

CITY FORESTS LIMITED

CITY FORESTS LIMITED

HALF-YEAR REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

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CITY FORESTS LIMITED

COMPANY PARTICULARS

As at 31 December 2014

DIRECTORS

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

T D Allison – B.Com., B.A., C.A., CM.Inst.D

T J Mephram – C.A., B Com, M Inst D

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

CHIEF EXECUTIVE OFFICER

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

REGISTERED OFFICE

31 Stafford 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 2014

The Directors of City Forests Limited present their report on the activities of the Company for the period ended 31 December 2014.

Principal Activities of the Company

This report covers the six months to 31 December 2014.

The principal activities of the Company are the growing, harvesting and marketing of forest products from plantations it owns. The products are sold both in the domestic and export markets.

Results for the Six Months Ended 31 December 2014 (Unaudited)

	\$000
Operating Surplus before Income Tax and Impairment	4,959
Plus Impairment Reversed	80
Less Income Tax	(1,315)
Net Surplus for the Period	<u>3,724</u>

State of Affairs

The Directors are pleased with the results achieved by the Company, having regard to the trading conditions experienced during the period, and believe that the state of affairs of the Company is satisfactory.

Dividends

The Directors paid an interim dividend of \$1,400,000 in December 2014.

Changes in Accounting Policies

There have been no changes in accounting policies.

Reserves

The following net transfers have been made to or from reserves:

	\$000
To Forest Revaluation Reserve	479
To Hedging Reserve	(1,174)
To Land Revaluation Reserve	-
To Retained Earnings	1,845

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

DIRECTORS' REPORT

For the Six Months Ended 31 December 2014

Review of Operations

This review of operations and the accompanying financial reports cover the first six months of the 2014 / 2015 financial year.

The Company experienced profitable trading conditions and has delivered an above budget result for the first six months of the 2014 / 2015 financial year.

The Company recorded above plan forest production for the period leading to both higher operating costs and sales revenues. Logs were sold into a profitable log market offering above long term average returns which drove an above budget operational performance for the first half of the financial year. This operational result was supplemented by a non cash mark to market increase in the value of the Company's Carbon Credit holdings and an updated Forest valuation.

The Company's log export business has experienced improved returns over the six month period. International log markets led by China are recovering from the overstock situation experienced at the beginning of the financial year. When combined with the substantial drop in the value of the New Zealand Dollar compared to the United States Dollar and a reduction in international shipping rates on the back of reduced fuel costs; New Zealand Dollar log export returns have again lifted to above average levels.

Domestic log sales were above budget for the period with good demand from local processing companies.

The Company is in the process of re-registering its Post-89 forest areas into the Emissions Trading Scheme. No Carbon Credit sales were conducted during the period.

Farmland adjacent to the Milburn Wood Processing Plant was sold during the period. This resulted in a minor \$80k impairment reversal.

Overall the Company produced a pleasing \$4.959m profit before tax and impairment for the period. Cashflow performance was strong and the Company reduced debt with Dunedin City Treasury after payment of an interim \$1.4m dividend to the shareholder.

The outlook for the next 6 months is for a budget performance driven by consistent returns from both the export and domestic log business. We expect some softening of export log prices compared to the first half year moderated by cheaper shipping rates and a more favourable exchange rate.

Directors

No change in Director's occurred during the period.

CITY FORESTS LIMITED

DIRECTORS' REPORT

For the Six Months Ended 31 December 2014

Directors' Insurance

As provided for in the Companies Act 1993, and in accordance with the Company's Constitution, City Forests Limited has arranged Directors' Liability Insurance Policies which, together with a deed of indemnity, ensure that the Directors will incur no monetary loss as a result of actions undertaken by them as Directors, provided that they operate within the law.

Directors' Benefits

No Director of City Forests Limited has, since the end of the previous financial period, received or become entitled to receive a benefit (other than a benefit included in the total remuneration received or due and receivable by the Directors).

There were no notices from Directors of the Company requesting to use company information received in their capacity as Directors that would not otherwise have been available to them.

Company Management

There were no changes to Company Management during the period.

Events Subsequent to Balance Date

Nil.

On behalf of the Board of Directors:

J F Gallaher
Chairman

T D Allison
Director

Date

Date

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

Information on the Directors of City Forests Limited

Director & Qualifications

Declarations of Interest

John F Gallaher (Non-Executive Director)

A.F.A., C.A., B Com., CM.Inst.D.

Director, BasketBall NZ Development Limited
Director, BasketBall NZ Limited
Director, Gamma Investments Limited
Director, Mastah Investments Limited
Director, Fund Managers Otago Limited
Director, Granwood Holdings Limited
Director, NZ Catholic Education Office Limited
Director, NZCEO Finance Limited
Chairman, TracPlus Global Limited
Director, TracPlus Security Nominees Limited
Director, Otago Rescue Helicopter Limited
Director, Otago Southland Diocesan Board of Management
Director, CIANZ
Chairman, Tui Motu Foundation Inc
Trustee, William Sheriff Charitable Trust
Trustee, Otago Rescue Helicopter Trust
Chairman, United Way NZ Inc
Member, FIBA Finance Commission
Director, Mercy Hospital Dunedin Limited
Director, OPAL Limited
Director, Heifer Ranching NZ Limited
Director, FMO Registry Services Limited
Trustee, Gigatown Community Trust

Date appointed 1st November 2012

Appointed Chairman December 2013

Tony D Allison (Non-Executive Director)

B.Com., B.A., C.A., CM.Inst.D.

Director, AA Cleaners (Otago) Limited
Director, Otago Southland Employers Association
Member, Dunedin International Airport Limited

Date appointed 1st November 2012

Tim J Mephram (Non-Executive Director)

C.A., B Com. M Inst D.

Deputy Chair, Presbyterian Support Otago
Treasurer, Yellow Eyed Penguin Trust
Principal, Rautaki Advisory
Director, PSO Retirement Villages Limited

Date appointed December 2013

CITY FORESTS LIMITED

Director & Qualifications

Declarations of Interest

Mike C Horne (Non-Executive Director)

L.L.B., C.A. (P.P.), B Com., CM.Inst.D.

Director, Rawhiti Road Investments Limited
Director, Best View Limited
Director, Ellis Fibre NZ Limited
Director, Escea International Limited
Director, Escea Limited
Director, Victory Lime 2000 Limited
Director, McMahon Investments Limited
Director, Hunterfields Investments Limited
Director, James Maurice Properties Limited
Director, Prospectus Nominees
Director, Palmers Mechanical Limited
Director, Prospectus Nominees Services Limited
Director, Ellis Fibre Global Limited
Director, Deloitte Limited
Director, Palmer MH Limited
Director, Viblock Limited
Director, Cancer Society Otago Southland Inc
Director, Palmer & Son Limited

Date appointed December 2013

CITY FORESTS LIMITED

Trend Statement

	6 Months Ended 31 Dec 14 \$'000	Year Ended 30 Jun 14 \$'000	Year Ended 30 Jun 13 \$'000	Year Ended 30 Jun 12 \$'000	Year Ended 30 Jun 11 \$'000
<u>FINANCIAL PERFORMANCE</u>					
Domestic Revenue	5,297	12,687	13,590	8,652	6,503
Export Revenue	13,598	22,108	18,983	30,869	35,451
Other Revenue	1,385	2,385	2,652	2,703	3,912
New Zealand Carbon Credits	1,089	2,694	6,172	2,316	6,850
Gain in fair value of forestry asset	665	1,571	7,046	3,503	738
Total Revenue	22,034	41,445	48,443	48,043	53,454
Percentage Increase (Annualised)	6.33%	(14.4%)	(0.8%)	(10.1%)	4.7%
Inventory Movement	(334)	(308)	(479)	(820)	695
Total Expenses	16,741	28,216	29,514	41,705	42,867
Percentage Increase (Annualised)	18.7%	(4.4%)	(29.2%)	(2.7%)	3.1%
Operating Surplus before Taxation and Impairment Charges	4,959	12,921	18,450	5,518	11,282
Impairment Charges	(80)	1,500	-	3,000	-
Income Tax	1,315	3,130	3,836	641	1,748
Total Surplus after Income Tax and Impairment Charges	3,724	8,291	14,614	1,877	9,534
Share of Retained Surplus in Associate Company	-	-	-	-	-
Total Surplus after Taxation	3,724	8,291	14,614	1,877	9,534
<u>SHAREHOLDERS' FUNDS</u>					
Shareholders Funds	97,082	95,932	91,725	81,938	83,838
Operating Cashflow	4,704	8,278	17,263	5,130	13,266
Dividends Provided – Normal	1,400	2,600	2,400	2,200	2,000
– Special	-	2,500	2,000	-	-
Value of Forest	111,624	111,093	108,589	103,528	100,335
Surplus after tax to shareholders funds	3.84%	8.64%	15.93%	2.29%	11.93%
Proprietorship Ratio	64.55%	63.34%	61.89%	56.10%	56.69%
Net Forest Revaluation	479	1,131	5,073	2,522	531
Net Land Revaluation	-	(102)	-	(505)	(10)
<u>FOREST STATISTICS</u>					
Forest harvested (m ³)	167,522	284,373	302,096	266,281	263,530
Volume traded (m ³)	342	2,583	1,917	27,151	20,564
Forest planted (ha)	426	602	520	732	811
Total forest (ha)	16,338	16,326	16,114	16,129	16,011
Forest purchased (ha)	-	204	-	-	-

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

Statement of Comprehensive Income For the Six Months Ended 31 December 2014

	Note	Six months to 31 December 2014 \$'000	Six months to 31 December 2013 \$'000	Year to 30 June 2014 \$'000
Revenue		20,154	20,184	37,657
Financial income		1,014	955	1,737
Gain (loss) in fair value of forestry asset		665	283	1,571
Total revenue		21,833	21,422	40,965
Inventory movement		(268)	(352)	(193)
Less expenses				
Contractors		8,016	5,767	12,035
Depreciation and amortisation expense		158	158	325
Directors fees		66	68	125
Employee expenses		633	654	1,193
Financial expenses		615	573	1,345
Other expenses		7,202	7,033	12,953
Total expenses		16,690	14,253	27,976
Profit before tax		4,875	6,817	12,796
Income tax expense		1,269	1,833	3,515
Net profit/(loss) for the period from continued operations		3,606	4,984	9,281
Discontinued operations	8			
Profit/(loss) for the period from discontinued operations		118	53	(990)
Net profit/(loss) after tax		3,724	5,037	8,291
Other comprehensive income				
Gains (loss) on cashflow hedges taken to equity		(1,630)	958	1,551
Tax effect of cashflow hedges taken to equity		456	(268)	(434)
Increase/(decrease) in land revaluation		-	-	(101)
Other comprehensive income for the period		(1,174)	690	1,016
Total Comprehensive Income for the period		2,550	5,727	9,307

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

Statement of Changes in Equity For the Six Months Ended 31 December 2014

	Note	Six months to 31 December 2014 \$'000	Six months to 31 December 2013 \$'000	Year to 30 June 2014 \$'000
Equity at beginning of period		95,932	91,725	91,725
Total comprehensive income for the period		2,550	5,727	9,307
Dividend	3	<u>(1,400)</u>	<u>(1,300)</u>	<u>(5,100)</u>
Equity at end of period		<u>97,082</u>	<u>96,152</u>	<u>95,932</u>

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

Balance Sheet

At 31 December 2014

	Note	31 December 2014 \$'000	31 December 2013 \$'000	30 June 2014 \$'000
Equity				
Share capital	4	25,691	25,691	25,691
Forest revaluation reserve	5	47,610	46,204	47,131
Hedging reserve	5	(712)	35	462
Land Revaluation reserve		14,869	14,970	14,869
Retained earnings	6	9,624	9,252	7,779
Total Equity		<u>97,082</u>	<u>96,152</u>	<u>95,932</u>
Current Liabilities				
Trade and other payables		1,746	1,120	2,364
Derivative financial instruments		946	889	290
Employee provisions		121	124	110
Other current liabilities		252	183	783
Current portion of term borrowings		1,686	2,757	1,686
Provision for taxation		632	453	454
Total current liabilities		<u>5,383</u>	<u>5,526</u>	<u>5,687</u>
Non-Current Liabilities				
Derivative financial instruments		237	13	-
Term borrowings		18,970	21,755	21,115
Other liabilities		320	320	320
Deferred tax liability		28,395	27,993	28,403
Total non-current liabilities		<u>47,922</u>	<u>50,081</u>	<u>49,838</u>
Total Liabilities		<u>53,305</u>	<u>55,607</u>	<u>55,525</u>
TOTAL EQUITY PLUS LIABILITIES		<u>150,387</u>	<u>151,759</u>	<u>151,457</u>

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

Balance Sheet (cont'd)

At 31 December 2014

	31 December 2014 \$'000	31 December 2013 \$'000	30 June 2014 \$'000
Current Assets			
Cash and cash equivalents	615	3,197	203
Trade and other receivables	2,841	3,633	3,488
Derivative financial instruments	121	721	888
Inventories	255	496	587
Prepayments	173	175	402
Current tax asset	-	-	158
New Zealand carbon credits	4,168	2,328	3,079
Other current assets	136	78	-
	<hr/>	<hr/>	<hr/>
Total current assets	8,309	10,628	8,805
 Non-Current Assets			
Derivative financial instruments	33	228	531
Property, plant and equipment	30,355	32,201	30,943
Forestry assets	111,623	108,423	111,093
Investments in equity accounted investees	-	208	-
Investments	1	1	1
Intangibles – computer software	66	70	84
	<hr/>	<hr/>	<hr/>
Total non-current assets	142,078	141,131	142,652
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>150,387</u>	<u>151,759</u>	<u>151,457</u>

For and on behalf of the Board of Directors

J F Gallaher
Chairman

T D Allison
Director

17th February 2015

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

Statement of Cash Flows

For the Six Months Ended 31 December 2014

	Note	Six months to 31 December 2014 \$'000	Six months to 31 December 2013 \$'000	Year to 30 June 2014 \$'000
Cash Flows from Operating Activities				
<i>Cash was provided from</i>				
Receipts from customers		19,524	15,909	33,393
Interest received		7	30	60
Effect of Exchange Rate Changes		1,007	921	1,679
		<u>20,538</u>	<u>16,860</u>	<u>35,132</u>
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		14,688	12,009	23,488
Interest paid		458	475	915
Income tax		688	1,420	1,850
Subvention payments		-	-	601
		<u>15,834</u>	<u>13,904</u>	<u>26,854</u>
Net Cash Inflows / (Outflows) from Operating Activities	7	4,704	2,956	8,278
Cash Flows from Investing Activities				
<i>Cash was provided from</i>				
Funds from investments		-	100	100
Sale of property, plant and equipment		705	14	16
		<u>705</u>	<u>114</u>	<u>116</u>
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		154	139	682
Purchase of Forest Assets – Cost of bush		1,030	853	2,835
		<u>1,184</u>	<u>992</u>	<u>3,517</u>
Net Cash Inflows / (Outflows) from Investing Activities		(479)	(878)	(3,401)

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

Statement of Cash Flows (cont'd)

For the Six Months Ended 31 December 2014

	Six months to 31 December 2014 \$'000	Six months to 31 December 2013 \$'000	Year to 30 June 2014 \$'000
Cash Flows from Financing Activities			
<i>Cash was provided from</i>			
Proceeds from borrowings	2,360	1,150	11,028
	<u>2,360</u>	<u>1,150</u>	<u>11,028</u>
<i>Cash was disbursed to</i>			
Repayment of borrowings	4,773	1,993	13,864
Dividends paid	1,400	1,300	5,100
	<u>6,173</u>	<u>3,293</u>	<u>18,964</u>
Net Cash Inflows / (Outflows) from Financing Activities	(3,813)	(2,143)	(7,936)
Net Increase / (Decrease) in Cash Held	412	(65)	(3,059)
Cash and short term deposits at the beginning of the year	<u>203</u>	<u>3,262</u>	<u>3,262</u>
CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD	<u>615</u>	<u>3,197</u>	<u>203</u>
Composition of Cash			
Cash and short term deposits	<u>615</u>	<u>3,197</u>	<u>203</u>
CASH AND SHORT TERM DEPOSITS AT THE END OF THE PERIOD	<u>615</u>	<u>3,197</u>	<u>203</u>

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

Notes to the Financial Statements

For the Six Months Ended 31 December 2014

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 31 Stafford 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 1993.

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. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The financial statements were authorised for issue by the Directors on 17th February 2015.

Basis of Accounting

The Company is a Tier 1 for-profit entity as defined by the External Reporting Board and has reported in accordance with Tier 1 For-profit Accounting standards. These annual financial statements are general purpose financial reports which have been prepared in accordance with generally accepted accounting practice in New Zealand, and comply with the New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit entities.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain property, plant and equipment, biological assets, derivative financial instruments, financial instruments classified as available for sale and financial instruments held for trading.

The accounting policies set out below have been applied consistently to all years in these financial statements.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) **For the Six Months Ended 31 December 2014**

Associated Entities

The company has used deemed cost less write down for the value of the shares held in Otago Chipmill Limited.

Non-Current Assets Held for Sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Depreciation on such assets will cease once classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and GST.

Revenue from services rendered is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity. The stage of completion at balance date is assessed based on the value of services performed to date as a percentage of the total services to be performed.

Sales of goods are recognised when significant risks and rewards of owning the goods are transferred to the buyer, when the revenue can be measured reliably and when management effectively ceases involvement or control.

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) **For the Six Months Ended 31 December 2014**

The Company As Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Company As Lessee

Assets held under finance leases are recognised as assets of the company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign Currencies

The financial statements of the company are presented in the currency of the primary economic environment in which the company operates (its functional currency). For the purpose of the financial statements the results and financial position of the company are expressed in New Zealand dollars, which is the functional currency of the company.

Transactions in currencies other than New Zealand dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. The company does not hold non-monetary assets and liabilities denominated in foreign currencies.

In order to hedge its exposure to certain foreign exchange risks, the company may enter into forward contracts and options (see below for details of the company's accounting policies in respect of such derivative financial instruments).

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) **For the Six Months Ended 31 December 2014**

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred, with the exception of the Ministry of Forestry loans.

Government Loans

Forestry term liabilities are Ministry of Primary Industries Repayable Loans. Interest is calculated annually on the repayable loans. The Company is repaying these loans over a 10 year period commencing 1st January 2012.

Employee Entitlements

Entitlements to salary and wages and annual leave are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date at current rates of pay.

Entitlements to long service leave are calculated on an actuarial basis and are based on the reasonable likelihood that they will be earned by employees and paid by the company.

The company recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The calculation is based on the value of excess sick leave taken within the previous twelve months.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2014

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Good and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST.

Property, Plant and Equipment

Property plant and equipment are those assets held by the company for the purpose of carrying on its business activities on an ongoing basis.

All property, plant and equipment, apart from forestry land, are stated at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

There is no property, plant and equipment whose title is restricted and none pledged as security.

Forestry land is stated at its revalued amount, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by Quotable Value.

Self constructed assets include the direct cost of construction to the extent that they relate to bringing the fixed assets to the location and condition for their intended service.

Revaluations of forestry land are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase is credited to the appropriate revaluation reserve, except to the extent that it reverses a revaluation decrease previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2014

Depreciation is charged so as to write off the cost or valuation of assets, other than land, forestry land, properties under construction and capital work in progress, on the straight-line basis and diminishing value basis. Rates used have been calculated to allocate the asset cost or valuation less estimated residual value over their estimated remaining useful lives.

Depreciation of these assets commences when the assets are ready for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, over the term of the relevant lease.

Depreciation rates and methods used are as follows:

	<u>Rate</u>	<u>Method</u>
• Freehold Buildings	2% - 3%	Straight Line
• Roads	5% - 24%	Diminishing Value
• Bridges	2% - 2.4%	Diminishing Value
• Plant and Equipment	6% - 80.4%	Diminishing Value
• Fences	10% - 13%	Diminishing Value
• Motor vehicles	9.6% - 36%	Diminishing Value
• Office equipment	10% - 60%	Diminishing Value

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

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

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2014

Forests

The fair value of the forest, exclusive of the forest land, is determined at each reporting date. Fair value is equivalent to the NZIF Forest Valuation Standards definition of market value. Fair value is determined using the discounted cash flow methodology and in using this method, taxation, financing costs and replanting costs are excluded. The method first determines the current market value of the collective forest and land resource, with land then subtracted at its current market value to provide the value of the forest asset.

The valuation takes into account changes in price over the accounting period through a graduated current to five year average price curve as well as the quantity of trees harvested and the growth that has occurred in the forest. Any change in forest valuation is recorded in the statement of comprehensive income.

Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment of Assets Excluding Goodwill

At each balance sheet date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset (cash generating unit) is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previous revaluation increase for that asset (cash generating unit) that remains in the revaluation reserve. Any additional impairment is immediately transferred to the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2014

Inventories

Inventories reported in the balance sheet include:

- Log inventories
Valued at net realisable value less estimated point of sale costs.
- Other inventory
Valued at the lower of cost or net realisable value.

Cash and Cash Equivalents

Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Financial Instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Trade and Other Receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired are derecognized or recognized in the Income Statement.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments in debt and equity securities

Investments in debt and equity securities are financial instruments classified as held for trading and are measured at fair value at balance date. Any resultant gains or losses are recognised in the income statement for the year.

Trade and other Payables

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

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2014

Trade and other Receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less allowances for estimated irrecoverable amounts.

Borrowings

Borrowings are initially recorded net of directly attributable transaction costs and are measured at subsequent reporting dates at amortised cost. Finance charges, premiums payable on settlement or redemption and direct costs are accounted for on an accrual basis to the Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial Liability and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Derivative Financial Instruments and Hedge Accounting

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The company uses foreign exchange forward contracts, foreign exchange options and interest rate swap contracts to hedge these exposures.

The company does not use derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting, under the specific NZ IFRS rules, are accounted for as trading instruments with fair value gains/losses being taken directly to the income statement.

The use of financial derivatives is governed by the company's policy approved by the board of directors. The policy provides written principles on the use of financial derivatives.

Derivative financial instruments are recognised at fair value on the date that the derivative is entered into and are subsequently remeasured to their fair value. The fair value on initial recognition is the transaction price. Subsequently fair values are based on independent bid prices quoted in active markets as provided to us by our banker counter parties.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2014

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in the statement of comprehensive income.

The fair value of a hedging derivative is classified as a non current asset or liability if the remaining maturity of the hedge relationship is more than twelve months and as a currently liability if the remaining maturity of the hedge relationship is less than twelve months.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise. Derivatives not designated for effective hedge relationship are classified as current assets or liabilities.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Carbon credits

Emissions units held are treated as intangible assets, and initially recorded at fair value.

- Fair value is cost in the case of purchased units
- Fair value is initial market value in the case of government granted units
- Emissions unit fair value is marked to market (revalued) 6 monthly subsequent to initial recognition and 6 monthly thereafter
- The difference between initial fair value or previous annual revaluation and disposal or revaluation value of the units is treated as revenue if positive or expense if negative
- Emissions obligations are recognized as a current or future liability depending on the legislated liability period
- Emissions Liability is recorded at the market value of emissions units at the end of the period
- Increases in emissions liabilities at 30 June are treated as expenses and reductions are treated as revenue

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2014

Intangible Assets

Intangible assets acquired separately are reported at cost less accumulated amortization. Amortisation is charged on a diminishing value basis over their estimated useful lives.

Statement of Cashflows

The statement of cashflows is prepared exclusive of GST, which is consistent with the method used in the Income Statement.

Changes in Accounting Policies

There have been no changes in accounting policies.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2014

3. DIVIDENDS

The following dividends were paid by the Company:

	31 December 2014 \$'000	31 December 2013 \$'000	30 June 2014 \$'000
Special dividend	-	-	1,300
Interim dividend	1,400	1,300	1,300
Final dividend	-	-	2,500
	1,400	1,300	5,100

4. EQUITY – Share Capital

Issued Capital

25,690,522 ordinary shares	25,691	25,691	25,691
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5. REVALUATION RESERVES

Forest Revaluation Reserve

Balance at beginning of the year	47,131	46,000	46,000
Transfer from retained earnings	479	204	1,131
	47,610	46,204	47,131

Hedging Reserve

Balance at beginning of the year	462	(655)	(655)
Gain/(loss) in fair value movement in derivatives	(1,174)	690	1,117
Transfer to profit and loss	-	-	-
Balance at the end of the period	(712)	35	462

Land Revaluation Reserve

Balance at beginning of the year	14,869	14,970	14,970
Forestry land revaluations	-	-	(101)
Balance at the end of the period	14,869	14,970	14,869

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to interest payments and foreign exchange transactions that have not yet occurred.

The accompanying notes form an integral part of these unaudited financial statements.

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2014

6. RETAINED EARNINGS

	31 December 2014 \$'000	31 December 2013 \$'000	30 June 2014 \$'000
Balance at the beginning of the year	7,779	5,719	5,719
Net surplus for the year	3,724	5,037	8,291
Dividend distributions	(1,400)	(1,300)	(5,100)
Transfer to forest revaluation reserve	(479)	(204)	(1,131)
	<u>9,624</u>	<u>9,252</u>	<u>7,779</u>
Balance at the end of the period			

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

	31 December 2014 \$'000	31 December 2013 \$'000	30 June 2014 \$'000
Net gain/(loss) for the year	3,724	5,037	8,291
<i>Items Not Involving Cash Flows</i>			
Depreciation and loss on sale	189	237	482
Depletion of forest	1,433	1,606	2,487
Deferred tax	448	590	834
Depreciation recovered/capital gains	(54)	(10)	(12)
Forestry revaluation	(665)	(283)	(1,571)
Impairment of fixed assets	(80)	-	1,500
Write down of investment value	-	-	208
Other non-cash items			
<i>Impact of Changes in Working Capital Items</i>			
(Increase)/Decrease in accounts receivable	647	(2,186)	(2,041)
(Increase)/Decrease in inventories	332	400	308
(Increase)/Decrease in prepayments	229	20	(207)
(Increase)/Decrease in tax refund due	178	(158)	(156)
Increase/(Decrease) in accounts payable	(622)	(377)	1,025
Increase/(Decrease) in other current liabilities	34	23	(80)
(Increase)/Decrease in current assets	<u>(1,089)</u>	<u>(1,943)</u>	<u>(2,790)</u>
Net cash inflows/(outflows) from operating activities	<u>4,704</u>	<u>2,956</u>	<u>8,278</u>

CITY FORESTS LIMITED

Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2014

8. DISCONTINUED OPERATIONS

The Directors of City Forests Limited agreed as at 30th June 2012 to cease operating the wood processing site at Milburn. This has been leased to a third party as at 1st July 2012. The activities related to the wood processing plant have been reclassified to discontinued operations.

The Directors determined an impairment on the wood processing fixed assets as at 30th June 2012 of \$3.0m and as at 30th June 2014 a further \$1.5m.

	31 December 2014 \$'000	31 December 2013 \$'000	30 June 2014 \$'000
Revenue	201	230	480
Financial income	-	-	-
Total revenue	201	230	480
Movement in inventory	(67)	(47)	(115)
<i>Less expenses</i>			
Depreciation	32	79	156
Impairment of wood processing assets	(80)	-	1,500
Other expenses	18	31	84
Total expenses	(30)	110	1,740
Net Profit/(Loss) before tax	164	73	(1,375)
Income tax expense (benefit)	(46)	(20)	(385)
Profit/(Loss) for the period from discontinued operations	118	53	(990)