
|                            | 2011<br>\$000            | 2010<br>\$000 | 2011<br>\$000                  | 2010<br>\$000 | 2011<br>\$000                           | 2010<br>\$000 |

#### Shareholder:

|   |   |   |    |    |     |       |
|---|---|---|----|----|-----|-------|
| Gisborne District Council                   |   |   |    |    |     |       |
| - Rates materials and dog registration paid | - | - | 96 | 95 | -   | -     |
| - Dividends paid                            | - | - | -  | -  | 500 | 1,000 |

The sale/purchase of livestock between the farms owned by the Group during the year amounted to \$124,238 (2010: \$234,460).

There were no transactions with any entities owned by directors.

No related party debts have been written off or forgiven during the year.

Details relating to key management personnel, including remuneration paid, are included below.

Key management personnel include all directors and the farm supervisor.

| Compensation of key management personnel | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2011<br>\$000 | 2010<br>\$000 | 2011<br>\$000 | 2010<br>\$000 |
| Short-term employee benefits             | 119           | 134           | -             | -             |
| Post-employment benefits                 | -             | -             | -             | -             |
| Other long term benefits                 | -             | -             | -             | -             |
| Termination benefits(a)                  | -             | -             | -             | -             |
| Share-based payments                     | -             | -             | -             | -             |

### 25. Subsequent events

No significant items/events have occurred between year end and the signing of the financial statements.

## **Notes to and forming part of the financial statements**

### **26. Government Grants**

The Group receives Government grants in the form of forestry grants from the East Coast Forestry Project. There are no contingencies and unfulfilled conditions relating to these grants at balance date.

### **27. Risk identification and management**

The Group has in place policies and procedures to identify areas of significant business risk, and implement procedures to effectively manage those risks. Where appropriate the Board obtains advice directly from external advisors. Once a significant business risk is identified, the Board is advised and corrective action is taken promptly to mitigate and monitor the risk.

### **28. Capital Management**

The Group's capital is its equity, which comprises retained earnings. Equity is represented by net assets. The Group manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, and general financial dealings to ensure the Group effectively achieves its objectives and purpose, whilst still remaining a going concern.

## Notes to and forming part of the financial statements

### 30. Performance targets of Gisborne Holdings Limited for the year commencing 1 July 2010

The following performance targets have been set for the 2010/11 financial year:

| Objective  | Performance Target   | Performance Result                         |
|--|--|--|
| 1. To ensure that the financial targets and strategic direction of GHIL are in line with the requirements of GDC.              | ▶ A draft SOI for GHIL will be submitted for approval to GDC by 1 March each year.   | Achieved                                   |
|  | ▶ A completed SOI will be submitted to GDC by 30 June each year.   | Achieved                                   |
|  | ▶ The groups accounting return on shareholders funds (defined as EBIT divided by average shareholder funds employed) of at least 2%.                                       | Achieved 31.2%                             |
|  | ▶ Consolidated ratio of net debt to net debt plus equity of no more than 11.9%   | Achieved 10.1%                             |
|  | ▶ A minimum five year rolling average Council return on investment in the range of 1-3%. Return being defined as dividends paid to Council over net assets.                | Achieved 2.0%                              |
|  | ▶ Audited annual accounts will be provided to Council by the 20 September each year. (To allow consolidation into the Councils accounts in a timely manner.)               | Not achieved<br>Provided 30 September 2010 |
| 2. To ensure that GDC is kept informed of all significant matters relating to its subsidiaries.                                | ▶ At least two progress reports be made to GDC in the financial year (in addition to reporting on specific issues), with at least one presentation be made to Councillors. | Achieved                                   |
|  | ▶ Major matters of urgency are reported to the Finance and Monitoring Committee at the earliest opportunity.   | No matters arose                           |
| 3. To ensure that GHIL directors add value to the company and that their conduct is according to generally accepted standards. | ▶ The Chair will conduct a formal evaluation of the GHIL directorate annually.   | Still to be conducted                      |
|  | ▶ The Company will review the training needs of individual GHIL Directors, and ensure training is provided where required.   | Achieved                                   |

## Notes to and forming part of the financial statements

### 30. Performance targets of Gisborne Holdings Limited for the commencing 1 July 2010

| Objective   | Performance Target  | Performance Result                        |
|---|---|---|
| 4. GHL's process for the selection and appointment of directors to the boards of subsidiaries is rigorous, impartial and in accordance with the GDC approved processes. | ▶ The process followed for each appointment to a subsidiary board is transparent and fully documented.  | No appointments made                      |
|   | ▶ That directors of subsidiary companies are selected for their commercial expertise and business aptitude relative to the subsidiaries objectives, subject to the approval of the GDC and in accordance with the Council's appointment policy. | Achieved                                  |
| 5. To ensure that GHL returns a dividend to GDC in accordance with the Dividend Policy and with regard to GDC's budgets, and meets other financial targets.             | ▶ GHL pays an interim and final dividend for the 2010/11 financial year in accordance with the dividend policy.   | Achieved                                  |
| 6. To ensure that the subsidiary companies return a minimum acceptable dividend as per the SOI of the subsidiary companies.   | ▶ GHL meets its budgeted level of dividend income.  | Achieved                                  |
| 7. To ensure that GHL's procedures for the appointment of directors to subsidiary directorates are open and in accordance with written policy.                          | ▶ That the adopted Directors Policy be followed for any director appointments made.   | No appointments made                      |
| 8. To ensure that the draft subsidiary company SOI's are received on a timely basis for review and comment.   | ▶ Draft SOI's are to be received by 14 February from the subsidiary companies.  | Not achieved<br>Received on 15 April 2011 |
| 9. To ensure that the final subsidiary company SOI's are appropriate, measurable, attainable and timely.  | ▶ Comment on the draft SOI's within the statutory timeframe of 30 April each year.  | Achieved                                  |
| 10. To ensure that the final subsidiary company SOI's are commercially focused documents, while also being compatible with the strategic aims of GDC.                   | ▶ GHL will direct the subsidiary companies to produce commercially focused draft SOI's.   | Achieved                                  |
|   | ▶ GHL will assess the alignment of the SOI's with any specifically notified GDC strategic directive.  | Achieved                                  |

## Notes to and forming part of the financial statements

### 30. Performance targets of Gisborne Holdings Limited for the commencing 1 July 2010

| Objective   | Performance Target  | Performance Result |
|---|---|--------------------|
| 11.To ensure that the subsidiary company reporting is relevant and timely.  | ▶ Subsidiary company SOI's to incorporate specific reporting requirements in accordance with legislation and accepted practice. | Achieved           |
| 12.To ensure that there are adequate processes for the identification, assessment and management of the risk exposures of the subsidiary companies. | ▶ Subsidiary company SOI's to incorporate specific statements regarding the processes for the management of risk exposures.     | Achieved           |

| Summarised Performance Indicators                    | Target 2010/11 | Achieved 2010/11 |
|--|----------------|------------------|
| Return on shareholders' funds                        | 2.1%           | 23.7%            |
| Net debt/net debt + equity                           | 11.9%          | 10.1%            |
| 5 year rolling average dividend return on investment | 1.9%           | 2.0%             |
| Ratio of shareholder funds to total assets           | 88.1%          | 86.5%            |

## Statutory information

### Directors holding office during the year

|                                  |                     |
|----------------------------------|---------------------|
| Christopher Mark Egan (Chairman) |                     |
| Peter David Andrew               |                     |
| Robert David Rennie Elliott      | Deceased 27/05/2011 |
| Donald Bruce Green               | Retired 24/11/2010  |
| Daniel John Griffin              | Retired 24/11/2010  |
| Peter Stanley Reeves             |                     |

### Entries in the interests' register

#### *General notice of interests declared during the year (Section 140(2) of the Companies Act 1993)*

No general notices of interests were notified by directors during the year.

#### *Share dealings (Section 148 of the Companies Act 1993)*

No director has had any relevant interest in any shares issued by the Company.

#### *Use of company information (Section 145 of the Companies Act 1993)*

During the year the Board received no notices from any director requesting to use Company information received in their capacity as a director which would not otherwise have been available to them.

#### *Directors' insurance (Section 162(7) of the Companies Act 1993)*

The Company has insured, and provided indemnities, to all its directors against liabilities to other parties (except the Company or a related party of the Company) that may arise from their positions as directors. The insurance/indemnity does not cover liabilities arising from criminal actions.

#### *Directors' remuneration (Section 161(2) of the Companies Act 1993)*

Directors' remuneration in respect of the year ended 30 June 2009 was as follows:

|               |          |
|---------------|----------|
| C M Egan      | \$30,000 |
| P D Andrew    | \$15,000 |
| R D R Elliott | \$15,000 |
| D B Green     | \$6,010  |
| D J Griffin   | \$6,010  |
| P S Reeves    | \$15,000 |

In addition to directors' fees the following amounts were paid during the year:

To Agfirst Consultants Limited (of which P D Andrew is a director):

- Consulting fees \$1,275

To D B Green:

- Farm Supervisor fees \$25,846
- Vehicle Reimbursement \$6,000

To C M Egan

- Vehicle Reimbursement \$176

No other benefits have been provided by the Company to a director for services as a director or in any other capacity. No loans have been made by the Company to a director nor has the Company guaranteed any debts incurred by a director.

### Donations

The Group did not make any donations during the year ended 30 June 2011 (2010: Nil).

## **Directory**

### **Directors**

Christopher Mark Egan (Chairman)

Peter David Andrew

Robert David Rennie Elliott

Deceased 27/05/2011

Donald Bruce Green

Retired 24/11/2010

Daniel John Griffin

Retired 24/11/2010

Peter Stanley Reeves

### **Registered office**

393 Gladstone Road

GISBORNE

### **Postal address**

PO Box 1325

GISBORNE

Telephone 0-6-869 1234

Facsimile 0-6-867 8357

### **Senior management**

Farm Supervisor – Donald Green

Chief Financial Officer – Richard Stannard – Graham & Dobson Limited

### **Auditor**

Grant Taylor

Ernst & Young on behalf of the Office of the Auditor General

### **Bankers**

Westpac NZ Ltd

Gisborne Branch

PO Box 942

GISBORNE

### **Solicitors**

Nolans

PO Box 1141

GISBORNE