

Tauwhareparae Farms Ltd

**and its non trading subsidiary
Tauwhareparae Forests Ltd**

**Statement of Intent for the Three Years
Commencing 1 July 2011**



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1. Introduction

This Statement of Intent ("SOI") is prepared in accordance with Section 64 and Schedule 8 of the Local Government Act 2002.

The SOI specifies for Tauwhareparae Farms Limited ("TFL") its objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the Company may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable SOI is a public and legally required expression of the accountability relationship between the company and its ultimate shareholder, the Gisborne District Council ("GDC"). The SOI is reviewed annually with the GDC and covers a three year period commencing 1 July 2011.

The SOI also reflects the purpose for which the Council shareholder continues to own the asset.

This SOI covers Tauwhareparae Farms Ltd (TFL) and Tauwhareparae Forests Ltd originally a government endowment.

The Council as ultimate shareholder of TFL continues to own and operate TFL for a combination of community ownership and commercial principles. TFL was originally a government endowment. The Council is to formalise the purpose for its continuing ownership of TFL and direct TFL accordingly.

The Council shareholder expects TFL to perform to the highest industry levels of performance and to provide annual dividends whilst still retaining and growing this community asset.

This SOI will reflect those shareholder objectives.

2. Company Mission

To provide a superior return and growth from assets relative to the industry they operate in.

"To establish and efficiently direct an outstanding group of Council-controlled business activities which are aligned with Council's strategic direction"

"By bringing the best available expertise to bear upon management of its assets, TFL will contribute to the Gisborne District Council (GDC) by owning and managing selected regional assets and investments in accordance with sound business practice and sustainable development principles. It will provide funds to the GDC while protecting those assets under its stewardship."

Investing in, and promoting the establishment of, key infrastructure and community assets in a commercially viable manner to assist the development of Gisborne as a world-class destination.

3. The Objectives of the Company

As required by section 59 of the Local Government Act 2002, the principal objective of TFL is to:

- ▶ achieve the objectives of its shareholders, both commercial and non-commercial, as specified in this Statement of Intent; and
- ▶ be a good employer in accordance with S:36(2) of Schedule 7 of the Local Government Act 2002; and
- ▶ exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and conduct its affairs in accordance with sound business practice.

TFL contributes to achieving the following Community Outcomes in Gisborne District Council's Long Term Council Community Plan:

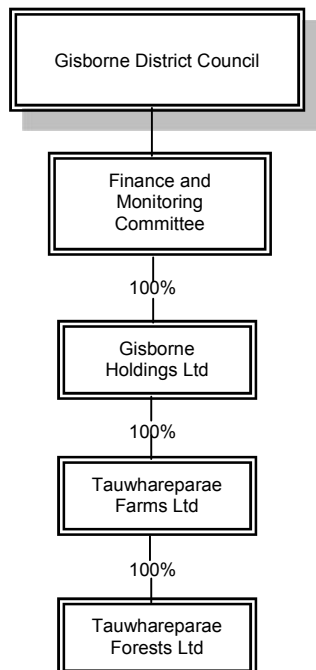
Environmentally Sustainable Tairāwhiti – We value our environment ensuring it is protected and enhanced for future generations.

Prosperous Tairāwhiti – We support and develop our economy to grow and attract positive tourism and investment, while maximizing the benefits for our people and managing the impact on our environment.

4. Nature and Scope of Activities

Tauwhareparae Farms is a subsidiary company of Gisborne Holdings Ltd (GHL), a wholly-owned Council-Controlled Organisation ("CCO") of GDC, which was formed in June 1994.

The current group structure is as follows:



The group consists of:

Gisborne Holdings Ltd – Parent company

- ▶ Tauwhareparae Farms Ltd – farm and forestry operations at Tolaga Bay.
- ▶ Tauwhareparae Forests Ltd – no business conducted since incorporation in 1997.

On 30 June 2010 Tauwhareparae Farms Ltd and Tauwhareparae Holdings Ltd were amalgamated. The surviving entity was renamed Tauwhareparae Farms Ltd. This is not a port company and the Port Companies Act has ceased to apply.

Shareholding Role

GHL on behalf of GDC has:

- ▶ A shareholding investment in Tauwhareparae Farms Ltd ("TFL") of \$20,000,000 representing 100% of TFL's share capital.

Activities that are to be undertaken by TFL are:

- ▶ Negotiation of the individual annual SOI for TFL with GHL, the owner of the CCO (the subsidiary company) and the recommendation of that SOI to Council for approval.
- ▶ To manage the farm and forestry estate at Tauwhareparae in Tolaga Bay in accordance with best practice; and
- ▶ To identify any opportunities to profitably extend the company's activities into areas which are complimentary to and compatible with the company's core business.

The undertaking of any activity not provided for under this SOI requires the prior approval of GHL and GDC.

The board will also seek approval for any material departures from the adopted SOI and any material variation from budgeted financial return.

Specific objectives of TFL are:

- ▶ To earn a commercially appropriate return on shareholders funds, having regard to the risk of the business.
- ▶ To achieve the objectives of its shareholder, both commercial and non-commercial, as specified in this SOI.
- ▶ To improve farm management and performance to optimise existing capabilities at one or more of the on farm stages of the value chain – genetics, breeding, growing and finishing.
- ▶ TFL will investigate participation in the full value chain. The form of participation appropriate for TFL (ownership, partnership, joint venture, contract) will be determined after further investigation of options and discussions with other parties.
- ▶ To investigate options and opportunities for trading of carbon credits.

5. Corporate Governance

TFL's directors are appointed by the shareholders to govern and direct TFL's activities. This responsibility includes such areas of stewardship as:

- ▶ Commercial performance
- ▶ Business plans and budgets
- ▶ Corporate policies
- ▶ Financial and dividend policies
- ▶ Management oversight and development
- ▶ Delegations or authority
- ▶ Identification and management of business risks
- ▶ Identification and management of business opportunities
- ▶ Internal control systems
- ▶ Integrity of management information systems
- ▶ Relationships with stakeholders and external parties
- ▶ Compliance with relevant law
- ▶ Reports to shareholders

6. Performance Targets of Tauwhareparae Farms Limited for the Three Years Commencing 1 July 2011

The following performance targets have been set for the 2011/12 financial year, and the two years following:

Objective	Performance Target
1. To ensure that the financial targets and strategic direction of TFL are in line with the requirements of GDC.	<ul style="list-style-type: none">▶ A draft SOI for TFL will be submitted for approval to GHF by 14 February each year. This will then be submitted for approval to GDC by 1 March each year.▶ A completed SOI will be submitted to GDC by 30 June each year.▶ TFL's accounting return on shareholders funds (defined as EBIT divided by average shareholder funds employed) of at least 2%.▶ Consolidated ratio of net debt to net debt plus equity of no more than: 2012 10.4% 2013 8.5% 2014 6.7%▶ 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.

Objective

- | Objective | Performance Target |
|---|---|
| 2. To ensure that GDC is kept informed of all significant matters relating to its subsidiaries. | ▶ 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.) |
| 3. To ensure that TFL directors add value to the company and that their conduct is according to generally accepted standards. | ▶ 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 Councilors.

▶ Major matters of urgency are reported to the Finance and Monitoring Committee at the earliest opportunity. |
| 4. TFL's process for the selection and appointment of directors to the boards of subsidiaries is rigorous and impartial. | ▶ The Chair will conduct a formal evaluation of the TFL directorate annually.

▶ The Company will review the training needs of individual TFL Directors, and ensure training is provided where required.

▶ The process followed for each appointment to a subsidiary board is transparent and fully documented.

▶ 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. |
| 5. To ensure that TFL returns a dividend to GHF in accordance with the Dividend Policy and with regard to GDC's budgets, and meets other financial targets. | ▶ TFL pays an interim and final dividend for the 2011/12 financial year in accordance with the dividend policy. |
| 6. To ensure that the draft company SOI is received on a timely basis for review and comment. | ▶ Draft SOI is to be received by 14 February from the subsidiary companies. |
| 7. To ensure that the final company SOI is appropriate, measurable, attainable and timely. | ▶ Comment on the draft SOI within the statutory timeframe of 30 April each year. |
| 8. To ensure that the final company SOI is a commercially focused document, while also being compatible with the strategic aims of GDC. | ▶ TFL to produce a commercially focused draft SOI.

▶ GHF will assess the alignment of the SOI with any specifically notified GDC strategic directive. |

Objective

9. To ensure that TFL's reporting is relevant and timely.
10. To ensure that there are adequate processes for the identification, assessment and management of the risk exposures of TFL.

Performance Target

- ▶ TFL's SOI to incorporate specific reporting requirements in accordance with legislation and accepted practice.
- ▶ TFL's SOI to incorporate specific statements regarding the processes for the management of risk exposures.

11. Performance Targets

Farming Operations

The Company intends to measure its operational performance in undertaking its farming operations by comparing itself to the district averages by reference to the following farm-related parameters with the aim of achieving results comparable to that achieved by the top 20% of the district's farms during the period under review.

Category	Measurement Base	Target
Effective Hectares		6,200
Total Stock Units		60,000
Fertiliser		
Phosphate	Kg/stock unit	1.6kg
Sulphur	Kg/stock unit	1.6kg
Sheep		
Ewe Lambing	%	150%
Deaths	%	Less than 4%
Sheep Income	\$/ssu	\$80
Wool		
Wool Income	\$/ssu	\$17
Wool Weight	kg/ssu	5kg
Cattle		
Calving	%	87%
Deaths	%	Less than 1.5%
Cattle Income	\$/csu	\$60
Total Farm Expenditure		
Total Farm Expenditure	Per effective hectare	\$420
Economic Farm Surplus		
Economic Farm Surplus (EBIT)	Per effective hectare	\$250

Economic Farm Surplus (EBIT, Earnings before interest and tax) is the return inclusive of all operating and administration expenditure, governance and corporate overheads, and depreciation. It does not include significant capital items, interest and taxation.

The company also intends to provide the following financial ratios:

Current Ratio:	Current Assets (including livestock)/Current Liabilities
Return on equity:	Net Income after Tax plus Property Revaluations/Shareholders Funds
Return on Assets:	Net Income after Tax plus Property Revaluations/Total Assets
Gearing:	Debt/Shareholders Equity

7. Shareholders Funds to Total Assets

a. Ratio of Shareholders' funds to total assets

Shareholders' funds are defined as the sum of the amount of share capital on issue, retained earnings/accumulated losses, revenue and capital reserves. Total assets are defined as the sum of the net book value of current assets, investments, fixed assets, and intangible assets as disclosed in the company's Statement of Financial Position, prepared in accordance with the accounting policies adopted by the Directors.

The target ratio of shareholders' funds to total assets shall not be less than 88% for the period covered by this SOI. The appropriateness of this target ratio will be reviewed annually by the Directors.

b. Estimate of the commercial value of the company

The Directorate estimates the commercial value of the shareholders investment in each company in the group to be no less than the shareholders funds.

The value ascribed to shareholders' funds will be that stated in the annual Statement of Financial Position of the company as at the end of the financial year preceding each SOI.

c. Transactions between related parties and compensation from GDC

Transactions between GDC, GHF and TFL will be conducted on a wholly commercial basis. Compensation for any services provided by TFL to GDC will be conducted on a wholly commercial basis.

8. Distributions to Shareholders

Profit retention and dividend policy will be determined from year to year by the Directors in accordance with operational results, financial prospects, and the circumstances prevailing, with the objectives of ensuring that:

- ▶ The amount of the dividend does not limit TFL's ability to fund future capital expenditure requirements to both maintain and expand current operations and address issues relating to the company's debt structure; and with the provisos that:
 - The Directors are satisfied that the requirements of section 4 of the Companies Act (the "solvency test") have been satisfied.
 - Where imputation credits are available, the dividends will be fully imputed for tax purposes to the extent that imputation credits are available.

- ▶ An interim dividend of \$500,000 will be payable in February each year; and a final dividend of 70% of the net distributable income, after deduction of the interim dividend that will be payable during October each year.

- The TFL group net distributable income is defined as: Net operating profit after taxation per the audited financial statements -

LESS

- Net after tax increase in the valuation of any forestry biological asset.
- Net after tax increase in the valuation of any livestock biological asset.
- Net after tax income from any carbon credits

PLUS

- 30% of the net after tax cash income received from the sale of any carbon credits

- ▶ To assist the Shareholder with budgeting, the following ordinary dividends are forecast:

Financial Year	2011/12	2012/13	2013/14
Interim Dividend	\$500,000	\$500,000	\$500,000
Final Dividend (70% Net Profit)	353,000	233,000	389,000
Final Dividend – NZU's* (30% Net Profit)	128,000	51,000	51,000
Final Dividend	\$481,000	\$284,000	\$440,000
Total Dividend	\$981,000	\$784,000	\$940,000

TFL is now a registered participant in the NZ Emissions Trading Scheme (ETS).

TFL has been allocated a total volume of 107,723 NZU's with a total value of \$2,068,282 (Jan 2011) and will manage that accrued asset in accordance with its requirement for capital funds, prevailing market conditions and risk exposure.

Based on professional advice 30% of NZU's allocated have been sold, with the 70% balance held to cover future harvesting liabilities. NZU's remaining will be 75,723 at 30 June 2011.

9. Capital Expenditure

The company does not foresee a need for capital expenditure at this time.

10. Major Transactions and Acquisition or Disposal of Other Interests

The Directors will obtain prior approval, by Gisborne District Council resolution, for any major transaction involving the acquisition or disposal of fixed assets or investments, the value of which exceeds 10% of the total value of the company's assets as determined by reference to the most recent financial statements prepared in terms of this SOI.

No shares in any other company or organisation will be purchased or disposed of without the Gisborne District Councils prior written consent. No activity will be undertaken by the company in direct competition with existing ratepayer businesses without the approval of the Gisborne District Council.

11. Reporting to Shareholders

TFL will provide information that meets the requirements of the Companies Act 1993, the Local Government Act 2002, and New Zealand Reporting Standards and best practice, in order to enable the shareholders to make an informed assessment of the company's performance. The following information will be made available:

- a) An annual SOI in accordance with Section 64 (Statements of Intent for Council-Controlled Organisations), Section 71 (Protection from disclosure of sensitive information) and schedule 8 (Statements of Intent) of the Local Government Act 2002. Prospective financial information contained within the SOI will also comply with the requirements of NZFRS42 Prospective Financial Statements. Any other information that the directors deem appropriate may be included within the SOI. The draft SOI delivered to Council will be accompanied by a report detailing any changes from the previous years SOI and the directors rationale for making those changes. Council will on behalf of TFL make a copy of the adopted SOI available to the public on the Council website within one month of its adoption.
- b) A half yearly report in accordance with Section 66 (Half-yearly report) and Section 71 (Protection from Disclosure of Sensitive Information) of the Local Government Act 2002. The half yearly report is required to comply with the requirements of NZIAS34 - Interim Financial Reporting, with the following exceptions:
 - A statement of changes in equity is not required.
 - The financial statements may be presented in a format consistent with the management reports delivered to the board.

The half yearly report shall contain a financial commentary comparing actual performance year to date to budget and the re-forecast year end result.

The half yearly report shall contain a Chairman's commentary on the performance of the group against the targets and other performance measures contained in this SOI along with any significant issues likely to affect the company's performance in the future. Council will on behalf of TFL make a copy of the half yearly report available to the public on the Council website within one month of its adoption.

- c) A comprehensive annual report in accordance with Section 67 (Annual Report), Section 68 (Content of reports on operations of council-controlled organisations), Section 69 (Financial statements and auditors report) Section 71 (Protection from disclosure of sensitive information) of the Local Government Act 2002. The annual report shall also contain a chairman's commentary on the performance of the group against the targets and other performance measures and objectives contained in this SOI along with any significant issues likely to affect the company's performance in the future. Council will on behalf of TFL make a copy of the Annual Report available to the public on the Council web site within one month of its adoption.
- d) Where significant unplanned events occur the company will provide to Council through Councils Finance and Monitoring Committee regular reports on the impact to its activities and the results of its subsidiary companies.
- e) The company will operate on a "no surprises" basis in respect of any significant shareholder matters, to the extent possible in the context of commercial sensitivity and confidential agreements.

12. Reporting Entity

Tauwhareparae Farms 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 Holdings Limited which is wholly owned by the Gisborne District Council and is registered under the Companies Act 1993.

The Group consists of Tauwhareparae Farms Limited and its 100% owned subsidiary Tauwhareparae Forests Limited.

The Prospective Financial Statements for Tauwhareparae Farms Limited are for the years ended 30 June 2011 to 30 June 2014. The Prospective Financial Statements have been prepared for inclusion in the Statement of Intent for the 3 years ended 30 June 2014. It should also be noted that the information in these statements may not be appropriate for purposes other than inclusion in the statement of intent. The Prospective Financial Statements were authorised for issue by the directors on 26 May 2011.

The principal activities of the group are:

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

13. Statement of Accounting Policies

The financial statements of TFL and its subsidiaries are prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate. The accounting policies adopted by the Company will also be consistent with the policies adopted by the Gisborne District Council group. Prospective financial information provided in accordance with Schedule 8 of the LGA 2002 will be prepared in accordance with the provisions of FRS42 - Prospective Financial Information.

(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 comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as applicable for profit orientated entities.

(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.

(d) Cash and cash equivalents

Cash and cash equivalents in the balance sheet 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 balance sheet.

Summary of significant accounting policies continued

(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.

(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.

Summary of significant accounting policies continued

(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.

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 judgmental inputs to a minimum.

Summary of significant accounting policies continued

(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.

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.

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.

Summary of significant accounting policies continued

(k) Property, plant and equipment cont'd

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) 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.

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.

(m) 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.

(n) 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.

Summary of significant accounting policies continued

(n) Interest-bearing loans and borrowings cont'd

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.

(o) 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.

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.

(p) Contributed equity

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

(q) 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).

Summary of significant accounting policies continued

(q) Revenue recognition cont'd

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.

(r) 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.

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.

Summary of significant accounting policies continued

(r) Income tax and other taxes cont'd

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.

(s) 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*

(t) 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.

Schedule 1

Cautionary Note

These Prospective Financial Statements are likely to vary from the actual financial results for the periods covered. These variations may be significant and material.

Summarised group prospective financial statements

	2010/11 \$000s	2011/12 \$000s	2012/13 \$000s	2013/14 \$000s
Forecast statement of comprehensive income				
Income				
Sheep	3,097	2,910	3,112	3,263
Cattle	1,875	1,689	1,640	1,736
Wool	541	541	541	541
Forestry	43	0	0	0
Carbon Credits	2,058	783	783	783
Other Income	42	48	48	48
	<u>7,656</u>	<u>5,971</u>	<u>6,124</u>	<u>6,371</u>
Expenditure				
Financing Costs	354	223	119	48
Depreciation	299	275	285	314
Other Expenses	2,919	3,037	3,029	3,103
Total Expenditure	<u>3,572</u>	<u>3,535</u>	<u>3,433</u>	<u>3,465</u>
Net Profit before Tax	4,084	2,436	2,691	2,906
Tax	<u>1,098</u>	<u>641</u>	<u>828</u>	<u>863</u>
Net Profit After Tax	2,986	1,795	1,863	2,043
Other Comprehensive Income				
Fair Revaluation Gain/(Loss) on Property	<u>(2,868)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Comprehensive Income	<u>118</u>	<u>1,795</u>	<u>1,863</u>	<u>2,043</u>
Forecast statement of financial position				
Current Assets	121	72	45	98
Non-Current Assets	37,307	37,865	38,297	38,720
Current Liabilities	(212)	(371)	(532)	(704)
Non-current Liabilities	<u>(4,015)</u>	<u>(3,551)</u>	<u>(2,703)</u>	<u>(1,904)</u>
Shareholders' Equity	<u>33,201</u>	<u>34,015</u>	<u>35,107</u>	<u>36,210</u>

	2010/11	2011/12	2012/13	2013/14
	\$000s	\$000s	\$000s	\$000s
Forecast statement of movements in equity				
Opening	33,583	33,201	34,015	35,107
Surplus(deficit) for the year	2,986	1,795	1,863	2,043
Capital increase(reduction)				
Revaluation	(2,868)	0	0	0
Other - Dividend paid	(500)	(981)	(771)	(940)
Closing	<u>33,201</u>	<u>34,015</u>	<u>35,107</u>	<u>36,210</u>

Forecast statement of cash flows

Operating				
Other	2,117	2,226	2,610	2,778
Taxation	(57)	(541)	(618)	(663)
	<u>2,060</u>	<u>1,685</u>	<u>1,992</u>	<u>2,115</u>
Investing				
Loans Repaid	(1,100)	(500)	(1,000)	(1,000)
Other	(47)	(30)	(129)	(74)
	<u>(1,147)</u>	<u>(530)</u>	<u>(1,129)</u>	<u>(1,074)</u>
Financing				
Dividends Paid	(500)	(981)	(771)	(940)
Interest Paid	(358)	(223)	(119)	(48)
	<u>(858)</u>	<u>(1,204)</u>	<u>(890)</u>	<u>(988)</u>
Net Cash Flow	<u>55</u>	<u>(49)</u>	<u>(27)</u>	<u>53</u>

Summarised Forecast Performance indicators

Return of Shareholders Funds	0.4%	5.3%	5.3%	5.6%
Net debt/net debt + Equity	11.3%	10.4%	8.5%	6.7%
5 year rolling average ROI	2.0%	2.3%	2.3%	2.3%
Ratio of Shareholder funds to total assets	88.7%	89.6%	91.5%	93.3%

Key Assumptions

- 1) Revenue for the 2012 to 2014 will be similar to the per head amount in 2010/11.
- 2) The forestry estate will not increase in value over the years.
- 3) That expenses will be maintained at similar levels to prior years.
- 4) That there will be income from the allocation of NZU's under the Emissions Trading Scheme. Sales of NZU's will be subject to prevailing market conditions.

Key Risks and Uncertainties

- 1) As the group's main business is farming, the key risk is the weather.
- 2) Other risks and uncertainties related to the international price of commodities and the foreign exchange rate.

It is not practical to quantify the effect of these risks and uncertainties.

Other disclosures

The directors authorised the issue of the Prospective Financial Statements and are responsible for Prospective Financial Statements presented, including the appropriateness of the assumptions underlying the Prospective Financial Statements and all other required disclosures.

Actual financial results are incorporated for the period 1 July 2010 to 31 December 2010 into the Prospective Financial Statements for the year ended 30 June 2011.

It is not intended to update the Prospective Financial Statements subsequent to presentation.

Signed



C Mark Egan – Chairman

Dated : 26 May 2011