

# Annual Report & Corporate Governance 2011

## Farmlands Trading Society Limited

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# Chairman's Report

**I am pleased to present the 49th Annual Report of the Farmlands Trading Society on behalf of my fellow Directors. This year we will return \$46.5 million in monthly rebates and loyalty rebates to our shareholders which is another excellent achievement.**

Total sales generated for the year were \$683 million, up 22% on last year. The company generated a \$5.8 million profit for the year, pre tax and loyalty rebate, an increase of 63% on the previous year.

The Board has resolved to distribute \$5.3 million in the form of a loyalty rebate. This distribution includes \$2.0 million in cash with the balance being shares in the Society and credit card commissions.

From a market perspective, commodity prices have been at or near record levels over last year, although dairy prices have been tracking down latterly. A climate of caution is still evident and this is reflected in below average levels of land sales and a desire to repay debt where possible. That said, cash flows are looking more positive and there is an appetite for investment where solid returns can be forecast. The exception is the Kiwifruit sector where there will be many challenges in the coming months as a result of Psa.

The trading year provided robust results across the board. Normally we experience some variation between quarterly reporting periods however this year each quarter tracked in line with expectation or better.

I have previously made reference to the building blocks that have been critical to Farmlands' success. A little over 3 years ago we set some targets. We believed that the sector faced further consolidation, and if we were to ignore the opportunity to take part in this activity, Farmlands risked becoming irrelevant. It had the benefit of a structure and platform that could enable it to be a market leader.

We proposed that the business focus on building scale in its 3 operational areas, rural merchandising, the Farmlands Card and sales of Ballance fertiliser. These would be achieved by: (actuals in brackets)

- Opening 11 new stores (11 completed)
- Rebuilding or refurbishing 9 stores (7 completed)
- Driving same store growth at 6% per annum (18% achieved)
- Have nearly completed geographic coverage of the North Island with a 44 store network (44 operating)
- Have 29,500 shareholders (27,000, this is below target as a result of a focus on recruiting shareholders who have the ability to engage effectively with the business)
- Turnover in excess of \$650 million (\$683 million)

Our drive for all shareholders to direct a greater percentage of their spend through the Co-operative has been successful. Over the last 3 years we have achieved 18% annual growth on a same store basis. As a consequence shareholders have a greater reward for that loyalty and support. We will continue to grow this spend through a quality offering. Our new build program pushes the Farmlands brand out into new areas and further consolidates its position as a market leader in the sector. We concluded our second auction of properties in April which was very successful. The proceeds (circa \$12m) have been reinvested into the business and our prudent approach to Balance Sheet management will continue.

Whilst we have not fully met the rebuild targets, we made a conscious decision to slow our spending during the early stages of the global financial crisis as we assessed what it would mean to New Zealand and particularly our sector. We are on track to complete this by the end of 2012.

With the increased scale of the business there is a need to make an adequate return for our efforts. The focus this year has been the implementation of operational programs to enhance efficiency. The results of these have already begun to flow through in the form of improved profitability.

After the AGM last year we welcomed two new directors to the Board. Tony O'Boyle was elected following the retirement of Roger Barton. Tony is currently farming in the Wairarapa and also has farming interests in the dairy sector. He has developed his understanding of the core workings of Farmlands over the last 12 months.

Dr Helen Cross joined us in December as an independent director. Helen's strengths are in the IT, business improvement and consultancy. Similarly, she is quickly beginning to add value around the Board table.

We are currently in a process of making appointments for the new roles of Appointed Shareholder Directors. Our rationale for the change in Board structure was well documented prior to last years AGM and we were pleased that Shareholders agreed the pathway forward. I look forward to making these announcements at the AGM in Taupo in November.

We also say goodbye to Ross Linklater and Dennis Munro who both retire at the forthcoming AGM after a collective 24 years of service. I would like to pay tribute to their dedication and support around the Board table in discharging their responsibilities as Farmlands Directors. We wish them well in their future endeavours.

I would take this opportunity to thank all concerned for their efforts. The results are a credit to all of the Farmlands team. We have a large team of dedicated and passionate people, striving hard to achieve our goals. Thank you to everyone.

We look forward to the coming year.



Lachie Johnstone  
Chairman

# Chief Executive's Annual Report

Dear Shareholder,

In my annual report to you last year, I concluded with the following words "I am hopeful with the onset of spring and greater stability in the New Zealand economy confidence will return to the agricultural sector."

In the intervening months, with the exception of those participants who are carrying heavy debt burdens and certain segments of horticulture, namely kiwifruit as a result of Psa, and those exporting, which are still facing difficulties in obtaining a sustainable value for their produce in global markets, I believe that confidence has increased for most agricultural producers, albeit cautiously.

Driving this enhanced sentiment has been the improved outlook in pricing for most global food commodities. With supply and demand continuing to shift in the favour of the demand side of the equation, global food pricing has transitioned to a higher level than has been experienced for many decades. Whilst this new level looks sustainable, we have to remember that underlying this dynamic, we have commodities and they react quickly to changing market situations and volatility in their pricing is likely to remain.

Against this backdrop of cautious optimism I believe your business has continued to make progress with its core objective of lowering the costs of inputs for our shareholders, through continuing to build scale in our core rural merchandise activities and Card offering, and striving to exploit the efficiencies that this can create in our terms of trade and business operations.

Farmlands has experienced growth across the business to deliver record performance with many of our business metrics:

- Turnover increased by **22%** or \$123 million to \$683 million
- Rebates to members increased by **29%** or \$10.4 million to \$46.5 million
- Pre tax profits before loyalty rebates increased by **63%** or \$2.2 million to \$5.8 million
- Shareholder numbers increased by **5%** or 1,300 to 27,000

In addition Year End Loyalty rebates increased by **65%** or \$2.1 million to \$5.3 million

Underpinning these numbers was growth in our retail business of **25%** or **18%** on a 'same store' basis (this latter measurement is after removing the impact of new stores that were opened during the year). Included in these numbers is our rapidly growing Skeltons horticulture offering, which is being leveraged across the Farmlands platform in all the major horticulture growing areas in the N. Island. We now have nearly 20 Skeltons technical advisors working in the field, to support our shareholders

We are however not immune to some of the challenges facing the agricultural sector and we have again had to make a sizeable provision for bad and doubtful debts. During the last 12 months we have invested in people and processes to manage this area of risk in our rapidly expanding activities and I am confident that a lift in performance in this area of our business will result.

At balance date the retail business was operating a platform of **43** stores in the N. Island having opened stores in Putaruru and Opunake in the previous 12 months. In late July we opened the 44th in Kamo, North of Whangarei and we currently constructing the **45th** in Helensville (opening October 2011) and the 46th Huntly (opening March 2012). This leaves 4 more locations in our pipeline to complete our target of **50** stores by the end of 2012 and deliver geographic coverage of the N. Island.

In conjunction with these new locations we are relocating a number of existing stores into to more appropriate premises. The new Paeroa store opened in March, the new Te Awamutu store has opened in September this year, a new store in Matamata is forecast to open in November. The relocation of a further 4 existing sites are in advanced stages of investigation.

To support this new build programme and ensure prudence in our balance sheet management we held another successful sale and leaseback by auction in April in Tauranga of six stores realising \$11.7 million gross. It was extremely pleasing to see again that many of the buyers were existing shareholders who competed in this open market process to become a Farmlands landlord.

With the end in sight to the new store build programme and the momentum in the growth of the business continuing at pace, we are increasing our focus on driving efficiencies into the processes and systems that support our business activities. We believe that is vital to do this to support the sustainability of the business in a rural merchandise market that will continue to consolidate and resulting in a smaller number of larger players. To support our endeavours in driving this critical business activity we have built an internal resource through development of our own staff and external recruitment. They are currently embarked on a major agenda of continuous improvement.

The Farmlands Card continues to build significant traction as shareholders become more aware of the opportunities that its use can offer their businesses. The sales transacted through Card grew **17%** over the previous year. This figure however masks an accelerating trend, with growth in the second six months significantly higher at **23%**. A key objective for the current year is to maintain this growth by continuing to highlight to shareholders the potential it can deliver to them through its use.

The business achievements in the last twelve months could not have been delivered without our team of staff, which including our part time employees totals well over **500**. I believe that they are our key competitive advantage and again I would like to pay tribute to them as they have continued unstintingly to try and raise the bar in delivering the Farmlands promise of value and service to our shareholders.

Despite our recent successes we are very aware of the risk of complacency and are continuously seeking to improve our value proposition. To assist with this we regularly survey shareholders to determine their views on what Farmlands offers them and their businesses. The responses to these surveys have been very high. To many of you who have partaken in these surveys I would like to thank you for the interest that you are taking in your business and I encourage you to continue to do so as they represent an important part of our continuous improvement strategy.

Despite continuing turmoil in many of the economies in the Northern Hemisphere, I hope that the green shoots of increasing confidence and prosperity will continue to develop across the New Zealand primary sector, and we all at Farmlands look forward to assisting you to exploit this improving environment.



Peter Ellis  
Chief Executive Officer

# Members Trading Statement

For the year ended 30 June 2011  
In thousands of New Zealand dollars

## *How the dollars were made & spent*

	<b>2011</b>	<b>2010</b>
	\$000	\$000
<b>GROSS SALES</b> - before Trading rebates to Members	683,256	560,525
<b>GROSS PROFIT</b>	88,351	72,009
Other Income	4,398	4,563
	<hr/>	<hr/>
	92,749	76,572
Less Expenses	43,995	38,252
Interest paid	1,099	1,328
	<hr/>	<hr/>
Surplus before Tax & Rebates	47,655	36,992
Less: Trading Rebates to Members	41,239	32,904
Loyalty Rebates to Members	4,651	2,650
Credit Card Payments In Lieu Of Loyalty Rebate	652	558
	<hr/>	<hr/>
Total Rebates to Members	46,542	36,112
	<hr/>	<hr/>
Surplus before Tax	1,113	880
Less Taxation	408	667
	<hr/>	<hr/>
<b>Leaving surplus/(deficit) after Tax and Rebates</b>	<b>705</b>	<b>213</b>

# Auditors' Report



## ***Independent Auditors' Report*** **to the members of Farmlands Trading Society Limited**

### ***Report on the Financial Statements***

We have audited the financial statements of Farmlands Trading Society Limited on pages 6 to 17, which comprise the balance sheet as at 30 June 2011, the statement of comprehensive income and statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

### ***Directors' Responsibility for the Financial Statements***

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Society's preparation of financial statements that give a true and fair view of the matters to which they relate, 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 Society's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Farmlands Trading Society Limited other than in our capacities as auditors and tax advisors. These services have not impaired our independence as auditors of the Society.

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# Auditors' Report cont . . .



## **Opinion**

In our opinion, the financial statements on pages 7 to 18:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Society as at 30 June 2011, and its financial performance and cash flows for the year then ended.

## **Report on Other Legal and Regulatory Requirements**

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2011:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Society as far as appears from an examination of those records.

## **Restriction on Distribution or Use**

This report is made solely to the Society's members, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Society's members those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers  
Chartered Accountants  
Napier  
20 September 2011

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# Statement of Comprehensive Income

For the year ended 30 June 2011  
In thousands of New Zealand dollars

	2011 \$000	2010 \$000
Gross Turnover (Note 4)	683,256	560,525
Revenue (Note 4)	524,845	433,052
Cost of Sales	477,733	393,947
<b>GROSS PROFIT</b>	<b>47,112</b>	<b>39,105</b>
Other Income (Note 5)	2,986	3,183
Operating Expenses (Note 6)	44,647	38,810
Operating Profit before Net Finance Income	5,451	3,478
Finance Income	1,412	1,380
Finance Expense	1,099	1,328
Net Finance Income	313	52
Net Profit before Loyalty Rebate and Tax	5,764	3,530
Loyalty Rebate (Note 23)	4,651	2,650
Net Profit before Tax	1,113	880
Taxation (Note 8)	408	667
<b>PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS</b>	<b>705</b>	<b>213</b>

# Statement of Changes in Equity

For the year ended 30 June 2011  
In thousands of New Zealand dollars

	2011 \$000	2010 \$000
Equity at start of period	41,451	38,830
Profit (loss) for the period	705	213
Total income and expense recognised directly in equity	-	124
Total recognised income and expenses	705	337
Bonus shares issued	654	1,701
Net contribution from Members	760	583
<b>EQUITY AT END OF PERIOD (Note 14)</b>	<b>43,570</b>	<b>41,451</b>

These statements should be read in conjunction with the Notes to the Accounts

# Balance Sheet

As at 30 June 2011

In thousands of New Zealand dollars

## NON CURRENT ASSETS

Property Plant & Equipment (Note 9)

Intangible Assets (Note 10)

Investments (Note 7)

### TOTAL NON CURRENT ASSETS

## CURRENT ASSETS

Cash and Cash Equivalents (Note 15)

Trade and Other Receivables (Note 16)

Taxation Refund

Deferred Tax Asset (Note 8)

Inventories - Finished goods (Note 12)

### TOTAL CURRENT ASSETS

## TOTAL ASSETS

## EQUITY

Issued Share Capital (Note 14)

Retained Earnings (Note 14)

### TOTAL EQUITY (Note 14)

## CURRENT LIABILITIES

Trade and Other Payables (Note 13)

Employee Entitlements

Loyalty Rebate Payable (Note 23)

Taxation Payable

Deferred Tax Liability (Note 8)

### TOTAL CURRENT LIABILITIES

## NON CURRENT LIABILITIES

Term Loan (Note 17)

Employee Entitlements

### TOTAL NON CURRENT LIABILITIES

## TOTAL EQUITY AND LIABILITIES

	2011	2010
	\$000	\$000
<b>NON CURRENT ASSETS</b>		
Property Plant & Equipment (Note 9)	18,789	19,003
Intangible Assets (Note 10)	4,153	3,785
Investments (Note 7)	-	10
<b>TOTAL NON CURRENT ASSETS</b>	<b>22,942</b>	<b>22,798</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Note 15)	6,952	2,447
Trade and Other Receivables (Note 16)	57,870	53,424
Taxation Refund	-	665
Deferred Tax Asset (Note 8)	143	-
Inventories - Finished goods (Note 12)	32,780	31,472
<b>TOTAL CURRENT ASSETS</b>	<b>97,745</b>	<b>88,008</b>
<b>TOTAL ASSETS</b>	<b>120,687</b>	<b>110,806</b>
<b>EQUITY</b>		
Issued Share Capital (Note 14)	23,715	22,301
Retained Earnings (Note 14)	19,855	19,150
<b>TOTAL EQUITY (Note 14)</b>	<b>43,570</b>	<b>41,451</b>
<b>CURRENT LIABILITIES</b>		
Trade and Other Payables (Note 13)	49,144	45,328
Employee Entitlements	2,616	1,134
Loyalty Rebate Payable (Note 23)	4,651	2,650
Taxation Payable	579	-
Deferred Tax Liability (Note 8)	-	144
<b>TOTAL CURRENT LIABILITIES</b>	<b>56,990</b>	<b>49,256</b>
<b>NON CURRENT LIABILITIES</b>		
Term Loan (Note 17)	20,000	20,000
Employee Entitlements	127	99
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>20,127</b>	<b>20,099</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>120,687</b>	<b>110,806</b>

These financial statements were authorised for issue by the Board on 20th September 2011 For and on behalf of the Board



LJC Johnstone - Director



D P Jensen - Director

This statement should be read in conjunction with the Notes to the Accounts

# Statement of Cash Flows

For the year ended 30 June 2011  
In thousands of New Zealand dollars

## CASH FLOW FROM OPERATING ACTIVITIES

Cash was provided from

- Receipts from members & customers
- Interest Received
- Income Tax Refund

Cash was applied to

- Payments to suppliers, employees & GST
- Interest Paid
- Income Tax Paid

**Net Cash used in Operating Activities** (Note 21)

## CASH FLOW FROM INVESTING ACTIVITIES

Cash was provided from

- Sale of Property, plant & equipment

Cash was applied to

- Purchase of Property, plant and equipment
- Purchase of Business

**Net Cash used in Investing Activities**

## CASH FLOW FROM FINANCING ACTIVITIES

Cash was provided from

- Issue of Shares

Cash was applied to

- Repayment of Capital
- Bonus Rebate Benefits paid

Net Cash provided by Financing Activities

## NET INCREASE/(DECREASE) IN CASH HELD

Opening Cash Balance brought forward

## CLOSING CASH BALANCE CARRIED FORWARD

The closing Cash Balance comprised

- Cash Deposits and Bank

	<b>2011</b>	<b>2010</b>
	\$000	\$000
	642,048	516,716
	1,412	1,380
	404	-
	<u>643,864</u>	<u>518,096</u>
	(635,145)	(518,580)
	(1,099)	(1,328)
	-	(628)
	<u>(636,244)</u>	<u>(520,536)</u>
	<b>7,620</b>	<b>(2,440)</b>
	10,646	12,894
	(12,448)	(11,255)
	-	(500)
	<u>(1,802)</u>	<u>1,139</u>
	1,126	1,145
	(366)	(562)
	(2,073)	(2,693)
	<u>(1,313)</u>	<u>(2,110)</u>
	<b>4,505</b>	<b>(3,411)</b>
	2,447	5,858
	<u>6,952</u>	<u>2,447</u>
	6,952	2,447
	<u>6,952</u>	<u>2,447</u>

This statement should be read in conjunction with the Notes to the Accounts

# Notes to the Financial Statements

## 1 Reporting Entity

Farmlands Trading Society Limited (the "Society") is a Society registered under the Industrial and Provident Societies Act 1908 and domiciled in New Zealand. Farmlands Trading Society Limited is an issuer for the purposes of the New Zealand Financial Reporting Act 1993.

Farmlands Trading Society Limited is in the business of providing goods and services to farmers and its major purpose is to reduce farmers' input costs by means of a collective buying group.

Farmlands Trading Society Limited has a 100% owned subsidiary, Skelton Ivory (2008) Ltd. This is non-trading therefore these accounts represent the parent and group.

## 2 Basis of Preparation

### - Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as applicable for profit-orientated entities. They also comply with International Financial Reporting Standards (IFRS).

The financial statements were approved by the Board of Directors on the 20th September 2011.

### - Basis of Measurement

The financial statements have been prepared on the historical cost basis.

### - Functional and Presentation Currency

These financial statements are presented in New Zealand dollars (\$), which is the Society's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

### - Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Farmlands has made estimates relating to bad debt provisioning, impairment of goodwill, and inventory net realisable value. Details are included in the relevant policies and notes to the accounts.

## 3 Significant Accounting Policies

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

### Financial instruments

The Society's financial instruments include cash and cash equivalents, accounts receivable, investments, derivative financial instruments, accounts payable, and borrowings. These are carried at fair value. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

### Accounts receivable

Trade receivables are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost, less allowance for impairment.

### Investments in subsidiaries

Subsidiaries are entities that are controlled either directly or indirectly, by the parent. Control is defined as the power to govern the financial and operating policies through a majority voting rights. Subsidiaries are consolidated from the date control is transferred to the parent and de-consolidated from the date that control ceases.

All material transactions between the parent and the subsidiary are eliminated on consolidation. As set out above the 100% owned subsidiary of the subsidiary is dormant and all balances of the subsidiary are eliminated on consolidation therefore these financial statements represent the parent and the group.

Skelton Ivory (2008) Limited is a 100% owned subsidiary (2010: 100%) with a balance date of 30 June. It is incorporated in New Zealand.

### Investments

The Society's investments are classified as available-for-sale financial assets. Subsequent to initial recognition the investments are recorded at fair value and any changes therein, other than impairment losses, are recognised directly in equity.

### Accounts payable

Trade and other payables represent liabilities for goods and services provided to the Society prior to the end of the financial year which are unpaid. The amounts are unsecured and usually payable within 30 days of recognition. Trade and other payables are initially stated at fair value plus directly attributable transaction costs. They are subsequently stated at amortised cost.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and

short term deposits with an original maturity of three months or less. Bank overdrafts which are an integral part of the Society's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method. Borrowings are classified as current unless the Society has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of the 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Derivative Financial Instruments

The Society sometimes uses forward exchange contracts to economically hedge against the movement in foreign currencies for overseas purchases. They are initially recognised at fair value on the date the contract is entered into and subsequently re-measured to their fair value at each balance date. The resultant gain or loss is recognised in the income statement in the period.

### Loyalty Rebates to members

Loyalty rebates are recognised as an expense and as a liability at the time the entitlement to the rebate has been approved by Directors. Members are entitled to a share in this rebate according to their support. The loyalty rebates are distributed by way of share capital and/or cash at the sole discretion of the Directors.

### Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of replacing part of an item of property, plant, and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity and its cost can be measured reliably. The costs of the day to day servicing of property, plant, and equipment are recognised in the income statement as incurred. When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the income statement.

### Depreciation

Depreciation for property, plant and equipment is recognised in the income statement on a diminishing value basis over the estimated useful lives of each item. Computer Equipment purchased after 2009 is depreciated on a straight line basis at a rate of 25%. Buildings are depreciated on a straight line basis. Land is not depreciated.

The depreciation rates are:

Buildings	2%
Plant & Machinery	15% to 24%
Other plant & fittings	15% to 40%
Motor vehicles	20% to 30%
Computers & Telephones	25% to 60%

Depreciation methods, useful lives and residual value of assets are reassessed annually.

### Intangible assets

#### - Goodwill

Goodwill is recorded at cost less impairment losses. Goodwill arises from the purchase of a business where the fair value of the identifiable net assets acquired is less than the cost to the Society. It is not amortised. Instead, it is tested for impairment annually and whenever there is an indication that the assets may be impaired the carrying amount is reduced and the loss included in the income statement.

#### - Software

Software is measured at cost less accumulated amortisation and accumulated impairment losses. The amortisation period used ranges between 2 and 5 years. Where the periods of expected benefit or recoverable values have diminished, due to technical change or market conditions, amortisation is accelerated or the carrying amount is written down due to impairment.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit and loss when incurred.

### Leases - operating leases

Operating leases are leases in which a significant portion of the risks and rewards of ownership are retained by the lessor. Operating leases

are not recognised on the Society's balance sheet. Operating lease payments are recognised in the income statement on a straight line basis over the term of the lease.

#### **Inventories**

Inventories are stores of rural merchandise that are held by the Society for sale. The cost of inventories is determined on a weighted average basis. Inventory is valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Due allowance has been made for obsolete inventory where appropriate.

#### **Impairment - non financial assets**

The carrying amount of the Society's non financial assets, other than deferred tax assets and inventories, are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. If any such indication exists, the assets recoverable amount is estimated. Goodwill is tested annually for impairment, irrespective of changes in circumstances.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **Impairment - financial assets**

The carrying amount of the Society's financial assets are reviewed at each balance sheet date to determine whether there is any evidence of impairment.

Investments in equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in the fair value below the original purchase price. For this purpose, prolonged is regarded as any period longer than nine months, and significant as more than 20 percent of the original purchase price of the equity instrument. If there is evidence of impairment, the value of the asset is written down through the profit and loss.

For receivables which are not significant on an individual basis, collective impairment is assessed based on the number of days overdue, taking into account the historical loss experience with similar amounts with similar days overdue. Significant receivables are reviewed for impairment on an individual basis and an allowance for impairment is established when there is objective evidence that the Society will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the estimated future cash flows discounted at the asset's original effective interest rate. Any impairment is recognised in the income statement within operating expenses.

#### **Provisions**

A provision is recognised if, as a result of a past event, the Society has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the time value of money and for the risks specific to the liability.

#### **Revenue**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of rebates, returns and discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and there is no continuing management involvement with the goods.

Farmlands may receive discounts or rebates from third party suppliers of goods and services, in addition to the discounts or rebates passed on to shareholders.

#### **Foreign currencies**

Transactions in foreign currencies are converted at the NZD rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to NZD using the exchange rate ruling on that date. Foreign exchange gains and losses resulting from the settlement of foreign exchange currency transactions are recognised in the income statement.

#### **Finance income and expenses**

Finance income consists of interest income. It is recognised as it accrues, using the effective interest rate method.

Finance expenses comprise interest expenses and they are recognised in the income statement using the effective interest rate method.

#### **Income tax expense - current and deferred**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither the accounting nor taxable profit, and the differences relating to investment in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities have been offset as the entity has a legally enforceable right to set off current tax assets against current tax liabilities and the income tax levied is in the same taxation authority.

#### **Employee entitlements**

Employee benefits include salaries and wages, annual leave, long service leave and other benefits. Employee benefits expected to be settled within one year are measured on an undiscounted basis. Employee benefits payable later than one year have been measured at the present value of the benefit obligation at the end of the reporting period. The present value is determined using an actuarial method.

#### **Segmental Reporting**

The Society operates in one industry segment being the rural supplies sector.

The Society's operations are carried out predominantly in one geographical segment, North Island, New Zealand. Segment reporting disclosures required are presented in the balance sheet, income statement and statement of cashflows.

#### **Goods and services tax (GST)**

The financial statements are prepared on a GST exclusive basis with the exception of accounts receivable and accounts payable which are stated GST inclusive.

#### **Cash flow statement**

For the purpose of the Cash flow statement, cash and cash equivalents consist of cash and cash equivalents net of any outstanding bank overdrafts.

##### **- Operating Activities:**

Transactions and other movements that are not investing or financing activities.

##### **- Investing Activities:**

Activities relating to acquisition, holding and disposal of property, plant and equipment, and of investments, not falling within the definition of cash.

##### **- Financing Activities:**

Activities that change the equity and debt capital structure of the entity.

#### **Changes in accounting policies**

There have been no changes in accounting policies in the year except for NZ IAS 23 - Borrowing costs. In the current financial year interest of \$293,855 was capitalised against the cost of buildings in accordance with the provisions of NZ IAS 23. If the same policy had been adopted for the year ending 30 June 2010 the interest of \$1,100 would have been capitalised.

#### **New standards and interpretations not yet adopted**

There are new or revised Accounting Standards and Interpretations in issue that are not yet effective. These include the following Standards and Interpretations which in the Directors' opinion are the only ones likely to impact the Society, that are applicable to the business of the entity and may have an impact on future financial statements:

- FRS 44 NZ Additional Disclosures (effective 1 July 2011)
- NZ IAS 1 Presentation (effective 1 January 2012)
- FRS 43 Summary Financial Statements (effective 1 January 2012)

All these Standards and Interpretations will be adopted at their effective date. Application of these standards and interpretations is not expected to have a material impact on the Society's financial position and results in the period of initial application.

#### 4 Revenue

Gross Turnover

Sales as Principal  
Sales as Agent

Sales of goods  
Stores  
Card Partners

#### 5 Other Income

Other Income consisted of the following:

Rebates Forfeited  
Bad Debts Recovered  
Gain on Sale of Property, Plant and Equipment  
Other income

#### 6 Operating Expenses

Operating expenses consisted of the following:

Fees paid to auditors  
Audit services  
Other services related to audit  
Taxation services  
Other services  
Rental on property  
Occupancy  
Member relations and communications  
Bad debts written off  
Allowance for impairment of trade receivables (movement)  
Depreciation  
Buildings  
Plant  
Motor vehicles  
Computer & telephones  
Amortisation of software  
Loss on disposal  
Directors fees  
Employee benefits  
Other operating expenses

#### 7 Investments

Shares in unlisted companies

The investments in Independent Cropcare Distributors Limited was realised during the year

#### 8 Income tax expense in the income statement

Current tax expense  
Current period

Deferred tax expense  
Origination and reversal of temporary differences  
Reduction in tax rate  
Removal of previously unrecognised tax losses

##### Income tax expense

##### Reconciliation of effective tax rate

The tax on the group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable in New Zealand as follows:

Profit for the period  
Total income tax expense  
Income tax using company tax rate of 30%  
Non deductible expenditure  
Change in unrecognised temporary differences  
Adjustment in respect of tax depreciation on buildings  
Removal of tax depreciation on buildings  
Deferred tax movement in reserves  
Under/(Over) provided in prior periods  
Effect of change in tax rate  
**Income tax expense**

The company tax rate in New Zealand is 30% (2010: 30%). With effect from 1 July 2011 the company tax rate in New Zealand has reduced to 28%.

Imputation Credit Account  
Opening balance at start of year  
Net credits from tax paid during year  
Net credits issued during year  
Transfers to other tax types  
Closing balance at end of year  
The imputation credits are available to shareholders of the company:  
Through the Company  
Through subsidiaries

	2011 \$000	2010 \$000
Gross Turnover		
Sales as Principal	568,326	466,373
Sales as Agent	114,930	94,152
	<u>683,256</u>	<u>560,525</u>
Sales of goods		
Stores	287,923	230,339
Card Partners	236,922	202,713
	<u>524,845</u>	<u>433,052</u>
<b>5 Other Income</b>		
Other Income consisted of the following:		
Rebates Forfeited	1,188	1,332
Bad Debts Recovered	70	17
Gain on Sale of Property, Plant and Equipment	896	1,073
Other income	832	761
	<u>2,986</u>	<u>3,183</u>
<b>6 Operating Expenses</b>		
Operating expenses consisted of the following:		
Fees paid to auditors		
Audit services	45	45
Other services related to audit	4	7
Taxation services	6	-
Other services	-	-
Rental on property	4,007	3,312
Occupancy	1,827	2,070
Member relations and communications	6,863	6,140
Bad debts written off	1,465	1,305
Allowance for impairment of trade receivables (movement)	(184)	(345)
Depreciation		
Buildings	63	48
Plant	1,050	922
Motor vehicles	10	15
Computer & telephones	530	397
Amortisation of software	121	100
Loss on disposal	253	801
Directors fees	290	276
Employee benefits	26,569	21,536
Other operating expenses	1,727	2,181
	<u>44,647</u>	<u>38,810</u>
<b>7 Investments</b>		
Shares in unlisted companies	-	10
	<u>-</u>	<u>10</u>
<b>8 Income tax expense in the income statement</b>		
Current tax expense	727	192
Current period	(32)	-
	<u>695</u>	<u>192</u>
Deferred tax expense		
Origination and reversal of temporary differences	(349)	126
Reduction in tax rate	62	(22)
Removal of previously unrecognised tax losses	-	371
	<u>(287)</u>	<u>475</u>
<b>Income tax expense</b>	<b>408</b>	<b>667</b>
<b>Reconciliation of effective tax rate</b>		
The tax on the group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable in New Zealand as follows:		
Profit for the period	705	213
Total income tax expense	408	667
	<u>1,113</u>	<u>880</u>
Income tax using company tax rate of 30%	334	264
Non deductible expenditure	40	84
Change in unrecognised temporary differences	8	19
Adjustment in respect of tax depreciation on buildings	(4)	(172)
Removal of tax depreciation on buildings	-	371
Deferred tax movement in reserves	-	123
Under/(Over) provided in prior periods	(32)	-
Effect of change in tax rate	62	(22)
<b>Income tax expense</b>	<b>408</b>	<b>667</b>
Imputation Credit Account		
Opening balance at start of year	8,601	7,973
Net credits from tax paid during year	139	628
Net credits issued during year	(518)	-
Transfers to other tax types	(176)	-
Closing balance at end of year	<u>8,046</u>	<u>8,601</u>
The imputation credits are available to shareholders of the company:		
Through the Company	8,046	8,601
Through subsidiaries	-	-
	<u>8,046</u>	<u>8,601</u>

## 8 CONTINUED . . .

### Deferred Income Tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Deferred tax assets:

- Deferred tax assets to be recovered after more than 12 months
- Deferred tax assets to be recovered within 12 months

Deferred Tax Liabilities:

- Deferred tax liabilities to be recovered after more than 12 months
- Deferred tax liabilities to be recovered within 12 months

### Net deferred tax assets (liabilities)

The movement on the deferred income tax account is as follows:

Beginning of year

Credit (Charge) to income statement

Reflected in reserves

**End of year**

	2011	2010
	\$000	\$000
	-	-
	867	534
	<u>867</u>	<u>534</u>
	(724)	(678)
	-	-
	<u>(724)</u>	<u>(678)</u>
	<b>143</b>	<b>(144)</b>
	144	(208)
	(287)	475
	-	(123)
	<u>(143)</u>	<u>144</u>

The movement in deferred tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	\$000	\$000	\$000	\$000	\$000
	<b>Accelerated tax Depreciation</b>	<b>Fair Value Gains</b>	<b>Convertible Bond</b>	<b>Other</b>	<b>Total</b>
<b>Deferred tax liabilities</b>					
In thousands of New Zealand dollars					
At 1 July 2009	(410)	-	-	-	(410)
Charged/(credited) to the income statement	(145)	-	-	-	(145)
Charged directly to equity	(123)	-	-	-	(123)
At 30 June 2010	(678)	-	-	-	(678)
Charged/(credited) to the income statement	(46)	-	-	-	(46)
Charged directly to equity	-	-	-	-	-
At 30 June 2011	(724)	-	-	-	(724)
<b>Deferred tax assets</b>					
In thousands of New Zealand dollars					
At 1 July 2009	619	-	-	-	619
Charged/(credited) to the income statement	(85)	-	-	-	(85)
Charged directly to equity	-	-	-	-	-
At 30 June 2010	534	-	-	-	534
Charged/(credited) to the income statement	333	-	-	-	333
Charged directly to equity	-	-	-	-	-
At 30 June 2011	867	-	-	-	867

The deferred income tax charged directly to equity during the year was as follows:

Fair value reserves in shareholders equity:

- Land and buildings
- Hedging reserve

	2011	2010
	\$000	\$000
	-	(123)
	-	-
	<u>-</u>	<u>(123)</u>

## 9 Property, plant, and equipment

Cost	Land	Buildings	Plant	Motor Vehicles	Computers & Telephones	Work in Progress	Total
In thousands of New Zealand dollars	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Balance at 1 July 2009</b>	<b>6,384</b>	<b>7,672</b>	<b>10,729</b>	<b>204</b>	<b>3,996</b>	<b>2,571</b>	<b>31,556</b>
Acquisition through business combination	-	-	-	-	-	-	-
Additions	2,094	6,744	2,545	-	1,130	-	12,513
Disposals	(4,113)	(8,015)	(530)	(75)	(25)	(1,542)	(14,300)
<b>Balance at 30 June 2010</b>	<b>4,365</b>	<b>6,401</b>	<b>12,744</b>	<b>129</b>	<b>5,101</b>	<b>1,029</b>	<b>29,769</b>
<b>Balance at 1 July 2010</b>	<b>4,365</b>	<b>6,401</b>	<b>12,744</b>	<b>129</b>	<b>5,101</b>	<b>1,029</b>	<b>29,769</b>
Acquisition through business combination	-	-	-	-	-	-	-
Additions	1,453	3,596	1,654	-	823	4,465	11,991
Disposals	(2,950)	(7,356)	(287)	(27)	(26)	-	(10,646)
<b>Balance at 30 June 2011</b>	<b>2,868</b>	<b>2,641</b>	<b>14,111</b>	<b>102</b>	<b>5,898</b>	<b>5,494</b>	<b>31,114</b>

### Depreciation and impairment losses

In thousands of New Zealand dollars	Land	Buildings	Plant	Motor Vehicles	Computers & Telephones	Work In Progress	Total
<b>Accumulated depreciation at 1 July 2009</b>	-	<b>334</b>	<b>5,881</b>	<b>102</b>	<b>3,301</b>	-	<b>9,618</b>
Depreciation for the year	-	106	922	15	399	-	1,442
Impairment loss	-	-	-	-	-	-	-
Disposals	-	(134)	(104)	(50)	(6)	-	(294)
<b>Accumulated depreciation at 30 June 2010</b>	-	<b>306</b>	<b>6,699</b>	<b>67</b>	<b>3,694</b>	-	<b>10,766</b>
<b>Accumulated depreciation at 1 July 2010</b>	-	<b>306</b>	<b>6,699</b>	<b>67</b>	<b>3,694</b>	-	<b>10,766</b>
Depreciation for the year	-	62	1,050	9	530	-	1,651
Impairment loss	-	-	-	-	-	-	-
Disposals	-	(42)	(33)	(13)	(4)	-	(92)
<b>Accumulated depreciation at 30 June 2011</b>	-	<b>326</b>	<b>7,716</b>	<b>63</b>	<b>4,220</b>	-	<b>12,325</b>

### Carrying amounts

At 30 June 2009	6,384	7,338	4,848	102	695	2,571	21,938
At 30 June 2010	4,365	6,095	6,045	62	1,407	1,029	19,003
<b>At 30 June 2011</b>	<b>2,868</b>	<b>2,315</b>	<b>6,395</b>	<b>39</b>	<b>1,678</b>	<b>5,494</b>	<b>18,789</b>

Land and buildings were revalued by a registered valuer on 20 July 2007. Upon transition to NZ IFRS the Society took advantage of the exemption available and the revaluation was adopted as deemed cost.

## 10 Intangible Assets

### Goodwill

	2011	2010
Cost - balance at 1 July	\$ 3,532	\$ 3,532
Acquisition of business	31	-
Additional goodwill recognised	-	-
Impairment losses	-	-
Cost - balance at 30 June	<b>3,563</b>	<b>3,532</b>
Accumulated impairment losses	-	-

### Software

Cost	2011	2010
Balance at 1 July	1,341	1,191
Additions	457	150
Balance at 30 June	<b>1,798</b>	<b>1,341</b>
Amortisation		
Balance at 1 July	1,088	987
Amortisation	120	101
Balance at 30 June	<b>1,208</b>	<b>1,088</b>

	\$000
Software carrying amount at 30 June 2009	204
Software carrying amount at 30 June 2010	253
Software carrying amount at 30 June 2011	590

<b>Total intangible assets</b>	<b>4,153</b>	<b>3,785</b>
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Farmlands has one cash-generating unit. The recoverable amount of the cash-generating unit is based on a value-in-use calculation using a discounted cash flow model. Future cash flow was projected out three years, based on Board approved business plans with key assumptions being earnings excluding depreciation, amortisation and capital expenditure for the Society. A terminal growth rate of 6% was applied. A pre-tax discount rate of 12.9% was utilised. No impairment arose as a result of the review of goodwill for the year ended 30 June 2011. The calculations for the business would not have indicated an impairment given either a 5% increase in discount rate or a 5% reduction in growth rate.

Goodwill acquired during the year relates to additional consideration on the acquisition of assets from Morgan Laurensen Limited in October 2008.

## 11 Acquisitions

There have been no business acquisitions in 2011.

## 12 Inventories

Inventories are pledged as securities to the Society's bankers. There was no material write down of inventory throughout the year.

## 13 Trade and other payables

Trade creditors

Accruals

**Total trade and other payables**

	2011	2010
	\$000	\$000
Trade creditors	48,258	43,677
Accruals	886	1,651
<b>Total trade and other payables</b>	<b>49,144</b>	<b>45,328</b>

## 14 Capital and reserves

In thousands of New Zealand dollars

Balance at 1 July 2009

Profit (loss) for the year

Total income and expenses recognised directly in equity

Total recognised income and expenses

Bonus shares issued

New members

less paid out withdrawals

**Balance at 30 June 2010**

Balance at 1 July 2010

Profit (loss) for the year

Total income and expenses recognised directly in equity

Total recognised income and expenses

Bonus shares issued

New members

less paid out withdrawals

**Balance at 30 June 2011**

	Share Capital \$000	Retained Earnings \$000	Total Equity \$000
Balance at 1 July 2009	20,017	18,813	38,830
Profit (loss) for the year	-	213	213
Total income and expenses recognised directly in equity	-	124	124
Total recognised income and expenses	-	337	337
Bonus shares issued	1,701	-	1,701
New members	1,145	-	1,145
less paid out withdrawals	(562)	-	(562)
<b>Balance at 30 June 2010</b>	<b>22,301</b>	<b>19,150</b>	<b>41,451</b>
Balance at 1 July 2010	22,301	19,150	41,451
Profit (loss) for the year	-	705	705
Total income and expenses recognised directly in equity	-	-	-
Total recognised income and expenses	-	705	705
Bonus shares issued	654	-	654
New members	1,126	-	1,126
less paid out withdrawals	(366)	-	(366)
<b>Balance at 30 June 2011</b>	<b>23,715</b>	<b>19,855</b>	<b>43,570</b>

### Share capital

	2011	2010
	\$	\$
14,891,150 ordinary shares fully paid	14,891	14,126
Ordinary shares partly paid	-	5
8,823,544 Bonus shares each fully paid	8,824	8,170
<b>Total Issued capital</b>	<b>23,715</b>	<b>22,301</b>

In accordance with the rules of the Farmlands Trading Society Limited, each member of the Society is required to hold such number of shares in the Society as fixed by the Board (currently 550 ordinary shares). Ordinary shares are issued and redeemed at a nominal value of \$1 for each share. All ordinary shares rank equally with one vote per share held by each financial member of the Society. Ordinary shares are entitled to a pro-rata share of the surplus on the wind-up of the Society.

From time to time bonus shares are issued as part of the loyalty rebate.

A shareholder cannot hold more shares than the amount prescribed by the Minister of Commerce by notice in the Gazette (currently \$25,000) and the Directors can set the limit on the shares that can be held lower than this. The Directors have resolved to set the maximum shareholding at \$8,000.

New members apply to join the Society and it is at the sole discretion of the Board whether they are accepted.

A member may withdraw from the Society by providing notice in writing of their intention to withdraw once the Board has consented to their withdrawal. The rules state that it is at the discretion of the Board to accept or decline the withdrawal. Accordingly, repayment of shares is at the discretion of the Society, not the member.

## 15 Cash and cash equivalents

Funds in bank	6,952	2,447
Short term borrowings	-	-
Total cash balances reported in the Statement of cash flows	<b>6,952</b>	<b>2,447</b>

2011	2010
\$000	\$000
6,952	2,447
-	-
<b>6,952</b>	<b>2,447</b>

## 16 Trade and other receivables

Prepayments	110	53
Owing by Related Parties	100	64
Owing by Debtors	57,844	53,718
Less allowance for impairment	(184)	(411)
	<b>57,870</b>	<b>53,424</b>
Allowance for impairment		
Opening Balance	411	756
Increase/(decrease) in allowance	(227)	(345)
	184	411

2011	2010
\$000	\$000
110	53
100	64
57,844	53,718
(184)	(411)
<b>57,870</b>	<b>53,424</b>
411	756
(227)	(345)
184	411

## 17 Term debt

The Society has a 5 year fixed interest loan with the Bank of New Zealand. The loan is interest only and is repayable on the 20th March 2014. The interest rate is 6.4%. The loan is secured over the assets and undertakings of the Society. A registered mortgage is held over all the Society's properties. The carrying values of properties subject to mortgage are \$10,424,532. (2010 \$10,857,000)

## 18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

Less than one year	5,502	4,513
Between one and five years	20,467	13,639
More than five years	8,842	6,040
	<b>34,811</b>	<b>24,192</b>

2011	2010
\$000	\$000
5,502	4,513
20,467	13,639
8,842	6,040
<b>34,811</b>	<b>24,192</b>

The Society leases 41 of its stores. (2010, 37 Stores) The leases typically run for an initial period of 12-15 years with an option to renew the lease after that date. Lease payments are reviewed every three years and adjusted to reflect market rentals. Some leases are reviewed on the basis of the CPI.

During the year the Society sold some buildings and entered into operating leases to lease them back.

The Society leases the majority of its motor vehicles and forklifts. The terms of the leases are between 18 months and five years.

During the year ended 30 June 2011 \$5,565,642 was recognised as an expense in the income statement in respect of operating leases. (2010: \$4,072,000)

## 19 Capital commitments

Capital expenditure contracted for at balance date, but not provided for in relation to current store developments are: Kamo \$63,430, Helensville \$809,061, Te Awamutu \$745,767, Matamata \$1,175,908, Head Office \$733,500, Taihape (2010 \$56,000), Waipapa (2010 \$18,000), Putaruru (2010: \$270,000).

Inventory commitments

At the end of the year the Society had a commitment to purchase \$3,310,000 for Milk Powder

## 20 Contingencies

There are no known material contingent liabilities at balance date (2010:nil).

## 21 Reconciliation of net profit after taxation with cash flow from operating activities

	2011	2010
	\$000	\$000
Profit/(loss) after taxation	705	213
Plus non cash items		
Deferred tax	287	475
Depreciation	1,653	1,382
Amortisation of software	120	100
Loss/(Gain) on disposal	(643)	(272)
Loyalty rebate	4,651	2,650
Funds available from operations	6,068	4,335
Plus (less) movements in working capital items		
Increase in debtors	(4,446)	(11,033)
Increase in creditors, GST & employee entitlements	5,356	11,076
Increase in stock	(1,308)	(6,595)
Decrease in tax payable	1,244	(436)
Total movement in working capital	846	(6,988)
Net cash flow from operating activities	7,620	(2,440)

## 22 Related party transactions

### a) Salaries and remuneration

Key management personnel include the executive employees and Directors. Executive employees and Directors short term employee compensation comprised salaries and directors fees totalling \$2,216,100 (2010: \$1,729,194).

### b) Sales and transactions

As Farmlands Trading Society Limited is a co-operative industrial and provident society the majority of sales are made to members, including sales to members who are directors and employees.

All transactions with Directors and employees are on the same terms and conditions as other members.

No bad debts have been accounted for, or allowance for impairment been required, for transactions with Directors or executive employees.

Details of transactions and outstanding balances with Directors and other key management personnel

	2011	2010
	\$000	\$000
Receivables from executive employees and Directors	57	64
Sales to executive employees and Directors	1,145	913

Total sales to members during the year were \$614,903,804 (2010: \$500,542,712).

### 23 Loyalty rebate benefit

Loyalty rebates for the year were \$4,651,000. (2010: \$2,650,000). Loyalty rebates will be split 43% in cash (2010: 67.0%) and 57% in share capital (2010: 33.0%). The loyalty rebate will be distributed in October 2011 and will be based on the level of sales from the Society to its members. Other rebates returned to members during the year have been treated as trading rebates and have been deducted from revenue.

Trading rebates for the year were \$41,239,000 (2010: \$32,904,000)

### 24 Financial Risk Management

Exposures to credit, interest rate, and liquidity risks arises in the normal course of the Society's business.

#### Market risk

The Directors are of the opinion that the Society's exposure to market risk at balance date is defined as:

Risk factor	Description	Sensitivity
Currency Risk	All assets and liabilities are denominated in NZ Dollars	Nil
Interest rate risk	Exposure to changes in interest rates	as below
Other price risk	No material securities are held	Nil

Interest rates on borrowing are not sensitive to interest rate changes as the rate has been fixed for 5 years. A 1% increase or decrease in bank interest rates on deposits will increase/decrease the profit reported by \$125,000 and increase/decrease equity by the same amount.

#### Credit risk

Financial assets which potentially subject the Society to concentrations of credit risk consist principally of cash, short term deposits, and trade receivables.

The Society's cash equivalents are placed with high quality financial institutions. The Society has the option of placing its cash and short term deposits with Bank of New Zealand Ltd, Westpac Banking Corporation, ANZ National Banking Group, Rabobank, and ASB Banking Group. Board policy allows the investment of up to \$20,000,000 in the BNZ and up to \$10,000,000 in any of the other institutions.

Trade receivables are presented net of the allowance for impaired receivables. Credit risk with respect to trade receivables is limited due to the large number of customers and their dispersion across the rural sector and geographical area.

Farmlands also has a credit policy under which new members are individually analysed for credit worthiness. There are procedures and steps in place to be actioned before new members are approved. Accordingly the Directors believe that there is no concentration of credit risk. The amount that represents the largest single exposure to credit risk at 30 June 2011 is \$188,877 (2010: \$213,000). There is no collateral held relating to this debt.

Farmlands exposure to credit risk from Trade receivables is as follows:

	2011	2010
	\$000	\$000
0 - 1 Year	57,295	52,637
1 - 3 Years	558	752
Past due more than 3 years	17	35
<b>Total</b>	<b>57,870</b>	<b>53,424</b>

Trade receivables that are impaired at 30 June 2011 were \$184,000 (2010: \$411,000) and are impaired because the amounts are significantly overdue. During the year \$1,465,000 of bad debts were written off (2010: \$1,305,000)

In summary, trade receivables are determined to be impaired as follows:

	2011	2010
	\$000	\$000
Gross trade receivables	58,054	53,835
Individual impairment	146	404
Collective impairment	38	7
<b>Total impairment (note 16)</b>	<b>184</b>	<b>411</b>
Trade receivables net (note 16)	<b>57,870</b>	<b>53,424</b>

Trade receivables overdue at balance date but not considered impaired totalled \$3,673,112 (2010: \$4,713,577)

#### Liquidity risk

Liquidity risk represents the Society's ability to meet its contractual obligations. The Society has replaced its revolving credit facility with a term loan ensuring that it has sufficient cash to meet its obligations. There is an additional funding facility available with the BNZ if the Society does require additional cash.

The amounts disclosed in the table below are the contractual undiscounted cashflows. Balances due within 12 months equal their carrying balances as the impact of discounting would be immaterial.

The liquidity profile is as follows:

	30th June 2011			30th June 2010		
	Less than one year	Greater than one year	Total	Less than one year	Greater than one year	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Bank borrowings	-	-	-	-	-	-
Accounts payable	49,144	-	49,144	45,328	-	45,328
Loyalty Rebate	4,651	-	4,651	2,650	-	2,650
Bank term borrowing	-	20,000	20,000	-	24,794	24,794
	<b>53,795</b>	<b>20,000</b>	<b>73,795</b>	<b>47,978</b>	<b>24,794</b>	<b>72,772</b>

### Fair values

The carrying amount of all assets and liabilities reflect their fair values.

### Interest rate risk

The Society's exposure to interest rate risk relates to funds deposited with and borrowings from external parties. As the term borrowing has a fixed interest rate for 5 years and there are no significant interest bearing investments, the Society does not consider that there is substantial interest rate risk.

### Financial assets/liabilities by category

Presented below are the financial instruments held by the Society at reporting date and classified by type.

	30th June 2011			30th June 2010		
	Loans and Receivables	Financial assets held for resale	Liabilities at amortised cost	Loans and Receivables	Financial assets held for resale	Liabilities at amortised cost
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Cash and cash equivalents	6,952	-	-	2,447	-	-
Trade and other receivables	57,870	-	-	53,424	-	-
Investments	-	-	-	-	10	-
Trade and other payables	-	-	(49,144)	-	-	(45,328)
Term Loans	-	-	(20,000)	-	-	(20,000)
Loyalty rebate payable	-	-	(4,651)	-	-	(2,650)
	<b>64,822</b>	<b>-</b>	<b>(73,795)</b>	<b>55,871</b>	<b>10</b>	<b>(67,978)</b>

## 25 Management of Capital

The objectives of the Society when managing capital are to safeguard the Society's ability to continue as a going concern so it can continue to provide competition for products and services in the rural sector, and to maintain a strong capital base to support the development of the business.

The Society meets its objectives through a mix of members funds comprising share capital, retained earnings, reserves, and banking facilities. The ability to maintain members' funds is set out in the previous note under liquidity risk.

## 26 Events subsequent to balance date

Nil

# Directors' Report

The Directors present this report on the affairs of Farmlands Trading Society Limited for the year ended 30 June 2011.

## Financial Results

The Directors report that the Society's after tax profit for the year ended 30 June 2011 was \$705,000 (2010: (\$213,000)). Total members benefits, including the 2011 loyalty rebate benefit to members of \$4,651,000 (2010: \$2,650,000) were \$46,542,000 for the year. (2010: \$36,112,000)

## Directors' Insurance

The Society has a policy of directors' liability insurance, which indemnified directors for monetary loss as a result of actions undertaken by them as directors provided they operate within the law.

## Directors' Interest

A Director's Interest Register is maintained by the Board and available to the shareholders for review if required.

## Directors' Benefits

No director of the Society has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total emoluments received or due and receivable by directors shown in the financial statements) other than normal rebates received by them as shareholders as a result of trading with the Society in the same manner as all shareholders.

## Directors Remuneration

During the year the total remuneration received by the Directors was as follows:

	2011	2010
	\$000's	\$000's
L J C Johnstone (Chairman)	66	56
D L Munro	33	30
R T Barton (Retired 2nd November 2010)	11	30
T O'Boyle	22	-
S Wyn-Harris	33	30
R I Linklater	33	30
J W Walden (Retired 18th May 2010)	-	32
D P Jensen (Chairman of Audit Committee)	36	33
P D Wilson	35	35
Dr H Cross	21	-
	290	276

Staff receiving remuneration and other benefits exceeding \$100,000 per annum.

The number of staff or former staff, who received remuneration and other benefits valued at or exceeding \$100,000 during the year under review are stated below:

Remuneration	Number of Staff	
	2011	2010
100,000 - 110,000	11	10
110,000 - 120,000	4	5
120,000 - 130,000	4	2
170,000 - 180,000	2	-
180,000 - 190,000	-	1
190,000 - 200,000	2	1
250,000 - 260,000	2	1
270,000 - 280,000	1	-
280,000 - 290,000	-	2
460,000 - 470,000	-	1
480,000 - 490,000	1	-

## Use of Information

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

## Donations

\$5,821.22 in donations were made during the year (2010: nil).

## Events Subsequent to Balance Date

The Directors are not aware of any matter or circumstance since the end of the financial year, not otherwise dealt with in this report that has significantly or may significantly affect the operation of Farmlands Trading Society Limited, the results of those operations or the state of affairs of the Society.



Lachlan Johnstone

**Chairman**

**Dated 20 September 2011**

# Environmental Policy

Approved by full Board 20th September 2011

Farmlands Trading Society Limited is a rural retailer that supplies farm inputs and services to farmers. The responsibility for managing and maintaining the policy lies with the Board of Directors and senior management of Farmlands Trading Society Limited.

Farmlands Trading Society Limited is an environmentally conscious and responsible company. To carry out this commitment, it is the policy of Farmlands Trading Society Limited to strive to ensure that all aspects of the organisation have the least harmful effect on the environment by adopting environmentally sensitive practices in all of its operations.

## **Farmlands Trading Society Limited:**

- Will identify, implement and promote best practice environmental management systems and operations.
- Is committed to operating in an environmentally sustainable manner by reducing waste and the use of energy and resources.
- Will provide an environmentally sound workplace, and implement environmentally sound work practices.
- Will ensure that employees understand the importance of incorporating environmental consideration in their daily business activities where this is appropriate.
- Will encourage suppliers and contractors to act in accordance with our environmental standards.
- Will be fully aware of all environmental legislation and ensure that regulatory requirements are met and, where feasible, improved on within reasonable cost boundaries.
- Will monitor the implementation of the policy by carrying out periodic audits and, when appropriate, introduce remedial measures.
- Will communicate its environmental management and performance through annual reports distributed to shareholders and implement a process of continuous improvement.

In addition, areas of particular attention within the organisation will be the selection of non-polluting technology, waste minimisation, reuse/recycling and the reduction of energy consumption. Farmlands Trading Society Limited also makes a positive environmental contribution in the local community by encouraging open communication, general environment awareness and the promotion of community projects.

# Corporate Governance

## FARMLANDS TRADING SOCIETY LIMITED

### Approved at full Board Meeting 20th September 2011

#### **1. Role of the Board:**

The Board of Directors of Farmlands is elected by the shareholders to review and monitor the management of the Company. The Board establishes the Company's objectives, overall policy framework within which the business of the Company is conducted and confirms strategies for achieving these objectives, monitors management's performance and ensures that procedures are in place to provide effective internal financial control.

#### **2. Board Membership:**

The Board comprises up to eight elected Directors including the Chairman and a maximum of two appointed Directors. The Board will meet not less than 6 times during the year.

In accordance with the Company's constitution Directors retire every three years at the conclusion of an annual meeting.

Directors retiring may, if eligible, stand for re-election.

Directors' Shareholding:

Under the constitution elected Directors must hold shares in the Company.

#### **3. Audit & Risk Committee:**

The Board has an Audit & Risk Committee comprising of Mr D P Jensen (Chairman), Mr R I Linklater, Mr T O'Boyle, and Mr P D Wilson with attendances by appropriate management representatives.

The Audit & Risk Committee oversees financial reporting, accounting policies and audit services in the Company. This includes reviewing the adequacy and effectiveness of internal controls and reviewing the scope and results of audit work, its cost effectiveness and the performance, independence and objectivity of the auditors. The Committees also review financial statements.

The Audit & Risk Committee also has a function of reviewing management practices in relation to the identification and management of significant business risk areas and regulatory compliance. Formal systems have been introduced for regular reporting to the Board on business risk and compliance matters.

#### **4. Remuneration Committee:**

The Board has a Remuneration Committee comprising of Mr L J C Johnstone (Chairman), Mr S Wyn-Harris, Mr D L Munro and Dr H Cross with attendances by appropriate management representatives.

#### **5. Internal Financial Control:**

The Board has overall responsibility for the Company's system of internal financial control. The Board in conjunction with management has established procedures and policies that are designed to provide effective internal financial control.

Annual budgets and long term strategic direction are agreed by the Board.

Financial statements are prepared monthly and reviewed by the Board throughout the year to monitor the performance against budget and objectives.

#### **6. Directors' and Officers' Insurance:**

The Company has arranged Directors' and Officers' liability insurance covering Directors and Officers acting on behalf of the Company. Cover is for damages, judgments, fines, penalties; legal costs awarded and defense costs arising from wrongful acts committed while acting for the Company. The types of acts that are not covered are dishonest, fraudulent, malicious acts, or omissions, wilful breach of statute or regulations, or duty to the Company, improper use of information to the detriment of the Company or breach of professional duty.

#### **7. Independent Professional Advice:**

With the approval of the Chairman, Directors are entitled to seek independent professional advice on any aspect of the Directors' duties, at the Company's expense.

#### **8. Going Concern:**

After reviewing the current results and detailed forecasts, taking into account available credit facilities and making further enquiries as considered appropriate, the Directors are satisfied that the Company has adequate resources to enable it to continue in business for the foreseeable future. For this reason, the Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements.

#### **9. Board Performance:**

The Board as a whole and individual Directors are subject to a performance appraisal annually using a corporate governance best practice model. This appraisal is designed to measure performance through peer review and self-assessment. The Chairman then initiates a review with each Director and a collective review of Board performance. Appropriate strategies for personal and collective improvement are then agreed and actioned.

#### **10. The Role of Shareholders:**

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders in the annual report, the monthly newsletter and media announcements. The Board encourages full participation of shareholders at the annual meeting to ensure a high level of accountability and identification with the Company's strategies and goals.