

**CITY FORESTS LIMITED**

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# **CITY FORESTS LIMITED**

**HALF-YEAR REPORT  
FOR THE SIX MONTHS  
ENDED  
31 DECEMBER 2018**

# CITY FORESTS LIMITED

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## CONTENTS

	Page
Directory	3
Directors' Report	4 - 5
Trend Statement	6
Financial Statements	7 - 10
Statement of Cashflows	11 - 12
Notes to the Financial Statements	13 - 16

# **CITY FORESTS LIMITED**

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## **DIRECTORY**

**As at 31 December 2018**

### **DIRECTORS**

J F Gallaher (Chairman) – A.F.A., F.C.A., B Com., CM.Inst.D

T J Mephram – B Com., C.A., CF.Inst D

M C Horne – L.L.B., F.C.A. (P.P.), B.Com. CM.Inst.D

C C Hopkins – B.Com., C.A., C.F.Inst.D

### **CHIEF EXECUTIVE OFFICER**

Grant Dodson – B.For.Sci, M.N.Z.I.F., M.Inst.D

### **REGISTERED OFFICE**

123 Crawford Street

Dunedin

New Zealand

### **BANKERS**

Westpac Banking Corporation

### **SOLICITORS**

Gallaway Cook Allan

### **FINANCIAL ADVISERS**

Deloitte

### **AUDITOR**

Audit NZ on behalf of the Controller and Auditor General

# CITY FORESTS LIMITED

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## **DIRECTORS' REPORT**

### **For the Six Months Ended 31 December 2018**

The Directors of City Forests Limited have pleasure in presenting their report on the activities of the Company for the period ended 31 December 2018.

#### ***Dividends***

The Directors paid an interim dividend of \$2,000,000 in December 2018.

#### ***Review of Operations***

This review of operations and the accompanying financial reports cover the first six months of the 2018 / 2019 financial year.

The Company experienced profitable trading conditions and has delivered an above budget result for the first six months of the 2018 / 2019 financial year. A December interim dividend of \$2m has been paid to the shareholder. No serious harm injuries were recorded in Company operations during the period.

Forest production for the period was on budget as the Company progresses towards harvesting its sustainable cut for the year. The Company traded additional volumes from third party suppliers to ensure customer commitments were met.

There was one transaction of Carbon Credits (NZU's) under the New Zealand Emissions Trading Scheme during the period. No changes in the value of the Forest Estate were recorded during the period.

The Company's log markets have experienced a continuation of the strong demand and favourable pricing during the period. The domestic log market remains robust, however the Company's log supply to domestic mills was reduced by agreement with certain customers due to the location of current harvest areas being further from customer mills. Log exports have increased proportionally and have been delivering strong returns. The combination of log sale prices in China and Korea, stable export shipping costs and the favourable New Zealand Dollar / United States Dollar exchange rate has continued to deliver excellent New Zealand Dollar returns over the first six months of the financial year.

The Company produced a pleasing \$5.2 million profit after tax for the period (\$6.872 million for the equivalent period last year). Cash flow performance was strong and the Company has continued to sustain higher dividends and reduce debt.

During the period the Company has been successful in negotiating the purchase of two new land areas (combined area of approximately 650 ha) that will be established in forest to be converted from farmland. Both purchases will become unconditional in the second half of the year so are not reflected in the financial statements. Once established this will increase both wood and carbon production from the forest estate. Further acquisition opportunities are under investigation.

# CITY FORESTS LIMITED

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## DIRECTORS' REPORT

**For the Six Months Ended 31 December 2018**

The Company has continued sponsorship agreements with Otago Natural History Trust (Orokonui Eco Sanctuary), the Yellow Eyed Penguin Trust and Otago Peninsular Biodiversity Group during the period. Within the forest estate the Company is funding ecological research and protection activities for the NZ Falcon (Karearea) which is commonly found hunting and nesting in exotic forest areas.

Assuming the Chinese and Korean economies maintain their momentum the outlook for the second six months is for a continuation of strong market conditions in both the domestic and export log markets. The purchase of the new forest area will be funded from cash flow and existing Company debt funding arrangements.

Overall, the Company is experiencing a period of profitable trading conditions that are expected to deliver a strong second half financial performance.

### *Events Subsequent to Balance Date*

As noted above the Company has a purchase contract for an additional forestry block (Hillend) which will transact on 28<sup>th</sup> February 2019. A second block (Henley) will transact following subdivision.

### *Statement of Responsibility*

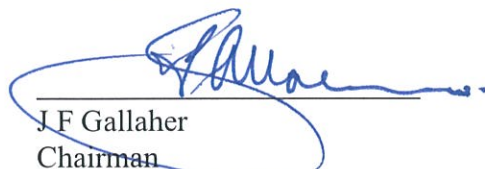
The Directors accept responsibility for the preparation of the interim financial statements and the judgement used in them.

The Directors accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Directors, the interim financial statements fairly reflect the financial position and operations of City Forests Limited.

The Board of Directors of City Forests Limited have pleasure in presenting the interim financial statements, set out on pages 6 to 12, for the six months ended 31 December 2018 and authorises them for issue on Tuesday 19 February 2019.

On behalf of the Board of Directors:

  
J F Gallaher  
Chairman

Date

19/2/19.

  
M C Horne  
Director

Date



# CITY FORESTS LIMITED

## Trend Statement

	6 Months Ended 31 Dec 18 \$'000	Year Ended 30 Jun 18 \$'000	Year Ended 30 Jun 17 \$'000	Year Ended 30 Jun 16 \$'000	Year Ended 30 Jun 15 \$'000
<b><u>FINANCIAL PERFORMANCE</u></b>					
Domestic Revenue	4,960	13,043	12,756	12,335	9,412
Export Revenue	22,882	39,421	26,465	33,861	26,751
Other Revenue	231	1,514	869	656	2,228
<b>Total Revenue</b>	<b>28,073</b>	<b>53,978</b>	<b>40,090</b>	<b>46,852</b>	<b>38,391</b>
Percentage Increase (Annualised)	4.0%	34.6%	(14.4%)	22.0%	3.2%
Inventory Movement	323	237	869	(224)	(170)
<b>Total Expenses</b>	<b>21,151</b>	<b>39,683</b>	<b>28,857</b>	<b>35,341</b>	<b>31,072</b>
Percentage Increase (Annualised)	6.6%	37.5%	(18.3%)	13.7%	(10.1%)
<b>Operating Surplus</b>	<b>7,245</b>	<b>14,532</b>	<b>12,102</b>	<b>11,287</b>	<b>7,149</b>
New Zealand Carbon Credits	-	6,467	6,182	1,462	-
Gain in Fair Value of Forestry Asset	-	13,584	9,629	9,524	2,515
Write down value of land	-	(1,528)	(389)	-	-
Impairment Charges	-	-	-	-	80
<b>Surplus after Non-Operating Items and Before Taxation</b>	<b>7,245</b>	<b>33,055</b>	<b>27,524</b>	<b>22,273</b>	<b>9,744</b>
Income Tax	2,045	9,142	7,420	6,252	2,702
<b>Total Surplus after Taxation</b>	<b>5,200</b>	<b>23,913</b>	<b>20,104</b>	<b>16,021</b>	<b>7,042</b>
<b><u>SHAREHOLDERS' FUNDS</u></b>					
Shareholders Funds	167,193	160,343	130,873	115,670	96,649
Operating Cashflow	7,357	15,353	12,200	11,787	8,734
Dividends Provided – Normal	2,000	5,000	4,500	4,500	4,500
– Special	-	3,000	1,500	2,000	500
Value of Forest	150,473	150,172	136,333	123,802	113,629
Surplus after tax to shareholders funds	4.40%	14.91%	15.36%	13.85%	7.29%
Proprietorship Ratio	72.0%	70.03%	66.00%	65.12%	62.52%
Net Forest Revaluation	-	13,585	9,629	9,524	1,811
Net Land Revaluation	-	2,277	(148)	-	(22)
<b><u>FOREST STATISTICS</u></b>					
Forest harvested (m <sup>3</sup> )	157,388	303,922	277,201	306,452	299,377
Volume traded (m <sup>3</sup> ) (Outside Jobs)	22,188	44,014	64,455	71,364	18,530
Forest planted (ha)	447	739	579	487	605
Total forest (ha)	17,282	17,285	16,795	16,469	16,315
Forest purchased (ha)	-	244	347	156	-

# CITY FORESTS LIMITED

## Statement of Comprehensive Income For the Six Months Ended 31 December 2018

Note	Unaudited Six months to 31 December 2018 \$'000	Unaudited Six months to 31 December 2017 \$'000	Audited Year to 30 June 2018 \$'000
Sales revenue	27,842	29,397	52,466
Gain on sale of property, plant and equipment	-	481	481
Other revenue	220	281	450
New Zealand carbon credits	-	19	6,467
Financial income	11	249	580
Gain (loss) in fair value of forestry asset	-	-	13,585
<b>Total revenue</b>	<b>28,073</b>	<b>30,427</b>	<b>74,029</b>
Inventory movement	323	(575)	237
<b>Less expenses</b>			
Audit fees	37	18	36
Contractors	8,790	8,887	16,163
Cost of bush applied	776	1,318	4,674
Depreciation and amortisation expense	171	153	325
Donations	4	8	17
Directors fees	72	69	146
Employee expenses	728	679	1,465
Financial expenses	337	355	655
Rental expense on operating leases	44	36	71
Research expenditure	107	88	205
Shipping costs	5,656	4,227	7,714
Other expenses	4,429	4,582	9,740
<b>Total expenses</b>	<b>21,151</b>	<b>20,420</b>	<b>41,211</b>
<b>Profit before tax</b>	<b>7,245</b>	<b>9,432</b>	<b>33,055</b>
Income tax expense	2,045	2,560	9,142
<b>Net profit/(loss) after tax</b>	<b>5,200</b>	<b>6,872</b>	<b>23,913</b>
<b>Other comprehensive income</b>			
Gains/(loss) on foreign exchange hedges taken to equity	289	(186)	(1,081)
Tax effect of foreign exchange hedges taken to equity	(81)	52	303
Increase/(decrease) in land revaluation	-	(71)	2,277
Carbon credits revaluation above initial recognition taken to equity	4,782	4,514	5,158
Tax effect of carbon credits taken to equity	(1,339)	(1,128)	(1,285)
<b>Other comprehensive income for the period</b>	<b>3,651</b>	<b>3,181</b>	<b>5,372</b>
<b>Total Comprehensive Income for the period</b>	<b>8,851</b>	<b>10,053</b>	<b>29,285</b>

# CITY FORESTS LIMITED

## Statement of Changes in Equity For the Six Months Ended 31 December 2018

	Share capital	Hedge reserve	Forest revaluation reserve	Carbon credit reserve	Land revaluation reserve	Retained earnings	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Unaudited</b>							
<b>Equity as at 1 July 2018</b>	25,691	(794)	72,514	8,411	25,550	28,971	160,343
Profit after income tax	-	-	-	-	-	5,200	5,200
Other comprehensive income for the period	-	208	-	2,042	-	1,400	3,650
Dividend distributions	-	-	-	-	-	(2,000)	(2,000)
<b>Equity as at 31 December 2018</b>	<b>25,691</b>	<b>(586)</b>	<b>72,514</b>	<b>10,453</b>	<b>25,550</b>	<b>33,571</b>	<b>167,193</b>
<b>Unaudited</b>							
<b>Equity as at 1 July 2017</b>	25,691	(16)	62,732	10,820	23,273	16,558	139,058
Profit after income tax	-	-	-	-	-	6,872	6,872
Other comprehensive income for the period	-	(134)	-	1,771	(71)	1,615	3,181
Dividend distributions	-	-	-	-	-	(2,000)	(2,000)
<b>Equity as at 31 December 2017</b>	<b>25,691</b>	<b>(150)</b>	<b>62,732</b>	<b>12,591</b>	<b>23,202</b>	<b>23,045</b>	<b>147,111</b>
<b>Audited</b>							
<b>Equity as at 1 July 2017 (restated)</b>	25,691	(16)	62,732	10,820	23,273	16,558	139,058
Profit after income tax	-	-	-	-	-	23,913	23,913
Total comprehensive income for the period	-	(778)	-	(2,409)	2,277	6,282	5,372
Revaluation of forestry assets	-	-	9,782	-	-	(9,782)	-
Dividend distributions	-	-	-	-	-	(8,000)	(8,000)
<b>Equity as at 30 June 2018</b>	<b>25,691</b>	<b>(794)</b>	<b>72,514</b>	<b>8,411</b>	<b>25,550</b>	<b>28,971</b>	<b>160,343</b>



# CITY FORESTS LIMITED

## Balance Sheet

At 31 December 2018

	Note	Unaudited 31 December 2018 \$'000	Unaudited 31 December 2017 \$'000 (restated)	Audited 30 June 2018 \$'000
<b>Equity</b>				
Share capital		25,691	25,691	25,691
Forest reserve		72,514	62,732	72,514
Land revaluation reserve		25,550	23,202	25,550
Hedging reserve		(586)	(150)	(794)
Carbon credit reserve		10,453	12,591	8,411
Retained earnings		33,571	23,045	28,971
<b>Total Equity</b>		<b>167,193</b>	<b>147,111</b>	<b>160,343</b>
<b>Current Liabilities</b>				
Trade and other payables		2,362	2,244	2,360
Other current liabilities		70	147	253
Employee provisions		162	131	134
Derivative financial instruments	7	595	26	645
Current portion of term borrowings		-	1,686	-
Provision for taxation		4,303	1,994	3,436
Subvention payable		-	-	533
<b>Total current liabilities</b>		<b>7,492</b>	<b>6,228</b>	<b>7,361</b>
<b>Non-Current Liabilities</b>				
Derivative financial instruments	7	282	427	457
Term borrowings	8	10,500	13,805	15,100
Other liabilities		320	320	320
Deferred tax liability		46,229	41,666	45,370
<b>Total non-current liabilities</b>		<b>57,331</b>	<b>56,218</b>	<b>61,247</b>
<b>Total Liabilities</b>		<b>64,823</b>	<b>62,446</b>	<b>68,608</b>
<b>TOTAL EQUITY PLUS LIABILITIES</b>		<b>232,016</b>	<b>209,557</b>	<b>228,951</b>

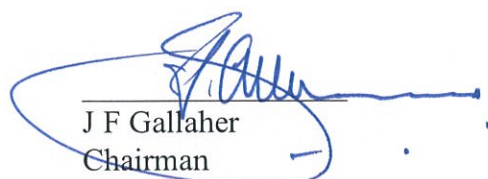
# CITY FORESTS LIMITED


## Balance Sheet (cont'd)

At 31 December 2018

		Unaudited 31 December 2018 \$'000	Unaudited 31 December 2017 \$'000	Audited 30 June 2018 \$'000
<b>Current Assets</b>				
Cash and cash equivalents		2,137	1,437	934
Trade and other receivables		874	4,382	2,677
Derivative financial instruments	7	4	179	-
Inventories		1,623	487	1,299
Prepayments		207	140	140
GST refund		217	143	347
Deposit on property purchase		-	475	-
Property intended for sale		-	-	36
<b>Total current assets</b>		<b>5,062</b>	<b>7,243</b>	<b>5,433</b>
<b>Non-Current Assets</b>				
Derivative financial instruments	7	59	66	-
Property, plant and equipment	5	46,750	39,715	46,306
Forestry assets	4	150,473	136,371	150,172
Investments		1	1	1
Intangibles – computer software		11	16	15
Intangibles – New Zealand carbon credits		29,660	26,145	27,024
<b>Total non-current assets</b>		<b>226,954</b>	<b>202,314</b>	<b>223,518</b>
<b>TOTAL ASSETS</b>		<b>232,016</b>	<b>209,557</b>	<b>228,951</b>

For and on behalf of the Board of Directors

  
J F Gallaher  
Chairman

  
M C Horne  
Director

19<sup>th</sup> February 2019

# CITY FORESTS LIMITED

## Statement of Cash Flows

For the Six Months Ended 31 December 2018

	Note	Unaudited Six months to 31 December 2018 \$'000	Unaudited Six months to 31 December 2017 \$'000	Audited Year to 30 June 2018 \$'000
<b>Cash Flows from Operating Activities</b>				
<i>Cash was provided from</i>				
Receipts from customers		30,215	28,859	52,910
Interest received		11	4	21
Effect of Exchange Rate Changes		-	245	559
		30,226	29,108	53,490
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		19,700	19,787	33,866
Interest paid		368	408	711
Income tax		1,741	1,668	3,560
Subvention		532	548	-
Effect of exchange rate changes		528	-	-
		22,869	22,411	38,137
<b>Net Cash Inflows / (Outflows) from Operating Activities</b>	<b>3</b>	<b>7,357</b>	<b>6,697</b>	<b>15,353</b>
<b>Cash Flows from Investing Activities</b>				
<i>Cash was provided from</i>				
Carbon credits sold		2,145	1,800	8,010
Sale of property, plant and equipment		-	1,273	1,419
		2,145	3,073	9,429
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		623	750	6,302
Purchase of Forest Assets – Cost of bush		1,076	1,200	4,673
		1,699	1,950	10,975
<b>Net Cash Inflows / (Outflows) from Investing Activities</b>		<b>446</b>	<b>1,123</b>	<b>(1,546)</b>

## CITY FORESTS LIMITED

### Statement of Cash Flows (cont'd)

For the Six Months Ended 31 December 2018

	Unaudited Six months to 31 December 2018 \$'000	Unaudited Six months to 31 December 2017 \$'000	Audited Year to 30 June 2018 \$'000
<b>Cash Flows from Financing Activities</b>			
<i>Cash was provided from</i>			
Proceeds from borrowings	-	1,700	8,800
	-	1,700	8,800
<i>Cash was disbursed to</i>			
Repayment of borrowings	4,600	6,893	14,483
Dividends paid	2,000	2,000	8,000
	6,600	8,893	22,483
<b>Net Cash Inflows / (Outflows) from Financing Activities</b>	(6,600)	(7,193)	(13,683)
<b>Net Increase / (Decrease) in Cash Held</b>	1,203	627	124
Cash and short term deposits at the beginning of the year	934	810	810
<b>CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD</b>	2,137	1,437	934
<b>Composition of Cash</b>			
Cash and short term deposits	2,137	1,437	934
<b>CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD</b>	2,137	1,437	934



# **CITY FORESTS LIMITED**

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## **Notes to the Financial Statements**

**For the Six Months Ended 31 December 2018**

### **1. REPORTING ENTITY**

City Forests Limited is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The company, incorporated in New Zealand under the Companies Act 1993, is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

The registered address of the company is 123 Crawford Street, Dunedin

City Forests Limited is a profit orientated entity.

These financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, the Companies Act 1993 and the Financial Reporting Act 2013.

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the company operates.

### **2. BASIS OF PREPARATION**

The financial statements for the period ended 31 December 2018 are unaudited.

The financial statements have been prepared in accordance with New Zealand Equivalents to International Reporting Standards 34, Interim Financial Reporting, and should be read in conjunction with the audited financial statements for the year ended 30 June 2018.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2018.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2018.

# CITY FORESTS LIMITED

## Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2018

### 3. RECONCILIATION OF NET SURPLUS FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES

	Unaudited 31 December 2018 \$'000	Unaudited 31 December 2017 \$'000	Audited 30 June 2018 \$'000
Net gain/(loss) for the year	5,200	6,872	23,913
<i>Items Not Involving Cash Flows</i>			
Depreciation and loss on sale	174	333	506
Depletion of forest	776	1,318	4,674
Deferred tax	(561)	701	4,497
Depreciation recovered/capital gains	-	(481)	(481)
Forestry revaluation	-	-	(13,585)
Carbon credits allocated/revaluation	-	(19)	(6,461)
Write down value of land	-	-	1,528
Other non-cash items			
<i>Impact of Changes in Working Capital Items</i>			
(Increase)/Decrease in accounts receivable	1,803	(1,391)	232
(Increase)/Decrease in inventories	(323)	575	(237)
(Increase)/Decrease in prepayments	(67)	286	285
(Increase)/Decrease in tax refund due	866	190	1,633
Increase/(Decrease) in accounts payable	(138)	(1,245)	(1,039)
(Increase)/Decrease in other current liabilities	(373)	(442)	(112)
Net cash inflows/(outflows) from operating activities	<u>7,357</u>	<u>6,697</u>	<u>15,353</u>

# CITY FORESTS LIMITED

## Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2018

### 4. FORESTRY ASSETS

	Unaudited 31 December 2018 \$'000	Unaudited 31 December 2017 \$'000	Audited 30 June 2018 \$'007
Balance at the beginning of the year	150,172	136,333	136,333
Add Costs capitalized in establishing forests during the year	1,076	1,355	2,353
Increase in forest from acquisition	-	-	2,575
Forest revaluation	-	-	13,585
Less Cost of trees harvested	(775)	(1,317)	(4,674)
	150,473	136,371	150,172

The Directors of City Forests Limited revalue its forestry assets annually.

### 5. PROPERTY, PLANT AND EQUIPMENT

Opening balance (restated 1.7.17)	46,306	39,568	39,568
Plus purchases	615	295	6,236
Less disposals impairment reversal	(4)	(1,045)	69
Less property intended for sale	-	1,121	-
Less depreciation	(167)	(153)	(317)
Plus/Less revaluations	-	(71)	750
	46,750	39,715	46,306
Capital commitments	3,950	4,275	-

All assets are shown at cost with the exception of land which is held at fair value based on independent valuation from Morice Limited.

The Company has a conditional commitment to purchase \$3.95 million of land assets in the third quarter of 2019.

### 6. FINANCIAL INSTRUMENTS

All financial assets are recognised at cost/face value while financial liabilities are recognised at amortised cost except derivative financial instruments which are recognised at fair value.

# CITY FORESTS LIMITED

## Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2018

### 7. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 31 December 2018 \$'000	Unaudited 31 December 2017 \$'000	Audited 30 June 2018 \$'000
Assets:			
Forward foreign exchange contracts	63	245	-
Interest rate swaps	-	-	-
	63	245	-
Liabilities:			
Forward foreign exchange contracts	664	26	799
Interest rate swaps	213	427	303
	877	453	1,102

### 8. TERM LOANS

Dunedin City Treasury loan facility	10,500	11,000	15,100
Ministry of Primary Industries	-	2,805	-
	10,500	13,805	15,100

The term borrowings are secured against certain assets and undertakings of City Forests Limited.

### 9. CARBON CREDITS

Opening balance	27,024	23,413	23,413
Plus credits allocated	-	-	6,449
Plus credits purchased	-	-	-
Plus/(less) revaluation	4,781	4,532	5,234
Plus/(less) sales	(2,145)	(1,800)	(8,010)
Less credits surrendered	-	-	(62)
Closing balance	29,660	26,145	27,024

Carbon credits are revalued based on marked to market every 6 months. Credits allocated are valued at the current market price.

### 10. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2018, (prior period \$nil).