

Tauwhareparae Farms Limited

Interim Report

For the Six Months Ended
31 December 2009



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Chairman's report

Tauwhareparae Farms net income for the six months ended 31 December 2009 was \$738,000. The comparative figure for the previous six months recorded a net income of \$1,510,000. You should be aware that in the previous six month period there was an average increase in the market valuation of sheep of 15.0% and the average decrease in the market valuation of cattle of 4.5%. This was not the case in the current six month period, with average sheep values decreasing by 24.8% and average cattle values decreasing by 13%. The climatic conditions through the winter were quite difficult and as a result the company had to apply fertilizer earlier than would normally be the case. This is shown in the increase in farming expenditure which increased by \$263,000 over the previous corresponding period with the fertilizer component of this increasing by \$307,000. The company however remains on track to achieve an annual net income in excess of the budget for the year.

Points to note were -

- Gross profit reduced from \$4.1million in 2008 to \$2.8million this year, mainly because of the change in livestock valuations.
- Sheep sales were \$625,000 compared to \$570,000 for the corresponding period in 2008 – the average sale price increasing \$25 from \$60 to \$85 - a 42% increase.
- Cattle sales were \$542,000 compared to \$632,000 for the corresponding period in 2008 – the average sale price decreasing \$91 from \$761 to \$670 - a 27% decrease.

Livestock on hand are shown on page 22.

- As at 31 December 2009 the company had 57,188 sheep on hand at a market value of \$4.6million. This compares with 62,961 on hand at a market valuation of \$4.4million at 31 December 2008.
- As at 31 December 2009 the company had 7,020 cattle on hand at a market value of \$4.1million. This compares with 7,141 on hand at a market value of \$4.5million at 31 December 2008.
- The 2009 lambing and calving results were 144% lambs docked and 82% calves marked to date with some R2yr heifers not yet marked. This compares with the 2008 calving results of 142% lambs docked and 86% calves marked.

The Board resolved on 27 January 2010 that a dividend of \$1 million be declared and paid to the shareholder on 19 February 2010 as agreed in the Statement of Corporate Intent.

The Board envisages a reduced net income for the year ended 30 June 2010 as there is unlikely to be a large increase in sheep values that was present in the year ended 30 June 2009. The Board can assure you that every endeavour will be made to maximise returns in the coming financial year. It is also likely that the company will receive income from the valuation of carbon credits. This amount cannot be quantified at this stage until a report has been prepared for the Board by our consultant. The heavy rain experienced in late January will result in approximately \$30,000 in repair costs that were unbudgeted.

My compliments are extended to Don Green as supervisor and to his team of managers and staff on what they have achieved over the last six months.

Mark Egan
Chairman

19 February 2010

**Income statement (Unaudited)
for the six months ended 31 December 2009**

| | Notes | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|--|-------|------------------------------|------------------------------|--|
| | | \$000 | \$000 | \$000 |
| Continuing activities | | | | |
| - Sheep sales | 13 | 625 | 570 | 2,861 |
| - Cattle sales | 13 | 542 | 632 | 1,636 |
| - Wool sales | | 170 | 120 | 358 |
| - Forestry Grants Received | | 85 | 181 | 188 |
| - Forestry Value Increase | | - | - | 448 |
| Total Revenue | | 1,422 | 1,503 | 5,491 |
| Cost of Sales | | | | |
| - Sheep | 13 | (1,248) | (2,105) | (1,011) |
| - Cattle | 13 | (115) | (527) | 69 |
| Total Cost of Sales | | (1,363) | (2,632) | (942) |
| Gross Profit | | 2,785 | 4,135 | 6,433 |
| Other Income | | 55 | 13 | 116 |
| Total Income | | 2,840 | 4,148 | 6,549 |
| Expenditure from continuing activities | | | | |
| - Farming Expenditure | | 835 | 572 | 1,537 |
| - Employee Benefit Expenditure | | 403 | 428 | 780 |
| - Administrative Expenditure | | 281 | 223 | 450 |
| - Depreciation | | 130 | 143 | 282 |
| - Fair value losses on financial instruments | 11 | (41) | 211 | 165 |
| - Loss on sale of Assets | | 0 | 14 | 22 |
| - Financing Expenditure | | 139 | 190 | 365 |
| Total expenditure from continuing activities | | 1,747 | 1,781 | 3,601 |
| Expenditure from discontinued activities | | 0 | 5 | 5 |
| Total expenditure | | 1,747 | 1,786 | 3,606 |
| Operating profit/(loss) from continuing activities | | 1,093 | 2,367 | 2,948 |
| Operating profit/(loss) from discontinued activities | | 0 | (5) | (5) |
| Net operating profit/(loss) before taxation | 2 | 1,093 | 2,362 | 2,943 |
| Taxation (expense) | 5 | (355) | (852) | (111) |
| Net operating profit/(loss) after taxation | | 738 | 1,510 | 2,832 |

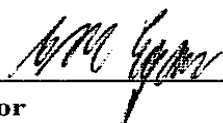
**Statement of recognised income and expense (Unaudited)
for the six months ended 31 December 2009**

| | Notes | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|---|-------|--------------------------------------|------------------------------|--|
| | | \$000 | \$000 | \$000 |
| Net Loss on available-for-sale financial assets | 4 | - | (1) | (2) |
| Revaluation of property, plant & equipment | | - | - | (3,894) |
| Deferred Tax on Building Revaluations | | - | - | (71) |
| | | <hr/> | <hr/> | <hr/> |
| Net income recognised directly in equity | | - | (1) | (3,967) |
| Profit/(loss) for the year | | 738 | 1,510 | 2,832 |
| | | <hr/> | <hr/> | <hr/> |
| Total recognised income and expense for the period | | 738 | 1,509 | (1,135) |
| | | <hr/> | <hr/> | <hr/> |
| Attributable to: | | | | |
| Equity holders of the parent | | 738 | 1,509 | (1,135) |
| | | <hr/> | <hr/> | <hr/> |
| Total recognised income and expense for the period | | 738 | 1,509 | (1,135) |
| | | <hr/> | <hr/> | <hr/> |

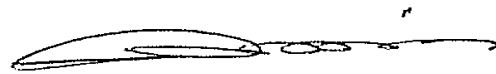
**Balance sheet (Unaudited)
for the six months ended 31 December 2009**

| | Notes | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|--|-------|------------------------------|------------------------------|--|
| | | \$000 | \$000 | \$000 |
| Owner's equity | | | | |
| Share capital | 3 | 7,281 | 7,281 | 7,281 |
| Retained earnings | 4 | 1,034 | (26) | 296 |
| Reserves | 4 | 29,294 | 33,261 | 29,294 |
| Total equity | | 37,609 | 40,516 | 36,871 |
| Represented by: | | | | |
| Current assets | | | | |
| Bank balances, deposits and cash | | 184 | 85 | 22 |
| Receivables and prepayments | 6 | 37 | 217 | 355 |
| Inventories | 7 | 146 | 24 | 46 |
| Taxation | | - | 1 | 1 |
| Total current assets | | 367 | 327 | 424 |
| Current liabilities | | | | |
| Bank (secured) | 8 | 745 | 698 | - |
| Payables and accruals | 9 | 312 | 352 | 307 |
| Financial liabilities – current | 10 | - | - | - |
| Total current liabilities | | 1,057 | 1,050 | 307 |
| Net working capital | | (690) | (723) | 117 |
| Non-current assets | | | | |
| Property plant & equipment | 12 | 31,382 | 35,128 | 31,149 |
| Biological assets | 13 | 11,361 | 10,964 | 9,743 |
| Available for sale financial assets | 14 | 198 | 189 | 189 |
| Total non-current assets | | 42,941 | 46,281 | 41,081 |
| Non-current financial liabilities | | | | |
| Derivative financial instruments | 11 | 153 | 239 | 193 |
| Financial liabilities – term loans | 10 | 3,733 | 3,733 | 3,733 |
| Deferred Tax | 5 | 756 | 1,070 | 401 |
| Total non-current liabilities | | 4,642 | 5,042 | 4,327 |
| Net assets | | 37,609 | 40,516 | 36,871 |

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 19 February 2010



 Director



 Director

**Statement of cash flows (Unaudited)
for the six months ended 31 December 2009**

| | Notes | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|--|-------|------------------------------|------------------------------|--|
| | | \$000 | \$000 | \$000 |
| Cash flows from operating activities | | | | |
| Cash was provided from: | | | | |
| Receipts from customers | | 1,476 | 1,884 | 5,403 |
| Income tax refunds/payments | | 1 | - | - |
| Goods and services tax (net) | | 27 | 7 | (66) |
| | | <u>1,504</u> | <u>1,891</u> | <u>5,337</u> |
| Cash was disbursed to: | | | | |
| Payments to suppliers & employees | | 1,723 | 1,383 | 2,948 |
| | | <u>1,723</u> | <u>1,383</u> | <u>2,948</u> |
| Net cash inflow / (outflow) from operating activities | 18 | <u>(219)</u> | <u>508</u> | <u>2,389</u> |
| Cash flows from investing activities | | | | |
| Cash was provided from: | | | | |
| Proceeds from sale of fixed assets | | 29 | 30 | 39 |
| | | <u>29</u> | <u>30</u> | <u>39</u> |
| Cash was applied to: | | | | |
| Purchase of fixed assets | | 130 | 88 | 120 |
| Purchase of available for sale financial assets | | - | - | - |
| Forest asset expenditure | | 117 | 180 | 201 |
| Capitalised Farm Development | | - | - | 35 |
| | | <u>247</u> | <u>268</u> | <u>356</u> |
| Net cash outflow from investing activities | | <u>(218)</u> | <u>(238)</u> | <u>(317)</u> |
| Cash flow from financing activities | | | | |
| Cash was provided from: | | | | |
| Interest received | | - | - | 1 |
| | | <u>-</u> | <u>-</u> | <u>1</u> |
| Cash was applied to: | | | | |
| Dividends paid | | - | - | 1,000 |
| Interest paid | | 146 | 206 | 374 |
| | | <u>146</u> | <u>206</u> | <u>1,374</u> |
| Net cash inflow / (outflow) from financing activities | | <u>(146)</u> | <u>(206)</u> | <u>(1,373)</u> |
| Net increase / (decrease) in cash held | | (583) | 64 | 699 |
| Opening cash brought forward | | 22 | (677) | (667) |
| Ending cash carried forward | | <u>(561)</u> | <u>(613)</u> | <u>22</u> |
| Cash at period end: | | | | |
| Cash balances | | 184 | 85 | 22 |
| Bank wholesale advances | | (745) | (698) | - |
| Ending cash carried forward | | <u>(561)</u> | <u>(613)</u> | <u>22</u> |

Notes to and forming part of the financial statements

1. Statement of accounting policies

Corporate Information

Tauwhareparae Farms Limited (the Company) is incorporated in New Zealand and is a port company as defined in section 4 of the Port Companies Act 1988. The Company is a profit orientated entity. The Company is wholly owned by Tauwhareparae Holdings Limited and is registered under the Companies Act 1993. The ultimate shareholder is the Gisborne District Council. In 2003 the Company changed its name from Port Gisborne Limited to Tauwhareparae Farms Limited.

The Financial Statements for Tauwhareparae Farms Limited are for the six months ended 31 December 2009. The Financial Statements were authorised for issue on 19th February 2010.

Principal Activities

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.

Basis of Preparation

The financial statements of the Company have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993, the Port Companies Act 1988, and IAS-34 Interim Financial Reporting, and should be read in conjunction with the annual report for the year ended 30 June 2007. There have been no significant changes to the operational or financial circumstances or to the operational or financial environment since that annual report.

Statement of Compliance

The Financial Statements comply with the New Zealand equivalents to IFRS (NZ IFRS), and other applicable Financial Reporting Standards, as applicable for profit orientated entities. Compliance with NZ IFRS ensures compliance with international financial reporting standards

Measurement Base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain assets.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000). The functional currency of Tauwhareparae Farms Limited is New Zealand dollars.

Notes to and forming part of the financial statements

1. Statement of accounting policies (continued)

NZ IFRS 8 – Operating Segments

Application of NZ IFRS 8 (Operating Segments) is mandatory for reporting periods that begin on or after 1 January 2009, which for Tauwhareparae Farms Limited, is the year commencing 1 July 2009. Tauwhareparae Farms Limited has elected not to apply this standard as it meets the exemption criteria.

Accounting policies

The accounting policies applied in the preparation of the interim financial statements are consistent with those used in the annual report for the year ended 30 June 2009 with the following exceptions: Livestock numbers have been estimated as 31 December 2009 based on actual purchases and sales during the period and estimated breeding and deaths. Inventories have not been adjusted at 31 December 2009 with the exception of wool, and taxation calculations are estimates only. Fixed Assets and Forestry have not been revalued and are stated at the 30 June 2009 valuation plus expenditure since.

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

Goods and services tax

All items in the financial statements are exclusive of goods and services tax (GST) with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax then it is recognised as part of the related asset or expense.

Revenue Recognition

Revenue is measured at the fair value of consideration received. It is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividends

Dividends are recognised when the right to receive payment has been established.

Interest

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government grants and subsidies

The Company 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.

Notes to and forming part of the financial statements

1. Statement of accounting policies (continued)

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Taxation

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax and deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

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.

Accounts receivable

Trade receivables and other receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the company will not be able to collect the debt.

Inventories

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.

Notes to and forming part of the financial statements

1. Statement of accounting policies (continued)

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. Property plant & equipment

Recognition

Property, plant and equipment is recognised when it is probable that future economic benefits will flow to the company, and the cost of the item can be measured reliably.

Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits or service potential associated with the item will flow to the company and the cost of the item can be reliably measured.

Plant and Equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Freehold land and improvements, including buildings are valued at fair value as determined by independent registered valuers on an annual basis. Other fixed assets are recorded at historical cost less accumulated depreciation and any accumulated impairment losses.

Derecognition

Property, plant and equipment are derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss in the year the asset is derecognised.

Revaluation of Land, Improvements and Buildings

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit and loss.

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

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

Depreciation

Depreciation is provided on a straight line basis on all fixed assets other than freehold land and improvements, at rates which will write off the cost of the assets to their estimated residual values over their useful lives.

Notes to and forming part of the financial statements

1. Statement of accounting policies (continued)

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

| | Years | Depreciation rate |
|---------------------|--------------|--------------------------|
| Land improvements | 10 years | (10%) |
| Buildings | 40 years | (2.5%) |
| Plant and equipment | 10 years | (10%) |
| Motor vehicles | 5 years | (20%) |

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

Impairment of non financial assets

If the recoverable amount of an item of property, plant and equipment is less than its carrying amount, the item is written down to its recoverable amount. The write down of an item recorded at historical cost is recognised as an expense in the income statement. When a revalued item is written down to recoverable amount, the write down is recognised as a downward revaluation to the extent of the corresponding revaluation reserve, and any balance recognised in the income statement.

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

Reversals of impairment write downs are accounted for as follows:

- On property, plant and equipment that are not revalued, the reversal is recognised in the income statement; and
- On revalued property, plant and equipment, the reversal is recognised as an upward revaluation.

Employee entitlements

Provision is made in respect of the Company's liability for annual leave and bonuses due. Annual leave is calculated on an actual entitlement basis at current rates of pay.

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 income statement. The costs to maintain the forestry assets are included in the income statement.

Leases

Finance leases

Leases which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments.

Notes to and forming part of the financial statements

1. Statement of accounting policies (continued)

The leased assets and the corresponding lease liabilities are recognised in the balance sheet. The leased assets are depreciated over the period the Company is expected to benefit from their use.

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised as expenses in the periods in which they are incurred.

Financial instruments

The Company is party to financial instruments as part of its normal operations.

These financial instruments include bank accounts, short term deposits, interest rate swaps, investments, debtors, creditors and loans. All financial instruments are recognised in the balance sheet and all revenues and expenses in relation to financial instruments are recognised in the income statement, with the exception of available-for-sale financial assets where the gains or losses after initial recognition are treated as detailed below.

Except for loans, which are recorded at amortised cost, and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

Financial assets

The Company classifies its financial assets in the following categories:

(a) *Loans and receivables*

Loans and 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 method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses recognised as a separate component of equity 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 equity is recognised in profit or loss.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Impairment of financial assets

At each balance sheet date the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the income statement.

Notes to and forming part of the financial statements

1. Statement of accounting policies (continued)

Financial liabilities

The Company classifies its financial liabilities in the following categories:

(a) *Trade and other payables*

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid and arise when the company 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.

(b) *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 company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derivative Financial Instruments

The Group uses derivative financial instruments in the form of interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuation. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Cash Flow Statement

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Company invests as part of its day-to-day cash management.

Operating activities includes cash received from all income sources of the Company and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets, and of investments such as securities, not falling within the definition of cash.

Financing activities comprise the change in equity and debt capital structure of the Company.

Provisions

Provisions are recognised for future expenditure of uncertain amounts or timing, when the Company 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.

Notes to and forming part of the financial statements

1. Statement of accounting policies (continued)

If the time value of money is material, provisions are determined by discounting the expected future cashflows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where the Company 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 income statement net of any reimbursement.

Cost Allocation

Expenditure has been reported by function. The Company believes this is more relevant to the user than reporting by the nature of the expenses.

The Company has derived the net cost of service for each significant activity using the cost allocation system outlined below.

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those which cannot be identified in an economically feasible manner with a specific activity.

Direct costs are charged directly to the significant activities. Indirect costs are charged to significant activities on a pre determined basis.

Changes in accounting policies

There have been no changes in accounting policies. All policies have been applied on a basis consistent over the two years presented.

| 2. Net operating surplus / deficit before taxation | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|---|--------------------------------------|------------------------------|--|
| | \$000 | \$000 | \$000 |
| After crediting: | | | |
| Financing income | 8 | 1 | 1 |
| Forest Asset Revaluation | - | - | 448 |
| Depreciation recovered | | | |
| - Plant & Equipment | - | - | - |
| - Motor vehicles | 28 | - | - |
| Gain of disposal of assets | | | |
| - Buildings and improvements | - | - | 98 |
| - Plant and equipment | - | - | (1) |
| After charging: | | | |
| Audit fees and expenses – Annual | 21 | 17 | 35 |
| Depreciation | | | |
| - Buildings and improvements | 114 | 106 | 213 |
| - Plant and equipment | 13 | 13 | 24 |
| - Vehicles | 31 | 24 | 44 |

Notes to and forming part of the financial statements

| | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|--|------------------------------|------------------------------|--|
| | \$000 | \$000 | \$000 |
| Directors' fees and expenses | 53 | 56 | 98 |
| Employee benefit expenditure | 403 | 428 | 780 |
| Interest expense: | | | |
| - Term loans | 134 | 157 | 320 |
| - Wholesale advance facility | 5 | 33 | 45 |
| Loss on sale of assets | | | |
| - Plant and Equipment | - | - | 4 |
| - Motor Vehicles | - | 14 | 18 |
| 3. Share capital | | | |
| Issued and paid up | | | |
| Balance at 1 July | 7,281 | 7,281 | 7,281 |
| 7,281,108 ordinary shares | | | |
| Balance | 7,281 | 7,281 | 7,281 |
| 4. Retained Earnings & Reserves | | | |
| Retained Earnings | | | |
| Balance 1 July | 296 | (1,536) | (1,536) |
| Net Profit / (Loss) attributable to equity holders the parent | 738 | 1,510 | 2,832 |
| Dividends Paid | - | - | (1,000) |
| Balance 31 December | 1,034 | (26) | 296 |
| Asset Revaluation Reserve | | | |
| Balance 1 July | 29,299 | 33,265 | 33,265 |
| Revaluation of Land | - | - | (4,326) |
| Revaluation of other land improvements | - | - | 192 |
| Revaluation of Buildings | - | - | 239 |
| Deferred Tax on Revaluation of Buildings | - | - | (71) |
| Balance 31 December | 29,299 | 33,265 | 29,299 |
| Available-for-sale Revaluation Reserve | | | |
| Balance 1 July | 5 | (3) | (3) |
| Impairment of Investments | - | (1) | (2) |
| Balance 31 December | 5 | (4) | (5) |
| Total closing balance Revaluation Reserves | <u>29,294</u> | <u>33,261</u> | <u>29,294</u> |

Notes to and forming part of the financial statements

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.

5. Income Tax

| | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|--|--------------------------------------|------------------------------|--|
| | \$000 | \$000 | \$000 |

(a) Income Tax

The major components of income tax expense are:

Income Statement

Deferred income tax

| | | | |
|---|-------|-------|-------|
| Relating to origination and reversal of temporary differences | (355) | (852) | (111) |
| Income tax expense reported in the income statement | (355) | (852) | (111) |
| | | | |
| (b) Amounts charged or credited directly to equity | | | |
| Relating to revaluation of buildings | - | - | (71) |
| | - | - | (71) |

Notes to and forming part of the financial statements

5. Income Tax (continued)

| | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|--|--------------------------------------|------------------------------|--|
| | \$000 | \$000 | \$000 |
| (c) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate | | | |
| 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: | | | |
| Accounting profit (loss) before tax from continuing operations | 1,097 | 2,367 | 2,947 |
| Loss before tax from discontinued operations | - | (5) | (5) |
| Total accounting profit (loss) before income tax | 1,097 | 2,362 | 2,942 |
| At the Group's statutory income tax rate of 30% (2009: 30%) | 329 | 709 | 883 |
| Herd Livestock Adjustment | - | - | (743) |
| Deductible Farm development & Expenditure | (1) | (1) | (3) |
| Other | 27 | 144 | (26) |
| Aggregate income tax expense/(credit) | 355 | 852 | 111 |
| Aggregate income tax expense/(credit) is attributable to: | | | |
| Continuing operations | 355 | 852 | 111 |
| Discontinued operations | - | - | - |
| | 355 | 852 | 111 |

Notes to and forming part of the financial statements

5. Income Tax (continued)

| | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|--|--------------------------------------|------------------------------|--|
| | \$000 | \$000 | \$000 |
| (d) Recognised deferred tax assets and liabilities | | | |
| Deferred income tax at 31 December relates to the following: | | | |
| <i>(i) Deferred tax liabilities</i> | | | |
| Biological Assets | 321 | 1,103 | 838 |
| Fair-valued buildings (including depreciation) | | | |
| Accelerated depreciation: plant & equipment, motor vehicles | 548 | 472 | 535 |
| Other | (57) | 78 | (64) |
| | <hr/> | <hr/> | <hr/> |
| Gross deferred tax liabilities | 812 | 1,653 | 1,309 |
| Set-off of deferred tax assets | (56) | (583) | (908) |
| | <hr/> | <hr/> | <hr/> |
| Net deferred tax liabilities | 756 | 1,070 | 401 |
| | <hr/> | <hr/> | <hr/> |
| <i>(ii) Deferred tax assets</i> | | | |
| Tax Losses | 56 | 583 | 908 |
| | <hr/> | <hr/> | <hr/> |
| Gross deferred tax assets | 56 | 583 | 908 |
| Set-off of deferred tax assets against liabilities | (56) | (583) | (908) |
| | <hr/> | <hr/> | <hr/> |
| Net deferred tax assets | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Imputation credit account | | | |
| Balance as at 1 July | 1 | (1) | 1 |
| Resident withholding tax paid during the year | - | - | - |
| Imputation credits attached to dividends paid | - | - | - |
| Taxation refunds received during the year | (1) | - | - |
| | <hr/> | <hr/> | <hr/> |
| Balance as at 31 December | - | (1) | 1 |
| | <hr/> | <hr/> | <hr/> |

Notes to and forming part of the financial statements

| | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|--|--------------------------------------|---------------------------------|--|
| | \$000 | \$000 | \$000 |
| 6. Receivables and prepayments | | | |
| Trade debtors | 8 | 15 | 84 |
| Prepayments | 29 | 31 | 4 |
| Insurance claim re Puketawa house fire | - | 171 | 267 |
| | <u>37</u> | <u>217</u> | <u>355</u> |
| 7. Inventories | | | |
| Farm supplies on hand | 15 | 24 | 15 |
| Wool on hand | 131 | - | 31 |
| | <u>146</u> | <u>24</u> | <u>46</u> |
| No inventories are pledged as security for liabilities, nor are any inventories subject to retention of title clauses. | | | |
| 8. 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 Company's freehold land. The balance at 31 December 2009 was \$745,000 (2008: \$698,000). | | | |
| 9. Payables and accruals | | | |
| Trade creditors and accruals | 274 | 315 | 276 |
| Accrued staff entitlements | 38 | 37 | 31 |
| | <u>312</u> | <u>352</u> | <u>307</u> |
| 10. Financial liabilities – term loans | | | |
| Westpac Banking Corporation | 3,733 | 3,733 | 3,733 |
| | <u>3,733</u> | <u>3,733</u> | <u>3,733</u> |
| Less current portion | - | - | - |
| | <u>3,733</u> | <u>3,733</u> | <u>3,733</u> |

Notes to and forming part of the financial statements

10. Financial liabilities – term loans (continued)

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 the Company's freehold land. Both term loans are due to expire on the 30th April 2012. One portion of the loan totalling \$1,733,312 (December 2008: \$1,733,312) is subject to a fixed interest rate of 3.9% expiring on the 11th January 2010. The second portion of the loan totalling \$2,000,000 (December 2008: \$2,000,000) is subject to a fixed interest rate of 3.8% expiring on the 29th January 2010.

Defaults and Breaches

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

11. Derivative financial instruments

| | 6 months to December 2009 | 6 months to December 2008 | 12 months to June 2009 (Audited) |
|------------------------------|--------------------------------------|------------------------------|--|
| | \$000 | \$000 | \$000 |
| Non-current liability | | | |
| Interest rate swap contracts | 153 | 239 | 193 |

Interest bearing loans of the Company currently bear an average variable interest rate of 3.85 %. In order to put a cap on interest rates the Company 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% (2008:100%) of the principal outstanding. The Swaps cover loans due to expire on 30th April 2012. The fixed interest rates range between 5.67% and 7.85% (2008: 7.85% and 8.05%) and the variable interest rates are at the BKBM bill rate plus a margin of 1%.

Interest rate risk

The Company's financial assets and liabilities which are exposed to interest rate risk include cash and deposits and secured bank loans. The Company 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

12. Property plant & equipment

| | \$000 | \$000 | \$000 | \$000 | \$000 |
|---|------------------------------------|---------------------|----------------------|-------------------|----------------------|
| | Freehold Land & Improvements | Buildings | Plant & Equipment | Motor Vehicles | Total |
| Six months ended | | | | | |
| 31 December 2009 | | | | | |
| At 1 July net of accumulated depreciation and impairment | 28,125 | 2,777 | 132 | 115 | 31,149 |
| Additions at cost | - | 267 | 16 | 108 | 391 |
| Disposals at net book value | - | - | - | - | - |
| Revaluations | - | - | - | - | - |
| Depreciation charged for the period | (76) | (38) | (13) | (31) | (158) |
| At 31 December net of accumulated depreciation and impairment | <u>28,049</u> | <u>3,006</u> | <u>135</u> | <u>192</u> | <u>31,382</u> |
| Cost or fair value | 28,049 | 3,006 | 413 | 536 | 32,004 |
| Accumulated depreciation And impairment | - | - | 278 | 344 | 622 |
| Net Carrying Amount | <u>28,049</u> | <u>3,006</u> | <u>135</u> | <u>192</u> | <u>31,382</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 | \$000 | \$000 | \$000 | \$000 |
|--|------------------------------------|---------------------|----------------------|-------------------|---------------------|
| | Freehold Land & Improvements | Buildings | Plant & Equipment | Motor Vehicles | Total |
| Cost or fair value | 691 | 1,853 | 413 | 536 | 3,493 |
| Accumulated depreciation And impairment | 521 | 339 | 278 | 344 | 1,482 |
| Net Carrying Amount | <u>170</u> | <u>1,514</u> | <u>135</u> | <u>192</u> | <u>2,011</u> |

Notes to and forming part of the financial statements

12. Property plant & equipment (continued)

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 AgFirst Valuations, an independent registered valuer. The fair value as per the valuation as at 30 June was \$30,878,000. (2008: \$34,950,000)

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 company.

13. Biological Assets (Consumable)

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

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

As at 31 December 2009 the company had 57,188 sheep, 7,020 cattle, 1,442.1 hectares of forestry. (December 2008: 62,961 sheep, 7,141 cattle, 1,281.6 hectares of forestry)

During the period the company sold 7,391 sheep, 809 cattle and no trees were harvested. (December 2008: 9,529 sheep, 831 cattle and no trees were harvested).

(A) Reconciliation of opening balance to closing balance

For the six months ended 31 December 2009

| | Sheep | | Cattle | | Forestry | | Total |
|---|----------|-------|----------|-------|----------|-------|---------|
| | Quantity | \$000 | Quantity | \$000 | Hectares | \$000 | \$000 |
| Opening Balance as at 1 July | 31,546 | 3,350 | 5,783 | 3,907 | 1,384.2 | 2,486 | 9,743 |
| Natural Increase | 33,708 | 2,280 | 2,172 | 591 | - | - | 2,871 |
| Purchases | 43 | 32 | 28 | 104 | 57.9 | 119 | 255 |
| Change in Fair Value | - | (340) | - | 175 | - | - | (165) |
| Sales | (7,391) | (625) | (809) | (542) | - | - | (1,167) |
| Deaths & Killed | (718) | (67) | (154) | (109) | - | - | (176) |
| Closing Balance as at 31 December | 57,188 | 4,630 | 7,020 | 4,126 | 1,442.1 | 2,605 | 11,361 |

For the six months ended 31 December 2008

| | Sheep | | Cattle | | Forestry | | Total |
|---|----------|-------|----------|-------|----------|-------|---------|
| | Quantity | \$000 | Quantity | \$000 | Hectares | \$000 | \$000 |
| Opening Balance as at 1 July | 37,512 | 2,301 | 5,896 | 3,892 | 1,281.6 | 1,842 | 8,035 |
| Natural Increase | 36,853 | 2,363 | 2,124 | 654 | - | - | 3,017 |
| Purchases | 61 | 38 | 26 | 84 | 104.7 | 175 | 297 |
| Change in Fair Value | - | 454 | - | 554 | - | - | 1,008 |
| Sales | (9,529) | (570) | (831) | (632) | - | - | (1,202) |
| Deaths & Killed | (1,936) | (142) | (74) | (49) | - | - | (191) |
| Closing Balance as at 31 December | 62,961 | 4,444 | 7,141 | 4,503 | 1,386.3 | 2,017 | 10,964 |

Notes to and forming part of the financial statements

13. Biological Assets (Consumable) (continued)

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

Consumable Biological Assets

Livestock

SHEEP

| | 31 December 2009 | | 31 December 2008 | |
|-----------------------|------------------|--------------|------------------|--------------|
| | Quantity | \$000 | Quantity | \$000 |
| Mature sheep | | | | |
| Mixed age ewes | 22,138 | 2,008 | 23,353 | 1,713 |
| Two tooth ewes | 5,817 | 702 | 5,182 | 537 |
| Breeding rams | 180 | 14 | 304 | 24 |
| Immature sheep | | | | |
| Ewe hoggets | 12,655 | 893 | 16,246 | 1,071 |
| Ram & wether hoggets | 16,398 | 1,013 | 17,876 | 1,098 |
| Total sheep | 57,188 | 4,630 | 62,961 | 4,444 |

CATTLE

| | 31 December 2009 | | 31 December 2008 | |
|----------------------------------|------------------|--------------|------------------|--------------|
| | Quantity | \$000 | Quantity | \$000 |
| Mature cattle | | | | |
| Mixed age cows | 2,060 | 1,621 | 1,974 | 1,581 |
| Rising three year heifers | 898 | 753 | 831 | 747 |
| Rising two year heifers | 997 | 598 | 1,161 | 745 |
| Rising three year & older steers | 18 | 16 | 211 | 185 |
| Rising two year steers & bulls | 779 | 502 | 733 | 542 |
| Breeding bulls | 96 | 170 | 107 | 190 |
| Immature cattle | | | | |
| R1 Heifers | 1,091 | 208 | 1,060 | 232 |
| R1 Steers & Bulls | 1,081 | 258 | 1,064 | 281 |
| Total cattle | 7,020 | 4,126 | 7,141 | 4,503 |

FORESTRY

| | 31 December 2009 | | 31 December 2008 | |
|-----------------------|------------------|-------------|------------------|--------------|
| | Hectares | \$000 | Hectares | \$000 |
| Forest tree crop | | | | |
| Total Forestry | 1442.1 | 2605 | 1,386.3 | 2,017 |

TOTAL BIOLOGICAL ASSETS AS AT 31 DECEMBER

| | | |
|--|---------------|---------------|
| | 11,361 | 10,964 |
|--|---------------|---------------|

Notes to and forming part of the financial statements

13. Biological Assets (Consumable) (continued)

The fair value of livestock is determined by independent valuation as at 31 December 2009. The independent livestock valuation was performed by PGG Wrightson Limited, independent livestock agents, in accordance with the Company'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 company has access to, the most relevant market has been used.

The gain on initial recognition of livestock sold is recognised in the income statement 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. The independent forestry valuation as at 30 June 2009 was performed by PF 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:

| | |
|-------------------------------------|------|
| Appropriate Discount Rate (Pre tax) | 7.0% |
| Rate of inflation | 3.0% |
| Rate of tax | 30% |

During the period \$ of forestry development expenditure was capitalised to the forest asset.

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

| | Quantity | Average Price \$ | 2009 \$000 | Quantity | Average Price \$ | 2008 \$000 |
|--------------------------------|----------|---------------------|----------------|----------|---------------------|----------------|
| Livestock | | | | | | |
| Sheep | | | | | | |
| Sales | 7,391 | 85 | 625 | 9,529 | 60 | 570 |
| Less cost of sales | | | | | | |
| Opening stock | 31,546 | 106 | 3,350 | 37,512 | 61 | 2,301 |
| Add Purchases | 43 | 733 | 32 | 61 | 615 | 38 |
| Less closing stock | 57,188 | 81 | 4,630 | 62,961 | 71 | 4,444 |
| Total cost of sales | | | (1,248) | | | (2,105) |
| Gross profit from Sheep | | | 1,873 | | | 2,675 |

Notes to and forming part of the financial statements

13. Biological Assets (Consumable) (continued)

| | Quantity | Average Price \$ | 2009 \$000 | Quantity | Average Price \$ | 2008 \$000 |
|------------------------------------|----------|---------------------|---------------|----------|---------------------|---------------|
| Cattle | | | | | | |
| Sales | 809 | 670 | 542 | 831 | 761 | 632 |
| Less cost of sales | | | | | | |
| Opening stock | 5,783 | 676 | 3,907 | 5,896 | 660 | 3,892 |
| Add Purchases | 28 | 3,732 | 104 | 26 | 3,238 | 84 |
| Less Closing stock | 7,020 | 588 | 4,126 | 7,141 | 636 | 4,503 |
| Total cost of sales | | | (115) | | | (527) |
| Gross profit from cattle | | | 657 | | | 1,159 |
| Forestry | | | | | | |
| Sales | | | - | | | - |
| Forest value increase (impairment) | | | - | | | - |
| Gross Profit from forestry | | | - | | | - |

14. Available-for-sale-Financial Assets

| | 6 months to December 2009 \$000 | 6 months to December 2008 \$000 | 12 months to June 2009 (Audited) \$000 |
|----------------------|--|--|---|
| At fair value | | | |
| Shares – unlisted | 197 | 188 | 188 |
| Shares – listed | 1 | 1 | 1 |
| | 198 | 189 | 189 |

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 Company has listed shares with a current market value of \$1,164.28 (December 2008: \$1,701.64). If the market value of the shares increased/decreased by 10%, the fair value would increase/decrease by \$116 (December 2008: \$170).

There are no individually material investments.

Notes to and forming part of the financial statements

14. Available-for-sale-Financial Assets (continued)

(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 balance sheet and the related changes in fair value recorded in equity are reasonable and the most appropriate at the balance sheet date.

15. Capital commitments

There were no material capital commitments at balance date. (2008:\$NIL).

16. Segment information

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

17. Contingencies

The Company had no contingencies at balance date. (2009:NIL).

Notes to and forming part of the financial statements

18. Reconciliation of net operating surplus / (deficit) after taxation with cash inflow / (outflow) from operating activities

| | 6 months to December 2009 \$000 | 6 months to December 2008 \$000 | 12 months to June 2009 (Audited) \$000 |
|---|--|--|---|
| Net operating surplus / (deficit) after taxation | 738 | 1,510 | 2,832 |
| Add back non-cash items: | | | |
| Depreciation (Net) | 130 | 143 | 281 |
| Forestry value impairment (revaluation) | - | - | (448) |
| Livestock revaluation | (1,499) | (2,753) | (1,064) |
| Loss/(gain) on disposal of assets | - | 14 | (75) |
| Movement in derivative financial instruments taken to the Income Statement | (41) | 212 | 165 |
| Increase/(decrease) in deferred tax liability excluding transfers to reserves | 355 | 852 | 111 |
| Other fixed & investment asset changes/(credits) | (1) | 2 | - |
| | (1,056) | (1,530) | (1,030) |
| | | | - |
| Add back items classified as financing activity: | | | |
| Interest received | - | - | (1) |
| Interest paid | 146 | 206 | 374 |
| | 146 | 206 | 373 |
| Decrease/(increase) in working capital: | | | |
| Accounts receivable and prepayments excluding capital disposal accruals | 51 | 315 | 177 |
| Inventories | (100) | 16 | (6) |
| Accounts payable and accruals excluding capital expenditure | 2 | (9) | 43 |
| | (47) | 322 | 214 |
| Net cash inflow / (outflow) from operating activities | (219) | 508 | 2,389 |

19. 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

20. Financial instruments

At balance date the Company had the following financial assets: cash and bank balances, accounts receivable, investments, interest rate swaps; and the following financial liabilities: accounts payable, bank funding.

Categories of Financial Instruments as defined in IAS 39

| | 6 Months to December 2009 | 6 Months to December 2008 | 12 Months to June 2009 (Audited) |
|---|------------------------------|------------------------------|--|
| | \$000 | \$000 | \$000 |
| Financial Assets (IAS 39) | | | |
| Non-current assets | | | |
| Investments | 198 | 189 | 188 |
| Available for sale financial assets | 198 | 189 | 188 |
| Current Assets | | | |
| Trade receivables | 37 | 217 | 351 |
| Cash and cash equivalents | 184 | 85 | 22 |
| Receivables | 221 | 302 | 373 |
| Financial Liabilities (IAS 39) | | | |
| Non-current liabilities | | | |
| Term loan | 3,733 | 3,733 | 3,733 |
| Financial liabilities measured at amortised cost | 3,733 | 3,733 | 3,733 |
| Current liabilities | | | |
| Bank secured | 745 | 698 | - |
| Trade payables and accruals | 274 | 315 | 276 |
| Financial liabilities measured at amortised cost | 1,019 | 1,013 | 276 |
| Derivative financial instruments | | | |
| Interest rate swaps | 152 | 239 | 193 |
| Held for trading | 152 | 239 | 193 |

Notes to and forming part of the financial statements

20. Financial instruments (continued)

Credit risk

The values attached to each financial item in the statement of financial position represents the maximum credit risk. There are no significant concentrations of credit risk.

Fair value

All financial instruments recognised in the statement of financial position are recorded at fair value.

Interest rate risk

The term loan principal of \$1,733,312 million is subject to a fixed rate of interest of 3.9%, expiring on the 11th January 2010. The additional \$2 million is currently subject to a fixed interest rate of 3.8% expiring 29th January 2010. The interest rate on the bank wholesale advance facility is variable. The Company seeks to obtain the most competitive market rate of interest at all times.

21. Government Grants

The Company 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.

22. Risk identification and management

The Company 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.

23. Significant Accounting Judgements, Estimates and Assumptions

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

24. 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.

Directory

Directors

| | |
|----------------------------------|--------------------|
| William Stavers Busby (Chairman) | Retired 25/11/09 |
| Christopher Mark Egan (Chairman) | Appointed 4/11/09 |
| Peter David Andrew | |
| Robert David Rennie Elliott | |
| Donald Bruce Green | |
| Daniel John Griffin | Appointed 25/11/09 |
| Graham Lewknor Johnson | Retired 25/11/09 |
| Gary Lee Alexander | Resigned 30/10/09 |
| Peter Stanley Reeves | Appointed 4/11/09 |

Registered office

393 Gladstone Road
GISBORNE

Postal address

PO Box 1325
GISBORNE

Telephone 0-6-869 1234
Facsimile 0-6-867 8357

Senior management

Company Secretary – Richard Stannard – Graham & Dobson Limited

Auditor

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

Bankers

Westpac N Z Ltd
Gisborne Branch
PO Box 942
GISBORNE

Solicitors

Nolans
PO Box 1141
GISBORNE