



**FGH**  
FOREST GROWTH HOLDINGS LTD



ANNUAL REPORT  
**2018**

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FOREST GROWTH  
HOLDINGS LIMITED



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# Directory

## **Directors**

D J Johnston (Chairman)

A B McKenzie (from 1 October 2017)

D Minehan (until 30 September 2017)

S B Heal (until 29 September 2017)

## **Registered Office**

C/- Invercargill City Council

101 Esk Street

Invercargill

## **Auditor**

Audit New Zealand

Dunedin

## **Bankers**

BNZ

Invercargill

## **Solicitors**

Cruickshank Pryde

42 Don Street

Invercargill 9810

## Approval by Directors

The Directors have approved for issue the financial statements of Forests Growth Holdings Limited for the year ended 30 June 2018.



D J Johnston  
Chairman



A McKenzie  
Director

For and on behalf of the Board of Directors.  
30 August 2018

## Statutory Information

### **REMUNERATION AND OTHER BENEFITS TO DIRECTORS**

|                 |          |
|-----------------|----------|
| Mr D J Johnston | \$33,432 |
| Mr A B McKenzie | \$14,797 |
| Mr D Minehan    | \$4,932  |
| Ms S B Heal     | \$9,500  |

There was no remuneration or other benefits paid to Directors during the year for any of the following:

- Compensation for loss of office.
- Guarantees given by the Company for debts incurred by a Director.

### **SHAREHOLDINGS BY DIRECTORS**

No Director has an interest in Company shares held, acquired or disposed of during the period.

### **RECOMMENDED DIVIDEND**

There is no dividend recommended.

### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Company has insured all its Directors against liabilities to other parties that may arise from their positions.

### **DIRECTORS' INTERESTS**

Except for Related Parties disclosures in note 14 of the notes to the financial statements, during the year, no Directors had an interest in any transaction or proposed transaction with the Company.

### **AUDITOR'S REMUNERATION**

Auditor's fees of \$11,000 were paid during the year. There were no other fees payable for other services provided by the Auditor.

### **USE OF COMPANY INFORMATION BY DIRECTORS**

During the period the Board received no notice from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise be available to them.

### **EMPLOYEES' REMUNERATION**

No employees received remuneration and other benefits exceeding \$100,000 during the period.

### **STATEMENT OF COMPLIANCE**

The Company breached Section 64 of the Local Government Act 2002 by not producing a Statement of Intent for the Company for the year ended 30 June 2018. An organisation that becomes a council controlled organisation more than six months before the end of a financial year is required to prepare a Statement of Intent for that financial year.

The Company breached Section 120 of the Companies Act 1993 by not holding an annual meeting of shareholders or completing a resolution in lieu of meeting within the statutory timeframes.

## Accounting Policies

As at June 30, 2018

### **REPORTING ENTITY**

Forest Growth Holdings Limited (the Company) is a company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand.

The Company is a wholly owned subsidiary of Invercargill City Forests Ltd.

The Company is primarily involved in dealing in forestry estates and related land. Accordingly, the Company has designated itself as a profit orientated entity.

The Company is a Council Controlled Trading Organisation as defined in section 6 (l) of the Local Government Act 2002.

The financial statements of the Company are for the year ended 30 June 2018. The financial statements were authorised for issue by the Directors on 30 August 2018. The entities directors do not have the right to amend the financial statement after issue.

The 2017 figures are for the 15-month period from 1 April 2016 to 30 June 2017.

### **BASIS OF PREPARATION**

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

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

The Company is a Tier 2 for-profit entity and has elected to report in accordance with the NZ IFRS Reduced Disclosure Regime on the basis that it does not have public accountability and is not a large for-profit entity.

The general accounting principles as appropriate for the measurement and reporting of results and financial position under the historical cost method have been followed in preparation of these financial statements.

The accounting policies that have been applied to these financial statements are based on the External Reporting Board A1, Accounting Standards Framework (For-profit Entities Update). The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

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

### **DISESTABLISHMENT BASIS**

The financial statements have been prepared on a disestablishment basis. A substantial portion of the inventory on hand is under contract for sale, but is subject to approval from the Overseas Investment Office (OIO). The outcome and timing of the OIO approval is uncertain. The directors have resolved to cease operations and make the company dormant once the remaining land is sold and trees harvested. This is anticipated to occur within the next 12 months.

### **REVENUE**

Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Company.

Interest income is recognised using the effective interest method.

## **INCOME TAX**

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

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

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, using tax rates that have been enacted or substantively enacted by balance date.

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

## **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents includes 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 Statement of Financial Position.

## **TRADE AND OTHER RECEIVABLES**

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

## **INVENTORY**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises of the cost of the land, forestry rights and costs associated with the purchase of the land and trees. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

## **FINANCIAL ASSETS**

The Company classifies its financial assets as loans and receivables. Loans and receivables are classified as “trade and other receivables” in the Statement of Financial Position.

- **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Loans and receivables are included in receivables in the Statement of Financial Position.

- **Impairment of Financial Assets**

At each Statement of Financial Position 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 Statement of Comprehensive Income.

## **FINANCIAL INSTRUMENTS**

- **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.

- **Borrowings**

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the

period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least 12 months after the balance date.

## **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is shown at cost, less accumulated depreciation and impairment losses.

### **Additions**

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, 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 measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

### **Disposals**

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income.

### **Subsequent Costs**

Costs incurred subsequent to initial acquisition are capitalised only 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 measured reliably.

### **Depreciation**

Depreciation is provided on all property, plant and equipment other than land, on a straightline basis at rates that will write off the cost of the assets to their estimated residual values over their useful lives.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

### ***FORESTRY ASSETS***

Forestry assets are independently revalued annually at 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.

Gains or losses arising on initial recognition of forestry assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the Statement of Comprehensive Income.

The costs to maintain the forestry assets are included in the Statement of Comprehensive Income.

### ***GOODS AND SERVICES TAX (GST)***

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

### ***IMPAIRMENT OF NON-FINANCIAL ASSETS***

The carrying amounts of the Company's assets other than inventories are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated, in order to determine the extent of the impairment loss (if any).

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable

amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

### ***NEW STANDARDS ADOPTED***

There have been no new standards adopted during the financial year. The company has not elected to early adopt any new standards or interpretations that are issued but not yet effective.

### ***CHANGES IN ACCOUNTING POLICIES***

There have been no changes in accounting policies during the period. All accounting policies have been consistently applied throughout the period covered by these financial statements.

## Statement of Financial Position

As at June 30, 2018

|   | Note | 2018<br>\$000 | 2017<br>\$000 |
|---|------|---------------|---------------|
| <b>Assets</b>   |      |               |               |
| <b>Current assets</b>   |      |               |               |
| Cash and cash equivalents   |      | 61            | 89            |
| Trade and other receivables   | 5    | 82            | 297           |
| Inventories   | 6    | 4,701         | 6,198         |
| Non-current assets held for sale                                      |      | -             | 67            |
| Forestry assets   | 8    | 35            | 350           |
| <b>Total current assets</b>   |      | <u>4,879</u>  | <u>7,001</u>  |
| <b>Total assets</b>   |      | <u>4,879</u>  | <u>7,001</u>  |
| <b>Liabilities</b>  |      |               |               |
| <b>Current liabilities</b>  |      |               |               |
| Trade and other payables  | 9    | 80            | 277           |
| Tax payable   |      | 6             | 32            |
| Borrowings  | 10   | 3,910         | 5,800         |
| Deferred tax liability  |      | 7             | -             |
| <b>Total current liabilities</b>                                      |      | <u>4,003</u>  | <u>6,109</u>  |
| <b>Non-current liabilities</b>  |      |               |               |
| Deferred tax liability  | 11   | -             | 3             |
| <b>Total non-current liabilities</b>                                  |      | <u>-</u>      | <u>3</u>      |
| <b>Total liabilities</b>  |      | <u>4,003</u>  | <u>6,112</u>  |
| <b>Equity</b>   |      |               |               |
| Share capital   | 12   | 907           | 100           |
| Retained earnings   | 12   | (31)          | 789           |
| <b>Total equity attributable to the equity holders of the company</b> |      | <u>876</u>    | <u>889</u>    |

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with, the financial statements.

## Statement of Comprehensive Income

As at June 30, 2018

|                                      | Note | 2018<br>\$000 | 2017<br>\$000 |
|--------------------------------------|------|---------------|---------------|
| <b>Income</b>                        |      |               |               |
| Operating revenue                    | 1    | 3,355         | 27,692        |
| Total income                         |      | 3,355         | 27,692        |
| <b>Expenditure</b>                   |      |               |               |
| Cost of sales                        |      | 1,497         | 25,166        |
| Biological assest Cost of Goods Sold |      | 315           | 134           |
| Forestry expenses                    |      | 1,096         | 586           |
| Administration expenses              | 3    | 181           | 505           |
| Total operating expenditure          |      | 3,089         | 26,391        |
| Finance income                       | 3    | -             | 4             |
| Finance expenses                     | 3    | 275           | 427           |
| Net finance expense                  |      | (275)         | (423)         |
| <b>Surplus/(deficit) before tax</b>  |      | (9)           | 878           |
| Income tax expense                   | 4    | 4             | 251           |
| <b>Surplus/(deficit) after tax</b>   |      | (13)          | 627           |
| <b>Total comprehensive income</b>    |      | (13)          | 627           |

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.



## Statement of Changes in Equity

As at June 30, 2018

|   | Note | 2018<br>\$000 | 2017<br>\$000 |
|---|------|---------------|---------------|
| <b>Balance at 1 April</b>               |      | 889           | 262           |
| Total Comprehensive Income for the year | 12   | 13            | 627           |
| <b>Contributions from shareholders</b>  |      |               |               |
| Shares issued and paid up               | 12   | 807           | -             |
| <b>Distributions to shareholders</b>    |      |               |               |
| Dividends paid/declared                 | 12   | (807)         | -             |
| <b>Balance at 30 June</b>               |      | 876           | 889           |

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

# Statement of Cash Flows

As at June 30, 2018

|  | Note      | 2018<br>\$000  | 2017<br>\$000  |
|--|-----------|----------------|----------------|
|  |           |                |                |
| <b>Cash flows from operating activities</b>                                  |           |                |                |
| Interest received  |           | -              | 4              |
| Receipts from customers  |           | 3,535          | 28,306         |
| Payments to suppliers and employees  |           | (1,473)        | (31,846)       |
| Interest paid  |           | (275)          | (427)          |
| Income tax (paid) / refund   |           | (27)           | 2              |
| Goods and services tax [net]   |           | -              | 13             |
| <b>Net cash from operating activities</b>                                    | <b>13</b> | <b>1,760</b>   | <b>(3,948)</b> |
| <b>Cash flows from investing activities</b>                                  |           |                |                |
| Proceeds from sale of property, plant and equipment                          |           | 102            | -              |
| Purchase of biological assets  |           | -              | (341)          |
| Purchase of property, plant and equipment                                    |           | -              | (22)           |
| <b>Net cash from investing activities</b>                                    |           | <b>102</b>     | <b>(363)</b>   |
| <b>Cash flows from financing activities</b>                                  |           |                |                |
| Proceeds from advance from Invercargill City Forests Limited                 |           | -              | 4,300          |
| Repayment of advance from Invercargill City Forests Limited                  |           | (1,890)        | -              |
| <b>Net cash from financing activities</b>                                    |           | <b>(1,890)</b> | <b>4,300</b>   |
| <b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b> |           |                |                |
|  |           | (28)           | (11)           |
| Cash, cash equivalents and bank overdrafts at the beginning of the year      |           | 89             | 100            |
| <b>Cash, cash equivalents and bank overdrafts at the end of the year</b>     |           | <b>61</b>      | <b>89</b>      |

The GST(net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST(net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

## Notes to the Financial Statements

As at June 30, 2018

### 1 Operating revenue

|                        | <b>2018</b>  | <b>2017</b>   |
|------------------------|--------------|---------------|
|                        | <b>\$000</b> | <b>\$000</b>  |
| Sale of land and trees | 1,850        | 25,389        |
| Rental income          | 219          | 254           |
| Commission received    | -            | 1,269         |
| Harvesting income      | 1,250        | 770           |
| Other income           | 36           | 10            |
|                        | <u>3,355</u> | <u>27,692</u> |

### 2 Administrative expenses (includes)

|               | <b>2018</b>  | <b>2017</b>  |
|---------------|--------------|--------------|
|               | <b>\$000</b> | <b>\$000</b> |
| Director fees | 63           | 105          |
| Audit fees    | 11           | 10           |
| Donation      | 30           | -            |

### 3 Finance income and expense

|                          | <b>2018</b>  | <b>2017</b>  |
|--------------------------|--------------|--------------|
|                          | <b>\$000</b> | <b>\$000</b> |
| <b>Finance Income</b>    |              |              |
| Interest income          | -            | 4            |
| Total finance income     | <u>-</u>     | <u>4</u>     |
| <b>Financial expense</b> |              |              |
| Interest expense         | 275          | 427          |
| Total financial expenses | <u>275</u>   | <u>427</u>   |
| Net finance costs        | <u>(275)</u> | <u>(423)</u> |

#### 4 Income tax expense in the Income Statement

|   | 2018  | 2017  |
|---|-------|-------|
|   | \$000 | \$000 |
| <b>Current tax expense</b>                        | -     | -     |
| Current period                                    | -     | 268   |
| Adjustment for prior periods                      | -     | -     |
| Total current tax expense                         | -     | 268   |
| <b>Deferred tax expense</b>                       | -     | -     |
| Origination and reversal of temporary differences | 4     | (52)  |
| Other   | -     | 35    |
| Total deferred tax expense                        | 4     | (17)  |
| Total income tax expense                          | 4     | 251   |
| <b>Reconciliation of effective tax rate</b>       | -     | -     |
| Profit for the year                               | (9)   | 878   |
| Profit excluding income tax                       | (9)   | 878   |
| Tax at 28%  | (3)   | 246   |
| Permanent differences                             | 14    | -     |
| Temporary differences                             | 82    | -     |
| Loss offset                                       | (89)  | -     |
|   | 4     | 246   |
| Under/(over) provided in prior periods            | -     | 5     |
| Total income tax expense                          | 4     | 251   |

## 5 Trade and other receivables

|  | <b>2018</b>  | <b>2017</b>  |
|--|--------------|--------------|
|  | <b>\$000</b> | <b>\$000</b> |
| Trade receivables                            | 82           | 297          |
| Less provision for impairment of receivables | -            | -            |
|  | <u>82</u>    | <u>297</u>   |

Trade receivables are non-interest bearing and are generally on terms of 30 days. For terms and conditions relating to related party receivables, refer to Note 15.

As at 30 June, the ageing analysis of trade receivables is, as follows:

|      | <b>Total</b> | <b>Neither<br/>past due nor<br/>impaired</b> |
|------|--------------|--|
| 2018 | 82           | 82   |
| 2017 | 297          | 297  |

See Note 19 on credit risk of trade receivables, which explains how the Company manages trade receivables.

## 6 Inventories

|                              | <b>2018</b>  | <b>2017</b>  |
|------------------------------|--------------|--------------|
|                              | <b>\$000</b> | <b>\$000</b> |
| Land and trees held for sale | 4,701        | 6,198        |
|                              | <u>4,701</u> | <u>6,198</u> |

## 7 Property, Plant and Equipment

### 2018

|                 | Cost                 | Accumulated depreciation | Carrying amount      | Current year additions (Cost) | Current year disposals (Cost) |
|-----------------|----------------------|--------------------------|----------------------|-------------------------------|-------------------------------|
|                 | 1 July 2017<br>\$000 | 1 July 2017<br>\$000     | 1 July 2017<br>\$000 | \$000                         | \$000                         |
| Land            |                      |                          |                      |                               |                               |
| Northland Lot 1 | -                    | -                        | -                    | -                             | -                             |
| Northland Lot 2 | -                    | -                        | -                    | -                             | -                             |
| Northland Lot 6 | -                    | -                        | -                    | -                             | -                             |
| Total assets    | -                    | -                        | -                    | -                             | -                             |

### 2017

|                 | Cost                  | Accumulated depreciation | Carrying amount       | Current year additions (Cost) | Current year disposals (Cost) |
|-----------------|-----------------------|--------------------------|-----------------------|-------------------------------|-------------------------------|
|                 | 1 April 2016<br>\$000 | 1 April 2016<br>\$000    | 1 April 2016<br>\$000 | \$000                         | \$000                         |
| Land            |                       |                          |                       |                               |                               |
| Northland Lot 1 | 10                    | -                        | 10                    | -                             | -                             |
| Northland Lot 2 | 11                    | -                        | 11                    | -                             | -                             |
| Northland Lot 6 | 24                    | -                        | 24                    | -                             | -                             |
| Total assets    | 45                    | -                        | 45                    | -                             | -                             |

No depreciation is charged on land and there have been no impairments throughout the period.



| Reclassification to non-current assets held for sale | Current year depreciation | Cost                  | Accumulated depreciation | Carrying amount       |
|--|---------------------------|-----------------------|--------------------------|-----------------------|
| \$000  | \$000                     | 30 June 2018<br>\$000 | 30 June 2018<br>\$000    | 30 June 2018<br>\$000 |
| -  | -                         | -                     | -                        | -                     |
| -  | -                         | -                     | -                        | -                     |
| -  | -                         | -                     | -                        | -                     |
| -  | -                         | -                     | -                        | -                     |

| Current year reclassification | Current year depreciation | Cost                  | Accumulated depreciation | Carrying amount       |
|-------------------------------|---------------------------|-----------------------|--------------------------|-----------------------|
| \$000                         | \$000                     | 30 June 2017<br>\$000 | 30 June 2017<br>\$000    | 30 June 2017<br>\$000 |
| (10)                          | -                         | -                     | -                        | -                     |
| (11)                          | -                         | -                     | -                        | -                     |
| (24)                          | -                         | -                     | -                        | -                     |
| (45)                          | -                         | -                     | -                        | -                     |

## 8 Biological Assets

### Group Forestry

\$000

|                              |            |
|------------------------------|------------|
| Balance at 1 April 2016      | 143        |
| Additions                    | 341        |
| Forest Assets logged at cost | (134)      |
| Balance at 30 June 2017      | <u>350</u> |

|                              |                  |
|------------------------------|------------------|
| Balance at 1 July 2017       | 350              |
| Forest Assets logged at cost | (315)            |
| Balance at 30 June 2018      | <u><u>35</u></u> |

## 9 Trade and Other Payables

|                                | 2018      | 2017       |
|--------------------------------|-----------|------------|
|                                | \$000     | \$000      |
| Trade payables                 | -         | 259        |
| Accrued expenses               | 72        | 10         |
| GST payable                    | 8         | 8          |
| Total trade and other payables | <u>80</u> | <u>277</u> |

Trade and other payables are non-interest bearing and are normally settled on 30-day terms.

Accrued expenses contains \$50,000 of settlement costs for the Overseas Investment Office investigation into the breach of the Overseas Investment Act 2005. The settlement comprised \$20,000 towards the regulators costs in relation to the investigation and a donation of \$30,000 to the NZIF Foundation.

## 10 Borrowings

|  | 2018         | 2017         |
|--|--------------|--------------|
|  | \$000        | \$000        |
| <b>Current</b>                           |              |              |
| Loan - Invercargill City Forests Limited | 3,910        | 5,800        |
| Total current borrowings                 | <u>3,910</u> | <u>5,800</u> |

The loan from Invercargill City Forests was advanced in 2013. The loan is unsecured and repayable on demand. Interest is charged at a variable interest rate. The current average interest rate payable is 4.698% (2017: 6.471%) The fair value of the loan is also its carrying value.

## 11 Deferred Tax Liabilities/(Assets)

|                        | Balance   | Recognised<br>in profit or<br>loss | Recognised<br>in equity | Balance   | Recognised<br>in profit or<br>loss | Recognised<br>in equity | Balance   |
|------------------------|-----------|------------------------------------|-------------------------|-----------|------------------------------------|-------------------------|-----------|
|                        | 31-Mar-16 |                                    |                         | 30-Jun-17 |                                    |                         | 30-Jun-18 |
|                        | \$000     | \$000                              | \$000                   | \$000     | \$000                              | \$000                   | \$000     |
| Biological assets      | -         | -                                  | -                       | -         | -                                  | -                       | -         |
| Other items            | 55        | (52)                               | -                       | 3         | 4                                  | -                       | 7         |
| Tax loss               | (35)      | 35                                 | -                       | -         | -                                  | -                       | -         |
| <b>Total movements</b> | <b>20</b> | <b>(17)</b>                        | <b>-</b>                | <b>3</b>  | <b>4</b>                           | <b>-</b>                | <b>7</b>  |

## 12 Equity

|  | Share capital | Cashflow<br>Hedging<br>reserve | Retained<br>earnings | Total      |
|--|---------------|--------------------------------|----------------------|------------|
|  | \$000         | \$000                          | \$000                | \$000      |
| <b>Balance at 1 April 2016</b>         | 100           | -                              | 162                  | 262        |
| Surplus/(deficit) after tax            | -             | -                              | 627                  | 627        |
| <i>Contributions from Shareholders</i> |               |                                |                      |            |
| Shares issued and paid up              | -             | -                              | -                    | -          |
| <i>Distributions to Shareholders</i>   |               |                                |                      |            |
| Dividends paid/declared                | -             | -                              | -                    | -          |
| <b>Balance at 30 June 2017</b>         | <b>100</b>    | <b>-</b>                       | <b>789</b>           | <b>889</b> |
| <b>Balance at 1 July 2017</b>          | 100           | -                              | 789                  | 889        |
| Surplus/(deficit) after tax            | -             | -                              | (13)                 | (13)       |
| <i>Contributions from Shareholders</i> |               |                                |                      |            |
| Shares issued and paid up              | 807           | -                              | -                    | 807        |
| <i>Distributions to Shareholders</i>   |               |                                |                      |            |
| Dividends paid/declared                | -             | -                              | (807)                | (807)      |
| <b>Balance at 30 June 2018</b>         | <b>907</b>    | <b>-</b>                       | <b>(31)</b>          | <b>876</b> |

At 30 June 2018, share capital comprised 9,068 ordinary, fully paid up shares with equal rights (2017: 100). A fully taxable bonus issue of 8,068 shares was made during the year.

**13 Reconciliation of net surplus/(deficit) to net cash inflows (outflows) from operating activities**

|   | <b>2018</b>  | <b>2017</b>    |
|---|--------------|----------------|
|   | <b>\$000</b> | <b>\$000</b>   |
| <b>Reconciliation with reported operating surplus</b> |              |                |
| Net surplus after tax                                 | (13)         | 627            |
| <b>Add/(deduct) non-cash items:</b>                   |              |                |
| Biological assets - Cost of Goods Sold                | 315          | 134            |
| Increase/(decrease) in deferred taxation              | 4            | (17)           |
| Gain on disposal of assets                            | (36)         | -              |
|   | <u>283</u>   | <u>117</u>     |
| <b>Add/(less) movements in working capital:</b>       |              |                |
| (Increase)/decrease in receivables                    | 215          | 614            |
| (Increase)/decrease in inventories                    | 1,497        | (5,535)        |
| (Increase)/decrease in biological assets              | -            | -              |
| Increase/(decrease) in accounts payable and accruals  | (196)        | (53)           |
| Increase/(decrease) in GST/taxation                   | (26)         | 282            |
|   | <u>1,490</u> | <u>(4,692)</u> |
| Net cash inflow (outflow) from operating activities   | <u>1,760</u> | <u>(3,948)</u> |

**14 Changes in liabilities arising from financing activities**

The changes in the liabilities arising from financing activities can be classified as follows:

|                  | <b>Short-term borrowings</b> |
|------------------|------------------------------|
|                  | <b>\$000</b>                 |
| 1 July 2017      | 5,800                        |
| <b>Cashflows</b> |                              |
| Proceeds         | -                            |
| Repayments       | (1,890)                      |
| 30 June 2018     | <u>3,910</u>                 |

## 15 Related party transactions

During the year, the following transactions took place:

|  | 2018  | 2017  |
|--|-------|-------|
|  | \$000 | \$000 |
| <b>(a) Invercargill City Forests Limited</b>                         |       |       |
| <i>Revenue</i>   |       |       |
| Provision of services  | -     | -     |
| <i>Expenditure</i>   |       |       |
| Provision of services and interest payments                          | 315   | 526   |
| Loan balance outstanding to Invercargill City Forests Limited        | 3,910 | 5,800 |
| Outstanding at balance date by Invercargill City Forests Limited     | -     | -     |
| Outstanding at balance date to Invercargill City Forests Limited     | -     | 34    |
| <b>(b) Independent Forestry Services Limited</b>                     |       |       |
| <i>Revenue</i>   |       |       |
| Provision of services  | -     | -     |
| <i>Expenditure</i>   |       |       |
| Provision of services  | 5     | 19    |
| Outstanding at balance date by Independent Forestry Services Limited | -     | -     |
| Outstanding at balance date to Independent Forestry Services Limited | -     | -     |
| <b>(c) IFS Forestry Group Limited</b>                                |       |       |
| <i>Revenue</i>   |       |       |
| Provision of services  | -     | -     |
| <i>Expenditure</i>   |       |       |
| Provision of services  | -     | 75    |
| Outstanding at balance date by IFS Forestry Group Limited            | -     | -     |
| Outstanding at balance date to IFS Forestry Group Limited            | -     | -     |

|   | <b>2018</b>  | <b>2017</b>  |
|---|--------------|--------------|
|   | <b>\$000</b> | <b>\$000</b> |
| <b>(d) IFS Growth Limited</b>                     |              |              |
| <i>Revenue</i>                                    |              |              |
| Provision of services                             | -            | -            |
| <i>Expenditure</i>                                |              |              |
| Provision of services                             | 2            | 204          |
| Outstanding at balance date by IFS Growth Limited | -            | -            |
| Outstanding at balance date to IFS Growth Limited | -            | 6            |
| <b>(e) OneForest Limited</b>                      |              |              |
| <i>Revenue</i>                                    |              |              |
| Provision of services                             | 607          | 885          |
| <i>Expenditure</i>                                |              |              |
| Provision of services                             | 401          | 595          |
| Outstanding at balance date by One Forest Limited | -            | 276          |
| Outstanding at balance date to One Forest Limited | -            | 218          |

No related party debts have been written off or were forgiven during the 2018 period (2017: nil).

| Key management personnel compensation comprises: | <b>2018</b>  | <b>2017</b>  |
|--|--------------|--------------|
|  | <b>\$000</b> | <b>\$000</b> |
| Director's Fees                                  | 63           | 105          |

## **16 Capital and operating commitments**

There are no commitments contracted for at 30 June 2018 (2017: nil).

## **17 Contingencies**

There are no contingent liabilities or assets at 30 June 2018 (2017:nil).

## **18 Events after the Balance Sheet date**

There have been no significant events between period end and the signing date of the financial statements.

## 19 Financial Instruments

Exposure to credit, interest rate, equity price and liquidity risks arises in the normal course of the Company's business.

### Credit risk

Financial instruments that potentially subject the Company consist principally of cash, cash equivalents and receivables. Cash is placed with banks with high credit ratings assigned by international credit-rating agencies, or other high credit quality financial institutions.

Security is not required for the provision of goods and services but regular monitoring of balances outstanding is undertaken.

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty raising liquid funds to meet commitments as they fall due. The Company evaluates its liquidity requirements on an ongoing basis.

The following table details the exposure to liquidity risk as at 30 June 2018:

|                              | Maturity Dates    |                    |                    | Total<br>\$000 |
|------------------------------|-------------------|--------------------|--------------------|----------------|
|                              | < 1 year<br>\$000 | 1-3 years<br>\$000 | > 3 years<br>\$000 |                |
| <b>Financial Assets</b>      |                   |                    |                    |                |
| Cash and cash equivalents    | 61                | -                  | -                  | 61             |
| Trade and other receivables  | 82                | -                  | -                  | 82             |
|                              | 143               | -                  | -                  | 143            |
| <b>Financial Liabilities</b> |                   |                    |                    |                |
| Trade and other payables     | 80                | -                  | -                  | 70             |
| Borrowings                   | 3,910             | -                  | -                  | 3,910          |
|                              | 3,990             | -                  | -                  | 3,990          |

The following table details the exposure to liquidity risk as at 30 June 2017:

|                              | <b>Maturity Dates</b> |                  |                     | <b>Total</b> |
|------------------------------|-----------------------|------------------|---------------------|--------------|
|                              | <b>&lt; 1 year</b>    | <b>1-3 years</b> | <b>&gt; 3 years</b> |              |
|                              | <b>\$000</b>          | <b>\$000</b>     | <b>\$000</b>        | <b>\$000</b> |
| <b>Financial Assets</b>      |                       |                  |                     |              |
| Cash and cash equivalents    | 89                    | -                | -                   | 89           |
| Trade and other receivables  | 79                    | -                | -                   | 79           |
|                              | 168                   | -                | -                   | 168          |
| <b>Financial Liabilities</b> |                       |                  |                     |              |
| Trade and other payables     | 59                    | -                | -                   | 59           |
| Borrowings                   | 5,800                 | -                | -                   | 5,800        |
|                              | 5,859                 | -                | -                   | 5,859        |

## Company Statement of Service Performance

*For the year ended June 30, 2018*

The results achieved for the year ended 30 June 2018 are as follows:

### **Non Financial:**

Harvesting of the remaining biologicals is completed

- Not Achieved
- Harvesting was completed at one of the two remaining forests but only partially completed at the second. Sourcing harvesting operators in the Northland area proved difficult and delayed harvesting at the second forest, with approximately 60% of harvesting completed. Harvesting of the remaining area is expected to be completed by December 2018.

All remaining land is sold or under negotiation

- Achieved
- A substantial portion of the inventory on hand is under contract for sale, but is subject to approval from the Overseas Investment Office (OIO). The outcome and timing of the OIO approval is uncertain. The one remaining 20 hectare block of land is subject to a verbal offer and negotiations are in progress.

### **Breach of Compliance**

The Company breached Section 64 of the Local Government Act 2002 by not producing a Statement of Intent for the Company for the year ended 30 June 2018. An organisation that becomes a council controlled organisation more than six months before the end of a financial year is required to prepare a Statement of Intent for that financial year.

## Independent Auditor's Report

### To the readers of Forest Growth Holdings Limited's financial statements and performance information for the year ended 30 June 2018

The Auditor-General is the auditor of Forest Growth Holdings Limited (the company). The Auditor-General has appointed me, Ian Lothian, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company on his behalf.

#### Opinion

We have audited:

- the financial statements of the company on pages 7 to 28, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity, statement of cash flows and accounting policies for the year ended on that date, and the notes to the financial statements that includes other explanatory information; and
- the performance information of the company on pages 29.

In our opinion:

- the financial statements of the company on pages 7 to 28, which are prepared on a disestablishment basis:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with the New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime; and
- the performance information of the company on page 29 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2018.

Our audit was completed on 30 August 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

### **The financial statements are appropriately prepared on a disestablishment basis**

Without modifying our opinion, we draw your attention to the Disestablishment Basis section of the accounting policies on page 7, which explains the financial statements are prepared on disestablishment basis because the Board of Directors has resolved that the company cease operations and become dormant once remaining land is sold and trees harvested. This is anticipated to occur within the next 12 months. We consider the disestablishment basis of preparation of the financial statements and the related disclosures to be appropriate.

### **Failure to issue a statement of intent for the period ended 30 June 2018**

Without modifying our opinion, we draw your attention to the disclosure made on page 6 about the Board of Directors not preparing a statement of intent for the period ending 30 June 2018 as required by section 64 of the Local Government Act 2002. We consider the disclosure to be appropriate.

### **Predecessor auditor**

We draw attention to the fact that the 30 June 2017 financial statements of the company were audited by a predecessor auditor who was not acting on behalf of the Auditor-General. That auditor expressed an unmodified opinion on those financial statements in their report dated 1 August 2017.

### **Basis for our opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of the Board of Directors for the financial statements and the performance information**

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

### **Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of shareholders, taken on the basis of these financial statements and the performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the disestablishment basis of accounting by the Board of Directors.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

### **Independence**

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of *Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the company.



Ian Lothian  
Audit New Zealand  
On behalf of the Auditor-General  
Dunedin, New Zealand



**FGH**

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