

CITY FORESTS LIMITED

CITY FORESTS LIMITED

**HALF-YEAR REPORT
FOR THE SIX MONTHS
ENDED
31 DECEMBER 2019**

CITY FORESTS LIMITED

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CITY FORESTS LIMITED

DIRECTORY

As at 31 December 2019

DIRECTORS

J F Gallaher (Chairman) – A.F.A., F.C.A., B Com., CF.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 (Retired 30 September 2019)
S A Mason – F.C.A., CM.Inst.D, B Com., B.A., cBA., DipGradBus., (Disp Res),
AAMINZ (Appointed 1 October 2019)
K A Posa – BMS(Hons), CA. GAICD, CM.Inst.D. (Appointed 1 October 2019)

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

DIRECTORS' REPORT

For the Six Months Ended 31 December 2019

The Directors of City Forests Limited present their report on the activities of the Company for the period ended 31 December 2019.

Dividends

The Directors paid an interim dividend of \$2,000,000 in December 2019.

Review of Operations

This review of operations and the accompanying financial reports cover the first six months of the 2019 / 2020 financial year.

The Company experienced profitable trading conditions albeit reduced from the previous year and delivered an \$3.976m profit after tax for the first six months of the 2019 / 2020 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 projected sustainable cut for the year. The Company traded additional volumes from third party suppliers to ensure customer commitments were met.

There were no transactions of Carbon Credits (NZU's). No changes in the value of the Forest Estate were recorded during the period (see note 2).

The Company's log markets have experienced a period of weaker 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. The combination of modest 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 profitable New Zealand Dollar returns over the first six months of the financial year.

During the period the Company has been successful in negotiating the purchase of two new land areas (combined area of approximately 488ha) 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. The purchase of the new forest area will be funded from cash flow and / or the sale of carbon credits and existing Company debt funding arrangements. Further acquisition opportunities are under investigation.

CITY FORESTS LIMITED

DIRECTORS' REPORT

For the Six Months Ended 31 December 2019

The Company has continued sponsorship agreements with Otago Natural History Trust (Orokonui Eco Sanctuary), the Yellow Eyed Penguin Trust, The Wildlife Hospital 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. Operational pest control contributions have been made to Predator Free Dunedin.

A number of headwinds are facing the Chinese and Korean economies leading to a softening log market outlook for the second six months.

Events Subsequent to Balance Date

As noted above the Company has a purchase contract for two forestry blocks which will transact following subdivision.

The long term impacts of Coronavirus on the Company's export markets have yet to be determined.

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 2019 and authorises them for issue on Tuesday 18 February 2020.


On behalf of the Board of Directors:



J F Gallaher
Chairman

18/2/2020

Date



T J Mephram
Director

18/2/2020

Date

CITY FORESTS LIMITED

Trend Statement

	6 Months Ended 31 Dec 19 \$'000	Year Ended 30 Jun 19 \$'000	Year Ended 30 Jun 18 \$'000	Year Ended 30 Jun 17 \$'000	Year Ended 30 Jun 16 \$'000
<u>FINANCIAL PERFORMANCE</u>					
Domestic Revenue	4,801	11,831	13,043	12,756	12,335
Export Revenue	23,907	46,785	39,421	26,465	33,861
Other Revenue	221	432	1,514	869	656
Total Revenue	28,929	59,048	53,978	40,090	46,852
Percentage Increase (Annualised)	(2.0%)	9.4%	34.6%	(14.4%)	22.0%
Inventory Movement	(1,315)	86	237	869	(224)
Total Expenses	26,202	48,484	39,683	28,857	35,341
Percentage Increase (Annualised)	8.1%	5.9%	37.5%	(18.3%)	13.7%
Operating Surplus	1,412	10,650	14,532	12,102	11,287
New Zealand Carbon Credits	-	4,247	6,467	6,182	1,462
Gain in Fair Value of Forestry Asset	4,136	20,333	13,584	9,629	9,524
Write down value of land	-	(462)	(1,528)	(389)	-
Surplus after Non-Operating Items and Before Taxation	5,548	34,768	33,055	27,524	22,273
Income Tax	1,572	9,536	9,142	7,420	6,252
Total Surplus after Taxation	3,976	25,232	23,913	20,104	16,021
<u>SHAREHOLDERS' FUNDS</u>					
Shareholders Funds	191,720	184,759	160,343	130,873	115,670
Operating Cashflow	5,799	13,578	15,353	12,200	11,787
Dividends Provided – Normal	2,000	6,500	5,000	4,500	4,500
– Special	-	1,500	3,000	1,500	2,000
Value of Forest	165,128	164,010	150,172	136,333	123,802
Surplus after tax to shareholders funds	4.15%	13.66%	14.91%	15.36%	13.85%
Proprietorship Ratio	72.05%	71.60%	70.03%	66.00%	65.12%
Net Forest Revaluation	2,978	14,640	13,585	9,629	9,524
Net Land Revaluation	-	4,735	2,277	(148)	-
<u>FOREST STATISTICS</u>					
Forest harvested (m ³)	170,722	336,374	303,922	277,201	306,452
Volume traded (m ³) (Outside Jobs)	18,107	31,967	44,014	64,455	71,364
Forest planted (ha)	599	765	739	579	487
Total forest (ha)	18,273	18,143	17,285	16,795	16,469
Forest purchased (ha)	-	38	244	347	156

CITY FORESTS LIMITED

Statement of Comprehensive Income

For the Six Months Ended 31 December 2019

	Note	Unaudited Six months to 31 December 2019 \$'000	Unaudited Six months to 31 December 2018 (restated) \$'000	Audited Year to 30 June 2019 \$'000
Sales revenue		28,708	27,842	58,810
Gain on sale of property, plant and equipment		8	-	9
Other revenue		200	220	174
New Zealand carbon credits		-	-	4,247
Financial income		13	11	55
Gain (loss) in fair value of forestry asset		4,136	4,128	20,333
Total revenue		33,065	32,201	83,628
Inventory movement		(1,315)	323	86
Less expenses				
Audit fees		20	37	36
Contractors		10,544	8,790	18,263
Cost of bush applied		4,859	4,904	8,860
Depreciation and amortisation expense		204	171	380
Donations		1	4	10
Directors fees		76	72	152
Employee expenses		773	728	1,536
Financial expenses		796	337	1,340
Rental expense on operating leases		8	44	76
Research expenditure		112	107	214
Shipping costs		5,757	5,656	10,418
Other expenses		3,052	4,429	7,661
Total expenses		26,202	25,279	48,946
Profit before tax		5,548	7,245	34,768
Income tax expense		1,572	2,045	9,536
Net profit/(loss) after tax		3,976	5,200	25,232
Other comprehensive income				
Gains/(loss) on cash flow hedges taken to equity		639	289	555
Tax effect of cash flow hedges taken to equity		(179)	(81)	(155)
Increase/(decrease) in land revaluation		-	-	4,734
Carbon credits revaluation above initial recognition taken to equity		6,285	4,782	2,846
Tax effect of carbon credits taken to equity		(1,760)	(1,339)	(796)
Other comprehensive income for the period		4,985	3,651	7,184
Total Comprehensive Income for the period		8,961	8,851	32,416

CITY FORESTS LIMITED

Statement of Changes in Equity For the Six Months Ended 31 December 2019

	Share capital	Hedge reserve	Forest revaluation reserve	Carbon credit reserve	Land revaluation reserve	Retained earnings	Total equity
Unaudited	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Equity as at 1 July 2019	25,691	(394)	82,027	5,697	30,285	41,453	184,759
Profit after income tax	-	-	-	-	-	3,976	3,976
Other comprehensive income for the period	-	460	-	4,525	-	-	4,985
Dividend distributions	-	-	-	-	-	(2,000)	(2,000)
Equity as at 31 December 2019	25,691	66	82,027	10,222	30,285	43,429	191,720
Unaudited							
Equity as at 1 July 2018	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)
Equity as at 31 December 2018	25,691	(586)	72,514	10,453	25,550	33,571	167,193
Audited							
Equity as at 1 July 2018	25,691	(794)	72,514	8,411	25,550	28,971	160,343
Profit after income tax	-	-	-	-	-	25,232	25,232
Total comprehensive income for the period	-	400	-	(2,714)	4,735	4,763	7,184
Revaluation of forestry assets	-	-	9,513	-	-	(9,513)	-
Dividend distributions	-	-	-	-	-	(8,000)	(8,000)
Equity as at 30 June 2019	25,691	(394)	82,027	5,697	30,285	41,453	184,759

CITY FORESTS LIMITED

Balance Sheet At 31 December 2019

	Note	Unaudited 31 December 2019 \$'000	Unaudited 31 December 2018 \$'000 (restated)	Audited 30 June 2019 \$'000
Equity				
Share capital		25,691	25,691	25,691
Forest reserve		82,027	72,514	82,027
Land revaluation reserve		30,285	25,550	30,285
Hedging reserve		66	(586)	(394)
Carbon credit reserve		10,222	10,453	5,697
Retained earnings		43,429	33,571	41,453
Total Equity		191,720	167,193	184,759
Current Liabilities				
Trade and other payables		1,700	2,362	3,099
Other current liabilities		72	70	274
Employee provisions		158	162	148
Derivative financial instruments	7	106	595	368
Provision for taxation		6,305	4,303	5,496
Lease liability		70	-	-
Subvention payable		-	-	502
Total current liabilities		8,811	7,492	9,887
Non-Current Liabilities				
Derivative financial instruments	7	201	282	264
Term borrowings	8	13,600	10,500	13,600
Lease liability		432	-	-
Other liabilities		320	320	320
Deferred tax liability		51,394	46,229	49,198
Total non-current liabilities		65,947	57,331	63,382
Total Liabilities		74,358	64,823	73,269
TOTAL EQUITY PLUS LIABILITIES		266,078	232,016	258,028

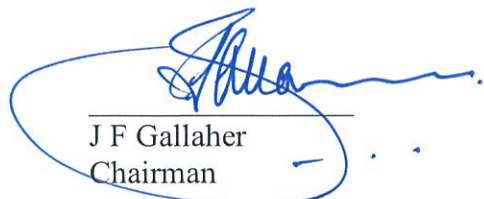
CITY FORESTS LIMITED

Balance Sheet (cont'd)

At 31 December 2019

		Unaudited 31 December 2019 \$'000	Unaudited 31 December 2018 \$'000	Audited 30 June 2019 \$'000
Current Assets				
Cash and cash equivalents		1,184	2,137	874
Trade and other receivables		3,691	874	4,838
Derivative financial instruments	7	134	4	32
Inventories		370	1,623	1,685
Prepayments		216	207	126
GST refund		170	217	313
Deposit on property purchase		1,905	-	433
Right of use – lease assets		80	-	-
Property intended for sale		480	-	-
Total current assets		8,230	5,062	8,301
Non-Current Assets				
Derivative financial instruments	7	264	59	53
Property, plant and equipment	5	58,839	46,750	58,759
Forestry assets	4	165,128	150,473	164,010
Investments		2	1	2
Right of use – lease assets		418	-	-
Intangibles – computer software		25	11	9
Intangibles – New Zealand carbon credits		33,172	29,660	26,894
Total non-current assets		257,848	226,954	249,727
TOTAL ASSETS		266,078	232,016	258,028

For and on behalf of the Board of Directors


J F Gallaher
Chairman


T J Mephram
Director

18th February 2020

CITY FORESTS LIMITED

Statement of Cash Flows

For the Six Months Ended 31 December 2019

	Note	Unaudited Six months to 31 December 2019 \$'000	Unaudited Six months to 31 December 2018 \$'000	Audited Year to 30 June 2018 \$'000
Cash Flows from Operating Activities				
<i>Cash was provided from</i>				
Receipts from customers		31,413	30,215	57,350
Interest received		13	11	30
		<u>31,426</u>	<u>30,226</u>	<u>57,380</u>
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		23,787	19,700	37,292
Interest paid		283	368	578
Income tax		-	1,741	5,133
Subvention		1,007	532	-
Effect of exchange rate changes		550	528	799
		<u>25,627</u>	<u>22,869</u>	<u>43,802</u>
Net Cash Inflows / (Outflows) from Operating Activities	3	5,799	7,357	13,578
Cash Flows from Investing Activities				
<i>Cash was provided from</i>				
Carbon credits sold		-	2,145	7,215
Sale of property, plant and equipment		10	-	19
		<u>10</u>	<u>2,145</u>	<u>7,234</u>
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		2,170	623	9,007
Purchase of Forest Assets – Cost of bush		1,329	1,076	2,365
		<u>3,499</u>	<u>1,699</u>	<u>11,372</u>
Net Cash Inflows / (Outflows) from Investing Activities		(3,489)	446	(4,138)

CITY FORESTS LIMITED

Statement of Cash Flows (cont'd)

For the Six Months Ended 31 December 2019

	Unaudited Six months to 31 December 2019 \$'000	Unaudited Six months to 31 December 2018 \$'000	Audited Year to 30 June 2019 \$'000
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Proceeds from borrowings	2,500	-	7,300
	<u>2,500</u>	<u>-</u>	<u>7,300</u>
<i>Cash was disbursed to</i>			
Repayment of borrowings	2,500	4,600	8,800
Dividends paid	2,000	2,000	8,000
	<u>4,500</u>	<u>6,600</u>	<u>16,800</u>
Net Cash Inflows / (Outflows) from Financing Activities	(2,000)	(6,600)	(9,500)
Net Increase / (Decrease) in Cash Held	310	1,203	(60)
Cash and short term deposits at the beginning of the year	<u>874</u>	<u>934</u>	<u>934</u>
CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD	<u>1,184</u>	<u>2,137</u>	<u>874</u>
Composition of Cash			
Cash and short term deposits	<u>1,184</u>	<u>2,137</u>	<u>874</u>
CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD	<u>1,184</u>	<u>2,137</u>	<u>874</u>

CITY FORESTS LIMITED

Notes to the Financial Statements **For the Six Months Ended 31 December 2019**

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 2019 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 2019.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2019.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2019.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2019

Change in Accounting Policy

In prior years City Forests Limited used 'cost' as a basis for allocating 'decreases due to harvest'. As at 30 June 2019 City Forests Limited has adopted 'fair value' as the basis for decreases due to harvest in line with NZ IAS 41 Agriculture. As a result, the Company has restated the fair value allocation of decreases due to harvest for the 2018 financial statements. The results of this is shown below in the revised statement of comprehensive income, forestry assets reconciliation (per note 5) and other expenses (note 4). There is no net change in the Balance Sheet due to this reinstatement. The change which the Company has made to the face of the financial statements, in our opinion provides more relevant information to the users of the financial statements. As the financial performance of the harvesting aspect of the operation can now be assessed separately from the performance of the growth aspect of the operation.

	Dec 2018 Reported Position \$'000	Dec 2018 Fair Value Adjustment	Dec 2018 Restated Position \$'000
Gain/(loss) in fair value of forestry asset	-	4,128	4,128
Cost of Bush applied	776	4,128	4,904
Total comprehensive income for the year	8,851	-	8,851
Forestry Assets (note 4)			
Balance at the beginning of the year	150,172	-	150,172
<u>Add</u>			
Costs capitalised	1,077	-	1,077
Forestry revaluation	-	4,128	4,128
<u>Less</u>			
Cost of trees harvested	(776)	(4,128)	(4,904)
	150,473	-	150,473

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2019

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

	Unaudited 31 December 2019 \$'000	Unaudited 31 December 2018 \$'000	Audited 30 June 2019 \$'000
Net gain/(loss) for the year	3,976	5,200	25,232
<i>Items Not Involving Cash Flows</i>			
Depreciation and loss on sale	204	174	383
Depletion of forest	4,860	776	8,860
Deferred tax	257	(561)	2,876
Depreciation recovered/capital gains	(8)	-	(9)
Forestry revaluation	(4,136)	-	(20,333)
Carbon credits allocated/revaluation	7	-	(4,238)
Write down value of land	-	-	462
Other non-cash items			
<i>Impact of Changes in Working Capital Items</i>			
(Increase)/Decrease in accounts receivable	1,146	1,803	(2,160)
(Increase)/Decrease in inventories	803	(323)	(385)
(Increase)/Decrease in prepayments	(90)	(67)	14
(Increase)/Decrease in tax refund due	809	866	2,059
(Increase)/Decrease in other current assets	(498)		
Increase/(Decrease) in accounts payable	(1,660)	(138)	799
(Increase)/Decrease in other current liabilities	129	(373)	18
Net cash inflows/(outflows) from operating activities	5,799	7,357	13,578

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2019

4. FORESTRY ASSETS

	Unaudited 31 December 2019 \$'000	Unaudited 31 December 2018(restated) \$'000	Audited 30 June 2019 \$'007
Balance at the beginning of the year	164,010	150,172	150,172
Add Costs capitalized in establishing forests during the year	1,841	1,077	2,275
Increase in forest from acquisition	-	-	90
Forest revaluation	4,136	4,128	20,333
Less Cost of trees harvested at fair value	(4,859)	(4,904)	(8,860)
	165,128	150,473	164,010

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

5. PROPERTY, PLANT AND EQUIPMENT

Opening balance	58,759	46,306	46,306
Plus purchases/(disposals)	760	615	8,553
Less impairment	-	(4)	(462)
Less property intended for sale	(480)	-	-
Less depreciation	(200)	(167)	(372)
Plus/Less revaluations	-	-	4,734
	58,839	46,750	58,759
Capital commitments	2,745	3,950	-

All assets are shown at cost with the exception of land which is held at fair value based on independent valuation from Morice Limited (30 June 2019 accounts only).

The Company has a conditional commitment to purchase \$2.745 million of land assets during the second half of the 2020 financial year.

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 2019

7. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 31 December 2019 \$'000	Unaudited 31 December 2018 \$'000	Audited 30 June 2019 \$'000
Assets:			
Forward foreign exchange contracts	398	63	85
	398	63	85
Liabilities:			
Forward foreign exchange contracts	108	664	386
Interest rate swaps	200	213	246
	308	877	632

8. TERM LOANS

Dunedin City Treasury loan facility	13,600	10,500	13,600
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The term borrowings are secured against certain assets and undertakings of City Forests Limited.

9. CARBON CREDITS

Opening balance	26,894	27,024	27,024
Plus credits allocated	(7)	-	4,247
Plus/(less) revaluation	6,285	4,781	2,838
Plus/(less) sales	-	(2,145)	(7,215)
Closing balance	33,172	29,660	26,894

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 2019, (prior period \$nil).