

## LAKES ENVIRONMENTAL LIMITED

### STATEMENT OF INTENT

Year Commencing 1 July 2011

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# 1. Introduction

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This Statement of Intent is submitted by the Board of Directors of Lakes Environmental Limited (‘the Company’) in accordance with Section 64 and Schedule 8 of the Local Government Act 2002. Its purpose is to:

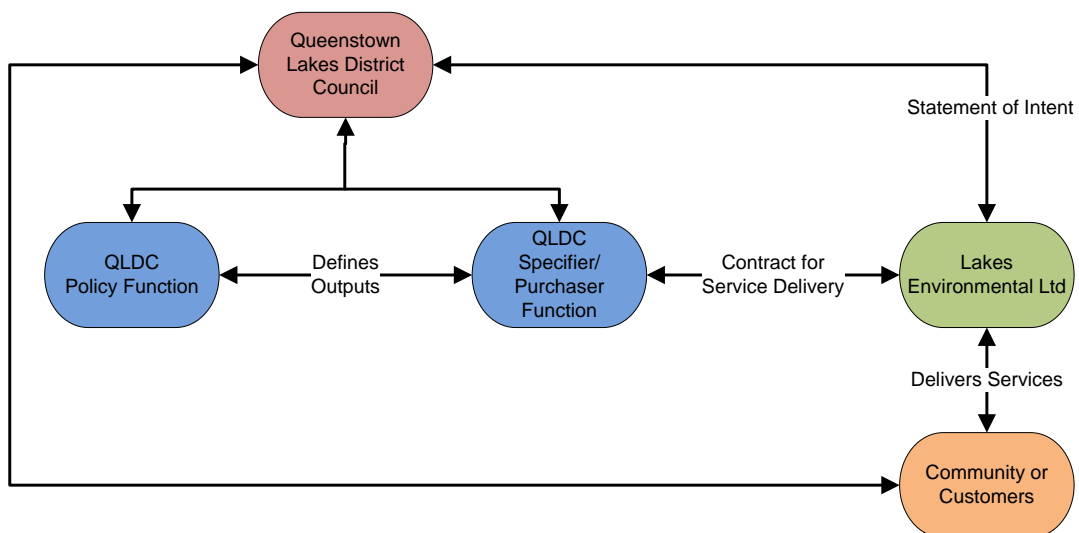
- State the activities and intentions of the Company for the year and the objectives to which those activities will contribute for the period 1<sup>st</sup> July 2011 to 30<sup>th</sup> June 2012 and the two succeeding financial years; and
- Provide an opportunity for the shareholder (Queenstown Lakes District Council) to influence the direction of the Company; and
- Provide a basis for the accountability of the directors of the Company to the shareholder for the performance of the Company.

The completed Statement of Intent will be made available by the Board to the public within one month after the date on which it is delivered to the shareholder or adopted.

Lakes Environmental Limited was formed in March 2007 by the Queenstown Lakes District Council (QLDC) to deliver resource management and regulatory services within the Queenstown Lakes District. The Company purchased Council’s existing regulatory services contractor for \$3,173,033 funded by way of bank debt which is being repaid over 10 years. Lakes Environmental Limited is a limited liability company incorporated under the Companies Act 1993. It is a Council Controlled Organisation as defined in Section 6 of the Local Government Act 2002.

The following diagram reflects the two lines of accountability between Lakes Environmental and the Council – one being through the Statement of Intent and the other through the service delivery contract.

## Accountability Structure



## 2. Objectives

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The Company defines its mission as:

***“To contribute to the environmental, economic, social and cultural well being of the communities of the Queenstown Lakes District through delivery of customer focussed, efficient and cost effective regulatory services.”***

### 2.1 Statutory Objective

The Company’s principal objective, as set out in Section 59 of the Local Government Act 2002, is to:

- Achieve the objectives of the Council, both commercial and non-commercial, as specified in the Statement of Intent; and
- Be a good employer<sup>1</sup>; and
- Exhibit a sense of social and environmental responsibility by having regard to the interests of the communities in which it operates and by endeavouring to accommodate or encourage these when able to do so.

### 2.2 Specific Objectives

In addition to the statutory objective listed above, the Company has the following specific objectives:

- To achieve or exceed the performance targets specified in the contract for services between the Company and the Queenstown Lakes District Council;
- To educate and inform the community on the matters within the Company’s scope of service;
- To provide excellent customer service to all its customers;
- To adopt a culture of continuous improvement in the delivery of all of its statutory responsibilities in respect to quality, timeliness, consistency and cost;
- To recover its reasonable costs, with such costs including the direct and indirect costs of operation, development of systems and processes, staff training and development, education and awareness for consent applicants and the wider industry, depreciation of fixed assets and servicing and reducing debt; and
- To observe and promote the spirit and intent of the District Plan as it relates to resource consent matters, and ensure the relevant laws and standards applying to other functions are observed.

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<sup>1</sup> As that term is defined in clause 36 of the 7<sup>th</sup> Schedule of the Local Government Act 2002.

## 2.3 Additional Objectives

Objective	Comment
<u>Governance</u>	
1. Strategic direction is consistent with that of 100% shareholder QLDC.	Appropriate communication lines are maintained to ensure LE remains aware of QLDC's strategic priorities
2. QLDC is informed of all significant matters relating to LE within the constraints of commercial sensitivity.	All matters of significance that arise are reported to QLDC expeditiously on a "no surprises" basis.  LE submits quarterly written reports to QLDC.
3. Corporate governance procedures are appropriate, documented and reflect best practice.	The Board has prepared an appropriate suite of governance policies consistent with best practice in the CCO environment
4. Directors make an effective contribution to the LE board, and ensure their conduct is in accordance with generally accepted standards.	The Board operates in accordance with the Institute of Directors Principles of Best Practice for New Zealand Directors  The Board undertakes an annual performance evaluation.
5. Local Government Act 2002 requirements with respect to statutory objectives are met.	Lakes Environmental receives an unqualified audit with respect to the Local Government Act 2002
6. All other statutory objectives are met.	The Board has processes in place to monitor other statutory requirements and ensure compliance is achieved.

Objective	Comment
<u>Financial</u>	
1. Financial performance meets budget within the parameters of the CCO model and the fees and charges set by Council.	The Company operates on a "not for profit, not for loss" basis while maintaining efficiency and service delivery under the CCO model. It seeks to generate sufficient surplus to meet its capital expenditure and working capital needs and to repay debt and mitigate foreseeable risks.
2. Treasury management policies and practices are maintained in line with best practice.	The Board reviews the Treasury Policy a minimum of biennially and updates if required.
3. Capital structure remains appropriate for the nature of the business.	The Board reviews the capital structure annually and if necessary makes recommendations to the shareholder regarding the structure.

Objective	Comment
<p><u>Operational</u></p> <ol style="list-style-type: none"> <li>1. All resource and building consent applications processed within the statutory timeframes.</li> <li>2. The SOI performance target level of customer satisfaction is achieved.</li> <li>3. All public enquiries/complaints are followed up in a timely manner.</li> <li>4. The SOI performance target level of staff satisfaction is achieved.</li> <li>5. No lost time injuries for employees or contractors.</li> <li>6. A significant contribution is made to the community through in kind sponsorship of selected community based organisations.</li> <li>7. To adopt a culture of continuous improvement in the delivery of all of its services with an emphasis on efficiency. Transparency in real-time processing status is also emphasised.</li> </ol>	<p>Statutory timeframes are monitored on an ongoing basis and reported to QLDC and made publicly available on a monthly basis.</p> <p>An independent survey of satisfaction of direct customers is carried out annually and reported to QLDC.</p> <p>An enquiry/complaint system tracks all enquiries/complaints and results are reported monthly to QLDC.</p> <p>Annual staff satisfaction surveys are carried out.</p> <p>Lost time injuries are monitored on an ongoing basis.</p> <p>Community sponsorship in excess of \$30,000 is provided.</p> <p>Efficiency (total hours per consent) is measured on an on-going basis. Actual consent processing data are published monthly. Significant resources are being put into development of a capability for transacting on-line with customers</p>

### **3. The Board's Approach to Governance**

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The directorate of the Company comprises four independent directors appointed by the shareholder for their knowledge, skills and experience.

The Directors are responsible for the governance of the Company in the interests of the Queenstown Lakes District Council, as shareholder, in accordance with the Companies Act 1993, the Local Government Act 2002, the Company's Constitution and this Statement of Intent.

The Board's approach to governance is to adopt "best practice" as recommended by the Institute of Directors in New Zealand Inc with respect to:

- The operation of the Board;
- The performance of the Board;
- Managing the relationship with the Company's Chief Executive; and
- Being accountable to the Company's shareholder.

The Board works collaboratively with the Queenstown Lakes District Council as shareholder, and endeavours to ensure a "no surprises" relationship.

### **4. Nature and Scope of Activities**

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The nature and scope of the Company's activities is to undertake the resource management building and other regulatory services within the Queenstown Lakes District on behalf of, and under a contract with, the Queenstown Lakes District Council.

QLDC has obligations to deliver these services under a range of legislation, regulations and bylaws, including but not limited to:

- Building Act 2004
- Dog Control Act 1996
- Fencing of Swimming Pools Act 1987
- Food Act 1981
- Gambling Act 2003
- Hazardous Substances and New Organisms Act 1996
- Health Act 1956
- Impounding Act 1955
- Litter Act 1979
- Local Government Act 1974
- Resource Management Act 1991
- Sale of Liquor Act (as District Liquor Agency)
- Transport Act 1962
- Control of Trading, Advertising and Obstructions in Public Places By-Law 1989

- Dog Control Bylaw 2006
- Hawkers, Itinerant Traders and Mobile or Travelling Shops Bylaw 1987
- Liquor (control of liquor and vehicles in public places) Bylaw 2003
- Removal and Disposal of Refuse By-Law 1970
- Signs Bylaw 2006
- Traffic and Parking Bylaw 2006
- Urban Fire and Smoke Prevention By-Law 1993

The activities which are contracted in whole or in part to the Company are:

(a) Resource Consent, Development, Control and Monitoring

This activity includes the administration of all aspects of the resource consent process including the processing, consideration and issuing of consents. It also includes work undertaken in relation to the inspection, monitoring and enforcement of any requirement in relation to resource consent and costs in relation to appeals and other matters that relate to hearings. Formal decision making under the legislation is delegated to independent commissioners.

(b) Building Control

Providing the necessary controls relating to building work and use of buildings, and ensuring buildings are safe, sanitary and have adequate means of escape from fire. This activity primarily relates to the administration of the Building Act and Regulations. Activities include receiving, considering and, where appropriate, issuing building consents within the prescribed time limits. Other primary activities are issuing Project Information Memoranda, Land Information Memoranda, Code Compliance Certificates, Compliance Schedules, Building Warrants of Fitness and administration of the Fencing of Swimming Pools Act 1987.

(c) General Environmental Health

This activity includes a variety of services including monitoring of water supplies, provision of advice on drinking water quality, investigating notifiable diseases, noise control and closure and control of clandestine labs.

(d) Inspection and Licensing

This relates to licensing of premises that Council is required to do in relation to offensive trades, food premises, camping grounds, hairdressers, mortuaries, wine makers and liquor licensing. It also includes follow up inspections and complaint investigations in relation to these premises.

(e) Animal Control

Enforcement of the Dog Control Act and Council Bylaws relating to animal control, and also enforcement of the Animal Welfare Act as it relates to dogs, so that residents are safe, annoyance factors are minimised and the welfare of animals is protected.

(f) Bylaw and General Enforcement

Administration and enforcement of Council Bylaws and various regulations that if left un-actioned would cause negative effects in the community (e.g. fire ban bylaws). Authority to instigate all forms of compliance proceedings is retained by the Council's chief executive.

(g) Car Parking Enforcement

Regular patrols of parking areas on urban roads to ensure regular turnover of public car parking spaces and ensuring that appropriate enforcement action is taken where required in an effective, timely and correct manner.

(h) Road Legalisation Management

Primary service is the management of the Council's road stoppages, closures and legalisation processes.

(i) Waterways Enforcement Administration

Administration of infringement notices issued by the Harbour Master.

(j) Engineering Inspection Services

Delivery of engineering inspection services for utility connections and Council CAPEX works as required by Council.

The Company also has a contract with the Department of Labour to provide services under the Hazardous Substances and New Organisms legislation and also provides some services to neighbouring territorial authorities.

## 5. Percentage of Shareholders' Funds to Total Assets

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The term "Shareholders' Funds" (also known as "Equity") shall mean the aggregate of:

- paid up shareholders' capital
- accumulated undistributed earnings
- asset revaluation reserves
- other capital and revenue reserves

The term "Total Assets" shall mean the aggregate of:

- current assets
- investments
- fixed assets
- intangible assets

as disclosed in the Company's audited Statement of Financial Position prepared in accordance with International Financial Reporting Statements (IFRS).

### Equity (Shareholders' Funds) to Total Assets\*

30 June 2010	3%
30 June 2011	6%
30 June 2012	11%
30 June 2013	17%
30 June 2014	24%

\*The Percentage of Shareholders' Funds to Total Assets is calculated on the basis that there is no impairment of intangible assets during the period. This figure reflects the increasing equity of the Company from an initial capitalisation of \$50,000 as the after tax profit is retained to fund capital expenditure and working capital needs and to repay bank debt.

<sup>1.</sup> Results to 30 June 2010 are actual

<sup>2.</sup> Results to 30 June 2011 forward are forecast

## **6. Accounting Policies**

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The Company maintains accounting records in accordance with the Companies Act 1993 and has adopted accounting standards promulgated by the New Zealand Institute of Chartered Accountants.

The Company's Statement of Accounting Policies is included at Appendix I.

## **7. Performance Targets and Measures**

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### **7.1 Financial Performance Measures**

The following financial performance measures are based on the Company's Draft Budget 2011-12.

Operating revenue is predicated on:

- Continuation of the existing statutory environment and does not take account of potential changes to key Acts.
- Continuation of current volumes of contracted public good hours
- Council setting fees and charges in line with the Company's Annual Plan proposal.
- Extension of the term of the *Agreement for the Provision of Regulatory Services to Queenstown Lakes District Council by Lakes Environmental Limited*

		Actual	Forecast	Target		
		Year ended 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Revenue from QLDC (Operating)	\$'000	2,322	2,209	2,302	2,340	2,386
Revenue from QLDC (Capital)	\$'000	0	0	0	0	0
Other Operating Revenue	\$'000	5,396	5,694	5,713	5,935	6,052
Other Gains/Losses	\$'000					
<b>Total Revenue</b>	<b>\$'000</b>	<b>7,718</b>	<b>7,903</b>	<b>8,015</b>	<b>8,275</b>	<b>8,438</b>
Depreciation and Amortisation	\$'000	108	110	90	85	80
Interest	\$'000	208	212	150	111	94
Staff Costs	\$'000	5,157	5,114	5,326	5,433	5,541
Other Operating Costs	\$'000	2,059	2,235	2,168	2,234	2,279
<b>Total Operating Cost</b>	<b>\$'000</b>	<b>7,532</b>	<b>7,671</b>	<b>7,734</b>	<b>7,863</b>	<b>7,994</b>
<b>Operating Surplus/(Deficit) Before Tax</b>	<b>\$'000</b>	<b>186</b>	<b>232</b>	<b>281</b>	<b>412</b>	<b>444</b>
Tax	\$'000	59	73	81	118	127
<b>Operating Surplus/(Deficit) After Tax</b>	<b>\$'000</b>	<b>127</b>	<b>159</b>	<b>200</b>	<b>294</b>	<b>317</b>
<b>Capital Expenditure</b>	<b>\$'000</b>	<b>45</b>	<b>120</b>	<b>90</b>	<b>90</b>	<b>90</b>
<b>EBIT (Earnings before Interest and Tax)</b>	<b>\$'000</b>	<b>394</b>	<b>444</b>	<b>431</b>	<b>523</b>	<b>538</b>
<b>Bank Loan Servicing (Principal plus Interest Payments)</b>	<b>\$'000</b>	<b>371</b>	<b>508</b>	<b>551</b>	<b>509</b>	<b>469</b>
<b>Gearing Ratio – Bank Debt to Bank Debt plus Equity</b>	<b>%</b>	<b>94%</b>	<b>87%</b>	<b>78%</b>	<b>64%</b>	<b>49%</b>

## 7.2 Non Financial Performance Measures

		Actual	Forecast	Target		
		Year ending 30 June 2010	Year ending 30 June 2011	Year ending 30 June 2012	Year ending 30 June 2013	Year ending 30 June 2014
Customer satisfaction <sup>1</sup>	%	77%	85%	90%	92%	94%
Staff satisfaction – positive responses	%	82%	90%	90%	90%	92%
Staff turnover	%	28%	18%	12%	10%	10%
Number of lost time injuries	#	2	Nil	Nil	Nil	Nil

<sup>1</sup> Point of service sample survey of building and resource consent applicants

## 8. Dividend Policy

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The Company is a Council Controlled Organisation (CCO) as defined in Section 6 of the Local Government Act 2002. It is not intended that the Company will pay a dividend to its shareholder.

## 9. Information to be Provided to Shareholders

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### 9.1 Balance Date

The Company has adopted 30 June as its balance date.

### 9.2 Statement of Intent

By 1st March of each year the Company will deliver to the shareholder its draft Statement of Intent for the following year in the form required by Clause 9(1) of Schedule 8 of the Local Government Act 2002.

Subject to comments from the shareholder being received by 30 April, the Company will deliver the completed Statement of Intent to the shareholder on or before 30 June each year.

### **9.3 Annual Report**

By 30 September each year, the Company will provide to the shareholder an Annual Report complying with Sections 68 and 69 of the Local Government Act 2002. The Annual Report will contain the information necessary to enable an informed assessment of the operations of the Company, and will include the following information:

- Directors' Report;
- Comparison of the Company's performance with the Statement of Intent, with an explanation of any material variances between that performance and the Statement of Intent;
- Financial Statements incorporating a Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and Statement of Cash Flows, Summary of Accounting Policies and Notes to the Financial Statements;
- Auditor's Report on the financial statements and the performance targets and other measures by which performance was judged in relation to the Company's objectives in the Statement of Intent.

### **9.4 Half Yearly Report**

By 28 February each year, the Company will provide to the shareholder a Half Yearly Report complying with Section 66 of the Local Government Act 2002. The Half Yearly Report will include the following information:

- Directors' commentary on operations;
- Un-audited half-yearly Financial Statements incorporating a Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and Statement of Cash Flows.

### **9.5 Contract Performance Reports**

The Company will provide regular monitoring reports to Queenstown Lakes District Council in accordance with the contract for services between the Company and QLDC.

### **9.6 Auditor**

As a Council Controlled Organisation ("CCO") the Company is a public entity as defined in Section 4 of the Public Finance Act 2001, and in accordance with that Act, the Auditor General is its auditor. The Auditor General has contracted Pat Heslin of Deloitte's Dunedin office to act as his agent.

## **10. Procedures for Share Acquisitions**

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The Company will obtain the written approval of its shareholder before it subscribes for or acquires, by way of one or more related transactions, shares or an equity interest in any other company or organisation.

## **11. Activities for Which the Board Seeks Compensation**

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The Company has a contract with its shareholder, the Queenstown Lakes District Council (QLDC) for the Company to undertake the resource management and regulatory services within the Queenstown Lakes District on behalf of the QLDC. That contract provides for a payment from QLDC to the Company on a commercial basis for the provision of those services which are not funded by fees and other forms of user charges.

QLDC currently funds approximately 60% of the time the company spends on delivering public good services. This means that the Company funds the remaining 40% through fees and user charges.

If the shareholder wishes or requires the Company to provide goods or services or assume obligations in a manner which constrains the Company from acting in a normal, businesslike manner or which will or could result in a reduction in Company value, the Company will seek compensation from the shareholder.

The Company does not currently seek compensation from Queenstown Lakes District Council for any non-commercial activities.

## **12. Commercial Value of the Shareholder's Investment**

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The Board's estimate of the commercial value of the shareholder's investment in the Company at 30 June 2011 is \$0.320 million. As there is no readily observable commercial market for the Company's business and the business is not for sale, the Board's estimated value is based on the projected shareholders equity in the Company as at 30 June 2011.

## **13. Other Matters**

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No other matters have been agreed by the shareholder and the Board for inclusion in this Statement of Intent pursuant to Clause 9 of Schedule 8 of the Local Government Act 2002.

## Appendix I – Statement of Accounting Policies

The following accounting policies which materially affect the measurement of results and financial position have been applied:

### **Revenue Recognition**

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

#### Revenue

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

Parking commissions are recognised when the entitlement to the commission has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

All other revenue is recognised in the accounting period in which the actual service is provided.

#### Other Gains and Losses

Net gains or losses on the sale of property, plant and equipment and financial assets are not recognised until title passes.

### **Leasing**

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

Rentals payable under operating leases are charged to the Statement of Comprehensive Income on a basis representative of the pattern of benefits to be derived from the leased asset.

#### (a) Company as Lessee

Assets held under finance leases are recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised.

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

### **Borrowing Costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

## **Taxation**

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the comprehensive balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised as a expense or income in the Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

## **Goods & Services Tax**

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

## **Cash & Cash Equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and other short-term highly liquid investments that are readily convertible to a known amount of cash.

## **Financial Instruments**

Financial assets and financial liabilities are recognised on the Company's Statement of Financial Position when the Company becomes a party to contractual provisions of the instrument.

### **(i) Financial Assets**

Financial Assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### **Effective Interest Method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

### Loans and Receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment 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 the 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 at the effective interest rate. The amount of the provision is expensed in the Statement of Comprehensive Income.

### Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Comprehensive Income.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Comprehensive Income to the extent the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### (ii) Financial Liabilities

#### Trade and Other Payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

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

#### Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowing using the effective interest method.

## Property, Plant and Equipment

### Cost

Property, plant and equipment is recorded at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Where an asset is acquired for no cost, or for a nominal cost, it is recognised at fair value at the date of acquisition.

### Depreciation

Depreciation is provided on a diminishing value (DV) basis for all assets so as to write-off the cost of each asset to its estimated residual value over its estimated useful life.

Expenditure incurred to maintain these assets at full operating capability is charged to the Statement of Comprehensive Income in the period incurred.

The estimated useful lives of the major asset classes have been estimated as follows:

<b>Operational Assets</b>	<b>Rate (%)</b>	<b>Method</b>
Building improvements	12.0 - 48.0	DV
Motor vehicles	26.0	DV
Office equipment	11.4 - 100.0	DV
Office furniture	11.4 - 100.0	DV

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

### Disposal

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

Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the period the asset is derecognised.

## Intangible Assets

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Goodwill is recognised as an asset and not amortised. Instead, goodwill is tested for impairment annually and whenever there is an indication that the goodwill may be impaired.

Any impairment is recognised immediately in the Statement of Comprehensive Income and is not subsequently reversed.

### Other Intangible Assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment costs.

### Amortisation

Amortisation is recognised in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date they are available for use.

## **Impairment of Non-Financial Assets**

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

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace it's remaining future economic benefits or service potential. In assessing value in use for cash-generating assets, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the Statement of Comprehensive Income immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior Periods. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

## **Employee Benefits**

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

Entitlements to sick leave are calculated based on an actuarial approach to assess the level of leave that is expected to be taken over and above the annual entitlement, and calculated using anticipated future pay rates.

## **Statement of Cash Flows**

Cash means cash balances on hand, held in bank accounts and short term deposits that the Company invests in as part of its day to day cash management.

Operating activities include cash received from all income sources of the Company and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt structure of the Company.

## **Share Capital**

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

**Standards and Interpretations effective in the current period**

In the current year the company has adopted NZ IAS-1: *Presentation of Financial Statements* (revised 2007) which is applicable for annual reporting periods beginning on or after 1 January 2009. Initial application of this standard did not affect any of the amounts recognised in the financial statements but changed the presentation of the Statement of Comprehensive Income and Statement of Changes in Equity. There was no change in accounting policy relating to recognition or measurement due to the initial application of this standard.