

INDEPENDENT AUDITOR'S REPORT
TO THE READERS OF
GISBORNE HOLDING LIMITED GROUP'S
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Gisborne Holdings Limited and its New Zealand domiciled subsidiaries and other controlled entities. The Auditor-General has appointed me, Marcus Henry using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information of the group, consisting of Gisborne Holdings Limited and its subsidiaries and other controlled entities (collectively referred to as 'the Group'), on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 10 to 50, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 51 and 52.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - the financial position of the Group as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.
- the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 30 June 2016.

Our audit was completed on 23 September 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information 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 Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards. The Board of Directors is also responsible for preparation of the performance information for the Group.

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

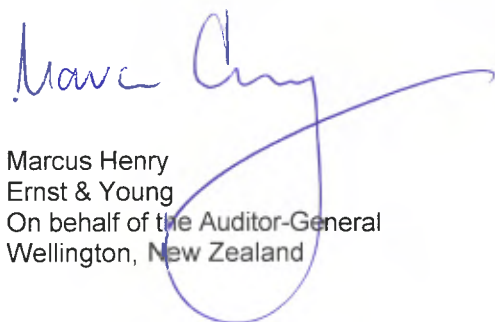
Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

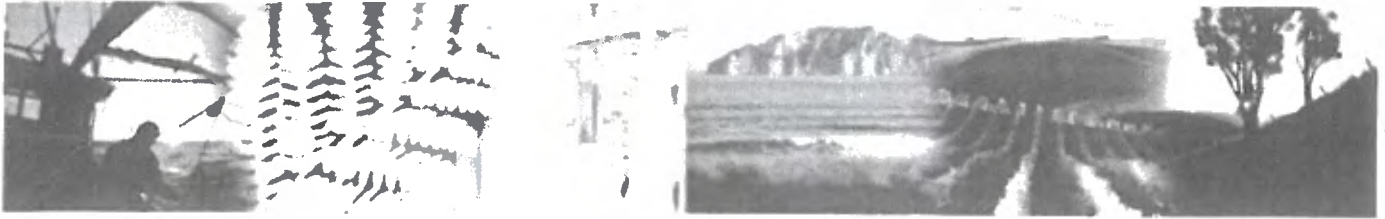
Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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



Marcus Henry
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand



Annual Report

Gisborne Holdings Limited
For the Year Ended 30 June 2016

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Chairman's Report 2016

It is pleasing to at last report on a year for Gisborne Holdings Limited (GHL) as a true consolidation of the subsidiary business.

This has come about because of the transfer of some of Gisborne District Council's (GDC) commercial assets across to GHL on 1st December 2015. On that date, the following assets were transferred.

1. Dunstan Road (cropping land and dog pound)
2. Te Puia (old look country yard and building)
3. Ruatoria (2 houses and land)

Payment to GDC was through the issue of new shares equal to the independent valuation of these assets. In addition, GHL was assigned the leases GDC held on several commercial sites to manage. This included the management and demolition of the old GDC Chambers in Fitzherbert Street, the relocation of its staff to temporary leasehold premises and the construction of the new Council Chambers.

GHL also manages the Community Housing assets of GDC.

Consequently the activities as described are included above for the seven months to 30th June 2016 and are consolidated with GHL's subsidiary Tauwhareparae Farms Limited (TFL) for the year ended on that date.

Separate reports from the General Managers of Tauwhareparae Farms Limited and Tairawhiti Investments (TI) follow.

The Current Year

Farming remains the backbone of GHL in 2015/2016 with that source producing \$11.409m of the total revenue for the year and TI produce \$1.179m (for the applicable seven months).

Operational Expenditure (before subvention payment to GDC) has grown only slightly in the year – because of the inclusion of administrative expenditure and salaries included from the TI operation.

The Statement of Comprehensive Income discloses a very pleasing Total Comprehensive Income for the year of \$11.275m, an increase of \$7.997m on the previous year.

Unfortunately all of this income is not in cash as it includes revaluation incomes as listed below:

Livestock Revaluations	\$0.878m
Forestry Revaluations	\$5.029m
Property Revaluations	\$5.150m
Carbon Credit Revaluations	<u>\$1.268m</u>
Total Revaluation Incomes	\$12.325m
(before allowing for deferred tax)	

When the effect of the revaluation income items is excluded, we are left with distributable Cash Income of \$1.459m.

No income from forestry occurred in 2015/16. The first harvest of our forests is likely to occur in 2016/17.

Distributions 2016

In accordance with the Statement of Intent for 2016 we have provided for a distribution to GDC by way of subvention payment of \$1.021m. Last year we distributed \$1.068m.

This is \$21,000 more than projected in the 2015/16 Statement of Intent (see later Statistical Analysis in 51-52 of report)

In the last six years GHL has distributed \$7.299m to GDC.

Movement in Equity

Our overall equity has increased this year by the addition of our Total Comprehensive Income and the value of shares issued to GDC in satisfaction of the transfer of the commercial assets to GHL (i.e. \$3,976m).

Overall Total Equity has increased from \$49.199m to \$64.45m – an increase of 31%.

Statement of Financial Position

GHL is in a very sound financial position at 30th June 2016.

It has Total Assets of \$72.984m and Liabilities of \$8.534m. Total Assets have grown by 32.3% this year.

(see later Statistical Analysis in 51-52 of report)

Looking Forward

As stated a very creditable \$11.275m Total Comprehensive Income has been achieved for the 2016 year. This has helped in establishing a sound financial position for GHL going forward.

We are very pleased to welcome on board the Waikanāe Beach Top Ten Holiday Park and the Vehicle Testing Station on 1st July 2016 and we will watch with interest and anticipation the deliberations ahead of further transfers.

When the asset transfers are completed the Directors will address the tasks of unlocking and maximising the inherent potential in GHL and thus aim to provide a steady and material contribution to GDC for the benefit of our fellow rate payers and Tairāwhiti residents.

Personnel

It has been stated many times an entity like GHL will be successful if the people employed by it are the “right people”. They must have a “can do” attitude, be team players and support the company culture – as well as possessing the capabilities required of the position.

Dean Brensell has been the General Manager of TFL for the last three years and he leaves us on 30th September to follow personal goals. In his time with us he has transformed TFL by developing a strong team around him led by Station Managers Tony Valois, Rob O’Sullivan and Liam Hunter. Livestock production figures are now excellent, fertiliser maintenance has been increased, genetics are improving, water reticulation enhanced, extensive fencing improvements continue and the culture combining the three stations into one unit for the betterment of Tauwhareparae Farms Limited has been achieved. TFL was indeed fortunate to have employed Dean – he certainly leaves it in a much better state than when he took it on three years ago.

GHL is also very fortunate having employed Matt Feisst as the General Manager of Tairāwhiti Investments. Matt is developing a strong culture through his team of experienced and very capable team members. The division is developing well.

GHL is indeed fortunate to have attracted the “right people” to the team.

Conclusion

GHL is well situated financially for the current tasks in front of it. Our new entities are settling well and are forecast to provide an improving contribution to GHL's overall profitability.

Thank you to our professionals who helped us during 2015/16 i.e. JacksonBlakeman Ltd, Graham & Dobson Ltd, Grey Street Legal and Nolans. Your help has been appreciated.

Thank you also to my fellow Directors and our General Managers for their support and time given in our stewardship over the year.

Robert Proudfoot – Board Chairman

Tauwhareparae Farms Limited General Manager's Report 2016

Tauwhareparae Farms Limited (TFL) – from a production viewpoint - has had a good year for 2015/16 with excellent sheep and cattle production figures, increases in honey share-farming income and a good control of operating expenditure. However the drop in average lamb price from \$97 last year to \$89 this year was problematic. This was countered somewhat by the increase in the number of lambs produced.

Over the past three years TFL has lifted its lambing percentage from 135% to 144% out of both 2ths and Mixed Age Ewes with Tauwhareparae Station itself lambing 150% in 2016. TFL has for the past three seasons killed 100% of our sale lambs at Ovation NZ Ltd meat works in Gisborne and we have lifted our lamb kill from 22,114 in 2014 out to 26,600 in 2016. An increase of 4,500 lambs out of the same amount of ewes lambed as in 2013. TFL's calving has also improved, going from calving 83% in 2013 to 94% in 2015/16 in our Mixed Age Cows and 3 year old Heifers. This is a great result coming from a combination of top staff, genetics, fertiliser and feed management.

TFL is very pleased to be a major supplier of lambs to local Ovation meat works. We pride ourselves in assisting to provide jobs at Ovation for fellow residents of the Gisborne district.

In 2015 a dam was put in at Lowden Hills for stock and this water was reticulated in the 2016 year. This dam holds approximately 50 million litres of both spring fed and rain water. It is a major asset for TFL and it provides some insurance against a drought and gives options across the farms to move stock down to Lowden due to a lack of water on our other stations. In January 2016, Tauwhareparae Station was low on stock drinking water due to a lack of rain in November and December. 300 cattle were moved off Tauwhareparae down to Lowden. These cattle prior to the dam going in would have had to have been sold off the farm. Lowden continued to farm these cattle through the summer and selling them in the autumn at \$375 a head more than if they were sold early in January. This resulted in \$112,500 extra profit by being able to farm these cattle within TFL due to a good water system.

In the 2015/16 year TFL completed replanting a total of 225 hectares of new grass and clover - 40ha at Tamatea, 40ha at Tauwhareparae and 145ha on Lowden Hills. With the new water system, rejuvenated grasses and an increase in fertiliser, Lowden Hills has been turned into a finishing block and again gives options internally to finish stock to heavier weights.

Improvements in fencing remain a top priority on TFL and we are making significant strides by using our own permanent fencers and general hands. TFL has also fenced off an area of 395 hectares in 2016 which has gone into a Ministry Primary Industries reversion block.

Staff culture remains very strong on TFL. There are regular meetings and involve everyone from the managers to the junior shepherds in the planning of running a large place. The farm has a base for socialising at Smash Palace and this provides a bi-monthly place to meet up. TFL has had a cookhouse operating at Puketawa for the past 2 years and have an outstanding station cook, Karen Johnson. This venue has turned into the hub of the farms daily operations. Karen fed 5 staff members daily and up to 15 when there are contractors working on the farms. The cookhouse is a tremendously beneficial asset in developing the desired culture at Tauwhareparae Farms. The team have a strong work ethic here and have built up a list of people phoning us looking to get into employment on TFL.

Statistical comparisons of targets and actual achievements follows.

Dean Brensell - General Manager

Category	Measurement Rate	Target	Result
Effective Hectares		6,000	5,928
Opening Stock Units		60,000	57,269
Closing Stock Units		60,000	58,211
Fertiliser			
Phosphate	kg/stock unit	1.6kg	2.8kg
Sulphur	kg/stock unit	1.6kg	3.4kg
Sheep			
Ewe Lambing	%	140%	144%
Deaths	%	less than 4%	3.0%
Sheep income	\$/ssu	\$80	\$91
Wool			
Wool Income	\$/ssu	\$17	\$21
Wool Weight	kg/ssu	5kg	5.5kg
Cattle			
Calving Cows	%	87%	91%
Deaths	%	less than 1.5%	2.5%
Cattle Income	\$/csu	\$60	\$95
Total Farm Expenditure			
Total Farm Expenditure (including TFL Salaries)	per effective hectare	\$500	\$490
Economic Farm Surplus			
Economic Farm Surplus (EBIT)	per effective hectare	\$250	\$1,271

Tairawhiti Investments General Manager's Report 2016

Tairawhiti Investments (TI) is the commercial operating division of Gisborne Holdings Limited. At the end of the 2016 financial year, its activities include ownership and management of a range of commercial property investments, consisting of a range of Council and commercial tenancies along with the management of Council's commercial operations.

2016 was a busy year for TI, where along with establishment of the division and continuation of operational levels of service, key major projects were started following the transfer of Municipal Assets from Council. Major projects included the relocation of Council's administration centre along with the implementation of the project to replace Council administration centre at Fitzherbert Street.

Financial:

Total income received was \$591k against a budget of \$350k with expenses of \$154k against a budget of \$126k resulting in a year-end net profit figure of \$437k against a budgeted figure of \$224k a positive variance of \$213k.

Total Assets under management by TI have grown to a value of \$5.204m with Total Liabilities of \$830k leaving Total Equity of \$4.374m at the end of the 2016 financial year.

TI has ended the first seven months of operation ahead of budgeted income and budgeted net profit. Overall expenditure has also tracked favourably against budget, providing an encouraging result for this initial period.

Major Projects:

The relocation of Council's administration centre was a significant project completed within the final seven months of the financial year, in time to hand the Fitzherbert Street site over to demolition contractors for preparation for the new build. Financially the project has gone very well with the major initial construction stage coming in below budget forecasts.

The new build project is currently on track and progressing as planned to meet a December 2017 move in date for Council staff with the majority of the building completed. As with any project of this size, there have been some unforeseen issues that have arisen and these have been mitigated or reduced where possible.

Overall these projects represent a significant investment budgeted at \$12.5m over a three-year period which will result in an end asset valued at approximately \$15m.

Personnel:

TI personnel are enjoying the challenges in the new commercial environment and a positive culture has grown following a hectic change and transition period. With the addition of Gisborne Vehicle Testing and the Waikanae Beach Top Ten Holiday Park from the start of 2017 financial year, the TI team will grow to approximately thirty staff.

Conclusion:

I would like to thank the GHG Board for their support and the TI team for their excellent work and commitment over a challenging initial set up phase. With a solid platform laid for growth in the 2017 financial year and the addition of extra income generating activities, TI is well placed to continue to provide a healthy contribution to Gisborne Holdings Limited and the wider community.

Matt Feisst - General Manager

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Audit Report 2016

Audit Report 2016

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Statement of comprehensive income for the year ended 30 June 2016

	Notes	Actual 2016 \$000	Budget Unaudited 2016 \$000	Actual 2015 \$000
Continuing operations				
- Sheep Sales	17	2,703	2,754	2,789
- Cattle Sales	17	2,076	1,989	2,473
- Wool Sales		656	550	683
- Forestry Income and Grants Received		67	294	160
- Sheep Value Increase		185	125	-
- Cattle Value Increase		693	487	373
- Forestry Value Increase	17	5,029	-	467
- Carbon Credits Allocated		-	225	578
- Carbon Credits Value Increase		-	-	44
- Commercial Rents Received		1,074	-	-
- Management Fee		105	-	-
Total Revenue		12,588	6,424	7,567
Cost of Sales				
- Commercial Rental Expenses		340	-	-
- Sheep Purchases	17	106	84	90
- Cattle Purchases	17	207	178	212
- Sheep Value Decrease		-	-	757
- Cattle Value Decrease		-	-	-
- Forestry Value Decrease		-	359	-
- Carbon Credits Value Decrease		-	55	-
Total Cost of Sales		653	676	1,059
Gross Profit		11,935	5,748	6,508
Other Income				
- Dividends Received		-	-	41
- Interest Received		3	-	-
- Other income		164	126	109
Total Other Income		167	126	150
Total Income		12,102	5,874	6,658
Expenditure from continuing operations				
- Farming Expenditure		1,920	1,911	2,030
- Salaries and Wages		1,396	853	940
- Administrative Expenditure		599	458	502
- Depreciation		433	377	382
- Fair Value Losses on Financial Instruments		-	-	(15)
- Loss on sale of assets		12	-	9
- Financing Expenditure		33	62	93
- Subvention Payment – Gisborne District Council		1,021	1,000	1,068
Total expenditure		5,414	4,661	5,009
Net Operating Profit/(Loss) before	5	6,688	1,213	1,649
Taxation (expense) / credit	8	(1,467)	(110)	(135)
Net Profit / (Loss) for the period		5,221	1,103	1,514

The accompanying notes form an integral part of these financial statements

**Statement of comprehensive income (continued)
for the year ended 30 June 2016**

	Notes	Actual 2016 \$000	Budget Unaudited 2016 \$000	Actual 2015 \$000
Other comprehensive income				
Net fair value gain on available-for-sale financial assets	7	-	-	-
Fair revaluation gain on property, plant and equipment	16	5,150	-	1,774
Deferred tax on building revaluations		(9)	-	(10)
Revaluation gain on carbon credits	19	1,268	-	-
Deferred tax on carbon credits revaluation		(355)	-	-
Other comprehensive income for the year attributable to owners of the parent		6,054	-	1,764
Net profit/(loss) for the year		5,221	1,103	1,514
Total comprehensive income for the year attributable to the owners of the parent		11,275	1,103	3,278

Statement of changes in equity for the year ended 30 June 2016

	\$000 Ordinary Shares	\$000 Asset Revaluation Reserve	\$000 Carbon Credit Revaluation Reserve	\$000 Available For sale Reserve	\$000 Retained Earnings	\$000 Total
At July 2015	21,200	26,453	-	(5)	1,551	49,199
Net profit/(loss) for the year	-	-	-	-	5,221	5,221
Other comprehensive income	-	5,141	913	-	-	6,054
Total comprehensive income for the year	-	5,141	913	-	5,221	11,275
Transactions with owners in their capacity as owners						
Shares Issued	3,976	-	-	-	-	3,976
At 30 June 2016	25,176	31,594	913	(5)	6,772	64,450


Statement of changes in equity for the year ended 30 June 2015

	\$000 Ordinary Shares	\$000 Asset Revaluation Reserve	\$000 Carbon Credit Revaluation Reserve	\$000 Available For sale Reserve	\$000 Retained Earnings	\$000 Total
At July 2014	21,200	24,689	-	(5)	37	45,921
Net profit/(loss) for the year	-	-	-	-	1,514	1,514
Other comprehensive income	-	1,764	-	-	-	1,764
Total comprehensive income for the year	-	1,764	-	-	1,514	3,278
Transactions with owners in their capacity as owners						
Dividends paid	-	-	-	-	-	-
At 30 June 2015	21,200	26,453	-	(5)	1,551	49,199

Statement of financial position as at 30 June 2016

	Notes	Actual 2016 \$000	Budget Unaudited 2016 \$000	Actual 2015 \$000
Contributed equity	6	25,176	20,000	21,200
Retained Earnings	7	6,772	9,343	1,551
Reserves	7	32,502	19,429	26,448
Total equity		64,450	48,772	49,199
Represented by:				
Current assets				
Cash and cash equivalents		21	27	362
Trade and other receivables	10	249	584	304
Inventories	11	128	41	186
Taxation		-	4	4
Total current assets		398	656	856
Current liabilities				
Bank (secured)	12	657	600	630
Payables and accruals	13	1,437	622	766
Gisborne Holdings Current Account		-	251	-
Gisborne District Council - Current Account	13	1,021	732	1,000
Taxation	8	56	-	-
Total current liabilities		3,171	2,205	2,396
Net working capital		(2,773)	(1,549)	(1,540)
Non-current assets				
Investment Property	15	3,963	-	-
Property, plant & equipment	16	42,872	34,459	35,862
Biological assets	17	23,401	18,696	17,455
Available-for-sale-financial assets	18	385	313	313
Investments in subsidiaries		-	-	-
Intangible assets - NZ Emission Units	19	1,965	774	697
Total non-current assets		72,586	54,242	54,327
Non-current liabilities				
Financial liabilities - term loan		-	-	-
Deferred Tax	8	5,363	3,921	3,588
Total non-current liabilities		5,363	3,921	3,588
Net assets		64,450	48,772	49,199

For and on behalf of the Board, who authorise the issue of these financial statements on 23 September 2016



/RW Proudfoot - Director



MP Todd - Director

Statement of cash flows for the year ended 30 June 2016

	Notes	Actual 2016 \$000	Budget Unaudited 2016 \$000	Actual 2015 \$000
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		6,936	5,396	5,967
Income tax refunds / (payments)		4	-	-
Goods and services tax (net)		(121)	33	168
		<u>6,819</u>	<u>5,429</u>	<u>6135</u>
Cash was distributed to:				
Payments to suppliers & employees		3,824	3,430	3,939
		<u>3,824</u>	<u>3,430</u>	<u>3,939</u>
Net cash inflow / (outflow) from investing operating activities	22	<u>2,995</u>	<u>1,999</u>	<u>2,196</u>
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale or fixed assets		27	16	35
Proceeds from sale or carbon credits		-	-	-
		<u>27</u>	<u>16</u>	<u>35</u>
Cash was applied to:				
Purchase of fixed assets		1,906	110	236
Forest asset expenditure		43	49	220
Development expenditure		413	429	357
Carbon credits expenditure		2	-	3
		<u>2,364</u>	<u>588</u>	<u>816</u>
Net cash inflow / (outflow) from investing investing activities		<u>(2,337)</u>	<u>(572)</u>	<u>(781)</u>
Cash flows from financing activities				
Cash was provided from:				
Dividends received		-	-	-
Interest received		3	-	7
		<u>3</u>	<u>-</u>	<u>7</u>
Cash was applied to:				
Dividends & subvention payment paid		1,000	1,000	800
Interest paid		29	62	102
Term Loan repayment		-	-	1,733
Parent Loan Repayment		-	-	-
		<u>1,029</u>	<u>1,062</u>	<u>2,635</u>
Net cash inflow / (outflow) from financing activities		<u>(1,026)</u>	<u>(1,062)</u>	<u>(2,628)</u>
Net increase / (decrease) in cash held		(368)	365	(1,213)
Opening cash brought forward		(268)	(938)	945
Ending cash carried forward		<u>(636)</u>	<u>(573)</u>	<u>(268)</u>
Cash at year end:				
Cash and cash equivalents		21	27	362
Bank wholesale advances		(657)	(600)	(630)
Ending cash carried forward		<u>(636)</u>	<u>(573)</u>	<u>(268)</u>

Notes to and forming part of the financial statements

1. Corporate Information

Gisborne Holdings Limited (the Company) is a company incorporated and domiciled in New Zealand and is a Council-Controlled Organisation as defined in section 6 of the Local Government Act 2002. The Company is wholly owned by Gisborne District Council and is registered under the Companies Act 1993.

The Group consists of Gisborne Holdings Limited, its 100% owned subsidiaries, Tauwhareparae Farms Limited and Tauwhareparae Forests Limited.

The Financial Statements for Gisborne Holdings Limited are for the year ended 30 June 2016. The Financial Statements were authorised on 23 September 2016.

The principal activities during the year were:

- The production and supply of livestock
- The planting, growing and tending of forestry
- The maintenance and reversion of native forestry areas
- The provision of accommodation for council employees and council services
- Project Management for the relocation and rebuild of council buildings

There have been no significant changes in the nature of these activities during the year.

2. Summary of significant accounting policies

(a) Basis of Preparation

The financial statements of the Group have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993. The financial statements have also been prepared on a historical cost basis except for land and buildings, derivative financial instruments, available for sale investments, forestry and livestock which have been measured at fair value.

The financial report is presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

(b) Statement of Compliance

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

(c) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, with the exception of the following. Historically parent numbers have been presented in the financial statements in addition to the group numbers. This financial year, only the group numbers are presented as the Companies Act 1993 does not require parent numbers to be disclosed separately, a change the Group has elected to adopt.

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(ii) Accounting standards and interpretations issued but not yet effective

NZ IFR Standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period ending 30 June 2016, are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on Company's financial report	Application date for Company
NZ IAS 1	Disclosure Initiative	The amendments clarify existing NZ IAS 1 requirements that relate to materiality, order of the notes, subtotals, accounting policies and disaggregation	1 January 2016	No or minimal effect	1 July 2016
NZ IAS 16	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to NZ IAS 16 and NZ IAS 38)	<p>NZ IAS 16 and NZ IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The IASB also clarified that revenue is generally to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>			
NZ IFRS 9 (2014)	Financial Statements	<p>The final version of NZ IFRS 9 <i>Financial Instruments</i> brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and all previous versions of NZ IFRS 9.</p> <p>Early application is only permitted if the complete version of NZ IFRS 9 is adopted in its entirety for reporting periods beginning after 4 September 2014. The transition to NZ IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to apply NZ IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of NZ IFRS 7 <i>Financial Instruments: Disclosures</i>.</p>			

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(ii) Accounting standards and interpretations issued but not yet effective

NZ IFR Standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period ending 30 June 2016, are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on Company's financial report	Application date for Company
NZ IFRS 15	Revenue from Contracts with Customers	<p>NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.</p> <p>NZ IFRS 15 supersedes:</p> <ul style="list-style-type: none"> (a) NZ IAS 11 Construction Contracts (b) NZ IAS 18 Revenue (c) NZ IFRIC 13 Customer Loyalty Programmes (d) NZ IFRIC 15 Agreements for the Construction of Real Estate (e) NZ SIC-31 Revenue – Barter transactions Involving Advertising Services <p>The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligation in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. <p>NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases. This standard will replace:</p> <ul style="list-style-type: none"> (a) NZ IAS 17 Leases; (b) NZ IFRIC 4 Determining whether an Arrangement contains a Lease; (c) NZ SIC-15 Operating Leases—Incentives; and (d) NZ SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. 	1 January 2018	No or minimal effect	1 July 2018
NZ IFRS 16	Leases	<p>The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.</p> <p>NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17.</p> <p>Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.</p> <p>Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.</p> <p>Lessor accounting is substantially the same as today's lessor accounting, using NZ IAS 17's dual classification approach.</p> <p>Application of NZ IFRS 16 is required for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies NZ IFRS 15.</p>	1 January 2019	No or minimal effect	1 July 2019

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(d) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

(e) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognized initially at fair value and subsequently measure at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognized when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of the estimated future cash flow, discounted at the original effective interest rate.

(f) Inventories

In accordance with NZ IAS 41 – *Agriculture* wool on hand is valued at fair value less estimated point of sale costs at time of harvest. Consumable stocks are valued at the lower of cost, determined on a first-in first-out basis, and net realisable value. This valuation includes allowances for slow moving and obsolete inventories.

(g) Livestock

Livestock is valued at fair value less point of sale costs. These values are not the same as those used for calculating taxation. Changes in the value of existing productive livestock and the numbers and/or composition of the livestock are treated as revenue items.

(h) Forestry Assets

Forestry assets are valued on the basis of fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate. Forestry assets are revalued annually by an independent valuer. Valuation movements pass through the statement of comprehensive income. The costs to maintain the forestry assets are included in the statement of comprehensive income.

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(i) Derivative financial instruments

The Group uses derivative financial instruments (including interest rate swaps) to manage its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of comprehensive income for the year.

(j) Investments and other financial assets

Investments and financial assets in the scope of NZ IAS 39 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit and loss, loans and receivables or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

(i) Financial assets at fair value through profit and loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

(ii) Financial liabilities at fair value through profit or loss

Financial liabilities classified as held for trading are included in the category “financial liabilities at fair value through the statement of comprehensive income”. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of comprehensive income.

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(iii) Loans and receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the receivables are derecognised or impaired. These are included in current assets, except for those with maturities great than 12 months after balance date which are classified as non-current.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets, principally equity securities that are designated as available-for-sale or are not classified as any of the two preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing model, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(k) Property, plant and equipment

Plant and equipment is stated as historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance and revaluation costs are recognised in the statement of comprehensive income as incurred.

Land and buildings are measured at fair value, based on annual valuations by external independent valuers who apply the International Valuations Standard Committee International Valuation Standards, less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation. The effective date for the valuation was 30th June 2016.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Land – not depreciated

Land Improvements – 10 years

Buildings – 40 years

Plant and equipment – 10 years

Office Equipment – 10 years

Motor vehicles – 5 years

Leasehold Improvements – 2 years

(k) Property, plant and equipment (continued)

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate at each financial year.

Capital work in progress is not depreciated. The total cost of a project is transferred to freehold buildings and/or plant and equipment on its completion and then depreciated.

Revaluations of land and buildings

Any revaluation increment is credited to the asset revaluation reserve included in other comprehensive income, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

Under disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(l) Investment Property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external independent valuer applying a valuation model recommended by the Property Institute of New Zealand. Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

(m) Emissions Trading Scheme

Gisborne Holdings Ltd subsidiary Tauwhareparae Farms Ltd has voluntarily entered the New Zealand Emissions Trading Scheme (“ETS”) in respect of 1,224.2 hectares of forest land located in the Tauwhareparae area. This entitles the Subsidiary to receive emission units (“units”) for carbon stored in the specified area, from 1 January 2008 baseline.

Units received are initially recognised at fair value on the date they are received with the uplift recognised in the statement of comprehensive income. Measurement at subsequent year ends is at fair value referenced to market prices with movements being recorded in other comprehensive income.

Where there is an obligation to return units this liability is recognised on the Statement of Financial Position, measured with reference to the carrying value of units on hand. Where there are insufficient units on hand to meet the emissions obligation, this is measured by reference to the current market value for units held.

Future cash flows associated with units receivable/payable are taken into consideration in determining the valuation of the specified area.

(n) Impairment of non-financial assets other than goodwill and indefinite life intangibles

Non-financial assets are tested for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset’s recoverable amount is calculated.

(o) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(p) Interest-bearing loans and borrowings (continued)

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get

ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(q) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it's probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the state of comprehensive income net of any reimbursement.

Employee leave benefits

Wages, salaries, annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(r) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(r) Leases (continued)

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(s) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(t) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Sale of goods

Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer (through the execution of the sales agreement at the time of delivery of the goods to the customer), no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(ii) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iii) Dividends

Revenue is recognised when the Parent or Group's right to receive the payment is established.

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(u) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary reasons.

Deferred income tax assets are recognised for all deductible and temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing the financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(v) Government grants

The Group receives government grants from the Ministry of Primary Industries which subsidises the cost of forestry establishment, silviculture and thinning. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled. This is in accordance with NZ IAS 20: *Government Grants*.

3. Financial risk management objectives and policies

The Group's principle financial instruments comprise receivables, payables, bank loans and overdrafts, available-for-sale investments, cash and short-term deposits and derivatives.

Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and assessments of market forecasts for interest rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the financial controller under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, interest rate risk, credit allowances, and future cash flow forecast projections.

(i) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in note 14.

At balance date, the Group had the following mix of financial assets and liabilities exposure to New Zealand variable interest rate

	Actual	Budget	Actual
	2016	Unaudited 2016	2015
	\$000	\$000	\$000
Financial Assets			
Cash and cash equivalents	21	27	362
	<u>21</u>	<u>27</u>	<u>362</u>
Financial liabilities			
Bank overdrafts	(657)	(600)	(630)
Bank loans	-	-	-
	<u>(657)</u>	<u>(600)</u>	<u>(630)</u>
Net Exposure	<u>(636)</u>	<u>(573)</u>	<u>(268)</u>

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. The Group's policy is to maintain 100% of its non-current borrowings at fixed rates which are carried at amortised cost and it is acknowledged that fair value exposure is a by product of the Group's attempt to manage its cash flow volatility arising from interest rate changes.

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative financing, alternative hedging position and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

3. Financial risk management objectives and policies (continued)

At 30 June 2016, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit higher/(lower)	
	2016 \$000	2015 \$000
+ 1% (100 basis points)	(1)	(6)
- 1% (100 basis points)	1	6

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating and mix of debt relationships with finance institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.
- A price sensitivity of derivatives has been based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

(ii) Credit risk

Credit risk arises from the financial assets of the Group and comprises cash and cash equivalents, trade and other receivables, available-for-sale financial assets, and derivative financial instruments.

The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

3. Financial risk management objectives and policies (continued)

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group has not experienced any bad debts.

(iii) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and committed available credit lines.

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. The Group has established comprehensive risk reporting covering its business operations that reflect expectation of management of the expected settlement of financial assets and liabilities.

A. Non-derivative financial liabilities

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2016. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the company is required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows on non-derivative financial instruments. Trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant, equipment and investments in working capital (e.g. inventories and trade receivables).

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short term cash payments.

3. Financial risk management objectives and policies (continued)

Group	≤ 6 months \$000	6 -12 months \$000	1 - 5 years \$000	Total \$000
Year ended 30 June 2016				
Financial Assets				
Cash and cash equivalents	21	-	-	21
Trade and other receivables	249	-	-	249
	270	-	-	270
Financial liabilities				
Trade and other payables	(923)	-	-	(923)
Lease Incentive Liability	(111)	(111)	(175)	(397)
Interest bearing loans and borrowings	(657)	-	-	(657)
Gisborne District Council				
- Current Assets	-	(1,021)	-	(1,021)
	(1,691)	(1,132)	(175)	(2,998)
Net Inflow/(Outflow)	(1,421)	(1,132)	(175)	(2,728)
Year ended 30 June 2015				
Financial Assets				
Cash and cash equivalents	362	-	-	362
Trade and other receivables	304	-	-	304
	666	-	-	666
Financial liabilities				
Trade and other payables	(673)	-	-	(673)
Interest bearing loans and borrowings	(630)	-	-	(630)
Gisborne District Council				
- Current Assets	-	(1,000)	-	(1,000)
	(1,303)	(1,000)	-	(1,000)
	(637)	(1,000)	-	(1,637)

Fair Value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data

3. Financial risk management objectives and policies (continued)

The fair value of the financial instruments as well as the methods used to estimate the fair values are summarised in the table below:

	Year Ended 30 June 2016			Year Ended 30th June 2015		
	Quoted market price (Level 1)	Valuation Technique - Market Observable Inputs (Level 2)	Total	Quoted market price (Level 1)	Valuation Technique - Market Observable Inputs (Level 2)	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Financial assets						
Available-for-sale investments						
Listed investments	-	-	-	-	-	-
Unlisted investments	-	385	385	-	313	313
	-	385	385	-	313	313

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market values.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation.

4. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be responsible under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumption and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and considerations maybe found in the relevant notes to the financial statements.

(i) Significant accounting judgements

Impairment of non-financial assets other than goodwill and indefinite life intangibles

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments and future product expectation. If an impairment trigger exists the recoverable amount of the asset is determined.

Taxation

The Group accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

4. Significant accounting judgements, estimates and assumptions (continued)

(ii) Significant accounting estimates and assumptions

Valuation of livestock

The company has included livestock at fair value and movements in fair value are recognised in comprehensive income. The fair value of livestock has been determined by independent livestock valuers after deduction of the estimate costs to market the livestock.

Valuation of forestry

The company has included forestry at fair value and movements in fair value are recognised in comprehensive income. The fair value of forestry has been determined by independent forestry valuers.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturer's warranties (for plant and equipment), and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustment to useful lives is made when considered necessary.

5. Net operating surplus before taxation

	Actual	Budget	
	2016	Unaudited	Actual
	\$000	2015	2015
		\$000	\$000
After crediting:			
Interest Income	3	-	7
Dividends Income	-	-	41
Depreciation recovered			
- Motor Vehicles	1	-	9
After charging:			
Audit fees and expenses	39	37	38
Depreciation:			
- Investment Property	34	-	-
- Buildings & Improvements	243	242	242
- Plant and equipment	34	33	34
- Motor Vehicles	121	120	106
Directors' fees	200	86	75
Employee benefit expenditure	1,196	853	940
Interest expense:			
- Term Loans	-	-	53
- Short term Advance Facility	25	62	-
- Overdraft	8	-	-

6. Contributed equity

	Actual 2016 \$000	Budget Unaudited 2015 \$000	Actual 2015 \$000
Issued and paid up			
Balance at 1 July	21,200	21,200	21,200
Issued Share Capital 5,176,090 ordinary shares*	3,976	-	-
Balance at 30 June	25,176	21,200	21,200

* All shares are fully paid and have equal voting rights

Shares have been issued to the Gisborne District Council in satisfaction of the transfer of the commercial assets to GHG (i.e. \$3,976,000).

7. Retained Earnings and Reserves

Retained Earnings

	Actual 2016 \$000	Budget Unaudited 2015 \$000	Actual 2015 \$000
Balance 1 July	1,551	-	37
Net Profit/(Loss) for the year	5,221	-	1,514
Deferred tax adjustment	-	-	-
Dividends paid	-	-	-
Balance 30 June	6,772	-	1,551
Asset Revaluation Reserve			
Balance 1 July	26,453	-	24,689
Revaluation of Land	4,810	-	17,50
Revaluation of other land improvements	274	-	(44)
Revaluation of Buildings	66	-	68
Deferred tax on buildings revaluation	(9)	-	(10)
Carbon Credit Revaluation Reserve	913	-	-
Balance 30 June	32,507	-	26,453
Available for sale Revaluation Reserve			
Balance 1 July	(5)	-	(5)
Revaluation of Investments	-	-	-
Balance 30 June	(5)	-	(5)
Total Closing Balance Revaluation Reserve	32,502	-	26,448

8. Income Tax

	Actual	Budget Unaudited	Actual
	2016	2016	2015
	\$000	\$000	\$000
(a) Income Tax			
The major components of income tax expenses are:			
Income Statement			
<i>Current income tax</i>			
Current period income tax charge	56	-	-
Prior period adjustment	-	-	-
<i>Deferred income tax</i>			
Relating to origination and reversal of temporary differences	1,411	-	135
Income tax expense/(credit) reported in the income statement	<u>1,467</u>	<u>110</u>	<u>135</u>
(b) Amounts charged or credited directly to other comprehensive income			
Relating to revaluation of Carbon Credits	355	-	-
Relating to revaluation of buildings	<u>9</u>	<u>-</u>	<u>10</u>
Income tax expense reported in other comprehensive income	<u>364</u>	<u>-</u>	<u>10</u>
(c) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate			
Accounting profit/(loss) before tax from continuing operations	6,688	-	1,649
Total accounting profit/(loss) before income tax	<u>6,688</u>	<u>-</u>	<u>1,649</u>
At the Group's statutory income tax rate of 28% (2015: 28%)	1,872	-	462
Herd Livestock Adjustment	(215)	-	(165)
Imputation credits on dividends received	-	-	(11)
Non-deductible income and expenses	54	-	-
Group loss offset - Gisborne District Council	(244)	-	(151)
Aggregate income tax expense/(Credit)	<u>1,467</u>	<u>110</u>	<u>135</u>
Aggregate income tax expense/(Credit) is attributable to:			
Continuing operations	<u>1,467</u>	<u>-</u>	<u>135</u>
	<u>1,467</u>	<u>110</u>	<u>135</u>

8. Income Tax (continued)

	Actual	Budget	Actual
	2016	2016	2015
	\$000	\$000	\$000
(d) Recognised deferred tax assets and liabilities			
Deferred income tax at 30 June relates to the following			
<i>(i) Deferred tax liabilities</i>			
Biological Assets	3,972	-	2,550
Accelerated depreciation: buildings, plant & equipment, motor vehicles	867	-	867
Other	(26)	-	(24)
NZ Emission Units	550	-	195
Gross deferred tax liabilities	5,363	-	3,588
Set-off of deferred tax assets	-	-	-
Net deferred tax liabilities	5,363	-	3,588
<i>(ii) Deferred tax assets</i>			
Tax Losses	-	-	-
Gross deferred tax assets	-	-	-
Set-off of deferred tax assets against liabilities	-	-	-
Net deferred tax assets	-	-	-
9. Subvention Payments Paid			
Paid during the year			
Subvention payment 2013	-	-	-
Subvention payment 2014	-	-	732
Subvention payment 2015	-	-	68
Subvention payment 2016	1,000	-	-
	1,000	-	800
Imputation credit balance			
Balance as at 1 July	44	-	25
Resident withholding tax on interest received	1	-	4
Imputation and dividend credits attached to dividends received	-	-	-
Imputation credits attached to dividends paid	-	-	15
Taxation refunds received during the year	(4)	-	-
Balance as at 30 June	41	-	44

10. Trade and other receivables

	Actual	Budget Unaudited	Actual
	2016	2016	2015
	\$000	\$000	\$000
Trade receivables	231	-	303
Prepayments	18	-	1
	<u>249</u>	<u>-</u>	<u>304</u>

There are no impaired trade and other receivables

Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

11. (a) Inventories

	Actual	Budget Unaudited	Actual
	2016	2016	2015
	\$000	\$000	\$000
Farm supplies on hand	46	-	60
Wool on hand	82	-	126
	<u>128</u>	<u>-</u>	<u>186</u>

No inventories are pledged as security for liabilities nor are any inventories subject to retention of title clauses.

12. Bank (secured)

A short term advance facility with a limit of \$3 million is in place with ANZ Bank New Zealand Limited. The facility is secured by way of a general security agreement including a mortgage over the Company's freehold land. The balance at 30 June 2016 was \$657,000 (2015:\$630,000).

13. Payables and accruals

	Actual	Budget Unaudited	Actual
	2016	2016	2015
	\$000	\$000	\$000
Trade creditors and accruals	923	-	673
Lease Incentive Liability	397	-	-
Accrued staff entitlements	117	-	93
	<u>1,437</u>	<u>-</u>	<u>766</u>
Related party payable: Gisborne District Council	1,021	-	1,000
	<u>2,458</u>	<u>-</u>	<u>1,766</u>

13. Payables and accruals (continued)

Fair Value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

Interest rate, credit and liquidity risk

Information regarding interest rate, credit and liquidity risk exposure is set out in note 3.

14. Derivative financial instruments

Nature and Purpose of Reserves

Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another.

Available-for-sale Revaluation Reserve

The available-for-sale revaluation reserve arises on revaluation of investments which are recognised as available-for-sale financial assets.

Interest rate risk

The Group's financial assets and liabilities which are exposed to interest rate risk include cash and deposits and secured bank loans. The Group adopts a policy of reducing the exposure to changes in interest rates by utilising interest rate swaps to limit future interest costs, when necessary.

Carbon Credit Revaluation Reserve

The carbon credit revaluation reserve arises on revaluation of carbon credits which are recognised as intangible assets.

15. Investment Property

	Land	Buildings	Total
	\$000	\$000	\$000
Cost or valuation			
At 1 July 2014	-	-	-
Additions at cost	-	-	-
Disposals at net book value	-	-	-
Revaluation Adjustment	-	-	-
	<hr/>	<hr/>	<hr/>
At 30 June 2015	-	-	-
Additions at cost	3,061	902	3,963
Disposals at net book value	-	-	-
Revaluation Adjustment	-	-	-
	<hr/>	<hr/>	<hr/>
At 30 June 2016	<u>3,061</u>	<u>902</u>	<u>3,963</u>

The Group's investment properties consist of three properties. Management determined that the investment properties consist of three classes - commercial, residential and cropping- based on the nature, characteristics and risks of each property. As at 30 June 2016, the fair values of the properties are based on valuations performed by Trevor Kitchen and Lucas Puku of TelferYoung, an accredited independent valuer. The valuation method used was the market comparison approach. Rental income derived from investment properties was \$193,412 (2015: Nil). Direct operating expenses generating rental income was \$17,484 (2015: Nil).

16. Property plant and equipment

	Freehold Land & Improvements	Buildings	Construction in Progress	Leasehold Improvements	Plant & Equipment	Motor Vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost or valuation							
At 1 July 2014	31,501	3,835	-	-	439	562	36,337
Additions at cost	371	43	-	-	68	119	601
Disposals at cost	-	-	-	-	(4)	(97)	(101)
Revaluation Adjustment	1,706	68	-	-	-	-	1,774
At 30 June 2015	33,578	3,946	-	-	503	584	38,611
Additions at cost	391	44	674	1,005	46	157	2,317
Disposals at cost	-	-	-	-	(13)	(59)	(72)
Revaluation Adjustment	5,084	66	-	-	-	-	5,150
At 30 June 2016	39,053	4,056	674	1,005	536	682	46,006
Depreciation and impairment							
At 1 July 2014	1,222	683	-	-	281	247	2,433
Depreciation charge for the year	163	79	-	-	34	106	382
Accumulated Depreciation on Disposals	-	-	-	-	(3)	(63)	(66)
At 30 June 2015	1,385	762	-	-	312	290	2,749
Depreciation charge for the year	164	79	-	21	33	121	418
Accumulated Depreciation on Disposals	-	-	-	-	(10)	(23)	(33)
At 30 June 2016	1,549	841	-	21	335	388	3,134
Net Book Value							
At 30 June 2015	32,193	3,184	-	-	191	294	35,862
At 30 June 2016	37,504	3,215	674	984	201	294	42,872

Carrying amounts of property plant and equipment measured at cost less accumulated depreciation and impairment.

If property plant and equipment were measured using the cost model the carrying amounts would be as follows:

16. Property plant and equipment

Carrying amounts of property plant and equipment measured at cost less accumulated depreciation and impairment.

If property plant and equipment were measured using the cost model the carrying amounts would be as follows:

	Freehold Land & Improvements	Buildings	Construction in Progress	Plant & Equipment	Motor Vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost or fair value	2,537	1,762	-	502	584	5,385
Accumulated depreciation						
And impairment	1,384	762	-	312	290	2,748
Net Carrying Amount 30 June 2015	<u>1,153</u>	<u>1,000</u>	<u>-</u>	<u>190</u>	<u>294</u>	<u>2,637</u>
Cost or fair value	2,928	1,805	-	503	648	5,884
Accumulated depreciation						
And impairment	1,548	841	-	335	387	3,111
Net Carrying Amount 30 June 2016	<u>1,380</u>	<u>964</u>	<u>-</u>	<u>168</u>	<u>261</u>	<u>2,773</u>

The fair value of freehold land (including forestry land) and improvements (including buildings) are determined by independent valuation. The independent valuation was performed by Bruce Cowper of Lewis Wright Valuation & Consultancy Ltd, an independent registered valuer. The fair value as per the valuation at 30 June 2016 was \$40,600,000 (2015: \$35,260,000). Further land and building assets with a book value of \$119,243 (2015: \$117,000) were not revalued in this valuation.

Fair value is the amount for which assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable to those held by the group.

17. Biological Assets (Consumable)

Biological Assets consist of sheep and cattle (Livestock) and plantation trees (Forestry).

(A) Reconciliation of opening balance to closing balance

For the year ended 30 June 2016

	Sheep		Cattle		Forestry		Total \$000
	Quantity	\$000	Quantity	\$000	Hectares	\$000	
Opening balance							
As at 1 July	32,081	3,716	5,091	5,155	1,679.5	8,584	17,455
Natural Increase	33,869	3,161	2,235	1,888	-	-	5,049
Purchases	101	106	44	207	-	39	352
Change in Fair Value	-	(8)	-	897	-	5,029	5,918
Sales	(30,052)	(2,703)	(1,998)	(2,076)	-	-	(4,779)
Deaths, Killed & Recoveries	(3,130)	(371)	(199)	(223)	(4.3)	-	(594)
Closing Balance							
as at 30 June	32,869	3,901	5,173	5,848	1,675.2	13,652	23,401

For the year ended 30 June 2015

	Sheep		Cattle		Forestry		Total \$000
	Quantity	\$000	Quantity	\$000	Hectares	\$000	
Opening balance							
As at 1 July	32,045	4,474	5,312	4,781	1,608.5	7,897	17,152
Natural Increase	30,799	3,007	2,175	1,811	-	-	4,818
Purchases	94	90	40	212	100.3	220	522
Change in Fair Value	-	(677)	-	983	-	467	733
Sales	(27,581)	(2,789)	(2,279)	(2,473)	-	-	(5,262)
Deaths, Killed & Recoveries	(3,276)	(389)	(157)	(159)	(29.3)	-	(548)
Closing Balance							
as at 30 June	(32,081)	(3,716)	5,091	5,155	1,679.5	8,584	17,455

17. Biological Assets (Consumable) (continued)

(B) The fair value of biological assets as at end of the year was:

Consumable Biological Assets Group
Livestock

SHEEP

	2016		2015	
	Quantity	\$000	Quantity	\$000
Mature Sheep				
Mixed age ewes	17,717	2,166	17,759	2,140
Two tooth ewes	59,931	820	5,817	745
Breeding rams	257	64	242	60
Immature Sheep				
Ewe hoggets	6,677	655	6,530	640
Ram & wether hoggets	2,225	196	1,733	131
Total Sheep	32,869	3,901	32,081	3,716

CATTLE

	2016		2015	
	Quantity	\$000	Quantity	\$000
Mature Cattle				
Mixed age cows	1,642	2,217	1,591	1,905
Rising three year heifers	528	759	600	775
Rising two year heifers	595	685	620	597
Rising two year steers & bulls	87	87	44	41
Breeding Bulls	113	374	99	355
Immature Cattle				
R1 Heifers	1,099	778	1,065	677
R1 Steers & Bulls	1,109	948	1,072	805
Total Cattle	5,173	5,848	5,091	5,155

FORESTRY

	2016		2015	
	Hectares	\$000	Hectares	\$000
Forest Tree Crop				
Total Forestry	1,675	13,652	1,679.5	8,584
TOTAL BIOLOGICAL ASSETS AS AT 30 JUNE		23,401		17,455

17. Biological Assets (Consumable) (continued)

The fair value of livestock is determined by independent valuation as at 30 June 2016. The independent livestock valuation was performed by Gisborne East Coast Farmers Ltd, independent livestock agents, in accordance with the Group's accounting policy detailed in note 1.

The independent valuation used the quoted price in an active market as the appropriate basis for determining fair value. Where there is more than one active market that the group has access to, the most relevant market has been used.

The gain on initial recognition of livestock sold is recognised in the statement of comprehensive income in the year of harvest. At time of harvest, wool is recorded as inventory.

The fair value of the forest tree crop is determined by independent valuation. Independent forestry valuation as at 30 June 2016 was performed by PF Olsen and Company Limited, independent providers of professional forestry services. The fair value is assessed as follows:

- The maturity value of the existing tree crop and the future cost of realising that revenue are determined.
- Future costs and revenue are discounted from the year in which they occur to the date of the valuation by applying an appropriate discount rate.

The appropriate discount rate is determined by considering the recent sales of forests and the relative sensitivity of the value of the forest to future log prices.

Significant assumptions applied in this determination of fair value are:

	<u>2016</u>	<u>2015</u>
Appropriate Discount Rate (pre tax)	6.5%	7%
Rate of inflation	2%	2%
Rate of tax	28%	28%

During the year \$39,436 (2015: \$220,278) of forestry development expenditure was capitalised to the forest asset.

17. Biological Assets (Consumable) (continued)

(C) Cost of sales and Gross Profit – Biological Assets

	Quantity	Average Price \$	2016 \$000	Quantity	Average Price \$	2015 \$000
Livestock						
Sheep						
Sales	30,052	90	2,703	27,581	101	2,789
Less cost of sales						
Opening stock	32,081	116	3,716	32,045	140	4,474
Add Purchases	101	1,052	106	94	955	90
Less closing stock	32,869	119	<u>3,901</u>	32,081	116	<u>3,716</u>
Total cost of sales			<u>(79)</u>			<u>848</u>
Gross profit from Sheep			<u>2,782</u>			<u>1,941</u>

	Quantity	Average Price \$	2016 \$000	Quantity	Average Price \$	2015 \$000
Cattle						
Sales	1,998	1,039	2,076	2,279	1,085	2,473
Less cost of sales						
Opening stock	5,091	1,013	5,155	5,312	900	4,781
Add Purchases	44	4,702	207	40	5,308	212
Less closing stock	5,173	1,131	<u>5,848</u>	5,091	1,013	<u>5,155</u>
Total cost of sales			<u>(486)</u>			<u>(161)</u>
Gross Profit from Cattle			<u>2,562</u>			<u>2,634</u>

Forestry	2016 \$000	2015 \$000
Opening Valuation	8,584	7,897
Forestry Development Expenditure	39	220
Less Closing Valuation	<u>13,652</u>	<u>8,584</u>
Gross Profit/(Loss) from Forestry	<u>5,029</u>	<u>467</u>

18. Available-for-sale-Financial Assets

	Actual	Budget Unaudited	Actual
	2016	2016	2015
	\$000	\$000	\$000
At fair value			
Shares - unlisted	385	-	313
Shares - listed	-	-	-
	<u>385</u>	<u>-</u>	<u>313</u>

Available-for-sale investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

(a) Listed shares

Their fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

Market risk

The Group has listed shares with a current market value of \$Nil (2015: \$Nil). If the market value of shares increased/decreased by 10% the fair value would increase/decrease by \$Nil. (2015: \$Nil).

There are no individually material investments.

(b) Unlisted shares

Value assumptions

The fair value of the unlisted available-for-sale investments has been estimated using valuation techniques based on assumptions, which are supported by observable inputs. Management believes the estimated fair value resulting from the valuation techniques and recorded in the Statement of Financial Position and the related changes in fair value recorded in equity are reasonable and the most appropriate at the Statement of Financial Position date.

19. Intangible Assets

Intangible assets consist of NZ Emissions Units

Reconciliation of opening balance to closing balance For the year ended 30 June 2016

	NZ Emission Units Post 1989	
	Quantity	\$000
Opening Balance as at 1 July 2015	110,704	697
Received by government grant at fair value	-	-
Purchased	-	-
Sales	-	-
Valuation Increase	-	1,268
Closing Balance at 30 June 2016	110,704	1,965

For the year ended 30 June 2015

	NZ Emission Units Post 1989	
	Quantity	\$000
Opening Balance as at 1 July 2014	18,905	75
Received by government grant at fair value	91,799	578
Purchased	-	-
Sales	-	-
Valuation Increase	-	44
Closing Balance at 30 June 2015	110,704	697

20. Capital commitments

There are no material capital commitments at balance date (2015: \$Nil)

21. Contingencies

The Group has a contingent liability in respect of both its pre-1990 and post-1989 forests which are part of the New Zealand Emissions Trade Scheme. Should the Group deforest all of its pre-1990 forests, it would have a liability under the ETS to surrender New Zealand emissions units of approximately \$2.798 m determined at 30 June 2016 (2015: \$0.993 m). Should the Group experience a decrease in total carbon stocks for all of its post-1989 forests, whether due to events such as harvest or forest fire, it would have a liability under the ETS to surrender New Zealand emissions units of approximately \$1.965 million determined at 30 June 2016 (2015: \$0.697 m). The amount and timing of any liability is uncertain and is dependent on the occurrence of the circumstances described above and the price of emissions units at the time of deforestation.

22. Cash flow statement reconciliation

Reconciliation of net operation surplus after taxation with cash inflow from operating activities

	Actual 2016 \$000	Budget Unaudited 2016 \$000	Actual 2015 \$000
Net operating surplus/(deficit) after taxation	5,221	1,103	1,514
Add back non-cash items:			
Depreciation (net)	431	377	373
Forest Value revaluation	(5,029)	-	(467)
Livestock revaluation	(878)	(612)	384
Loss/(gain) on disposal of assets	12	-	9
Movement in derivative financial instruments taken to the Income Statement	-	-	(15)
Increase/(decrease) in deferred tax liability excluding transfers to reserves	1,467	110	135
Other fixed and investment assets changes/(credits)	(65)	(41)	(52)
Carbon Credits allocated	-	-	(578)
Carbon Credits impairment (reversal)	-	-	(44)
	<u>(4,062)</u>	<u>(166)</u>	<u>(255)</u>
Add back items classified as financing activity			
Interest received	(3)	-	(7)
Interest paid	29	62	102
Subvention payment	1,021	1,000	1,068
	<u>1,047</u>	<u>1,062</u>	<u>1,163</u>
Decrease/(increase) in working capital:			
Accounts receivable and prepayments excluding capital disposal accruals	110	-	(201)
Inventories	57	-	(62)
Accounts payable and accruals excluding capital expenditure accruals	674	-	41
Taxation payable/receivable	(52)	-	(4)
	<u>789</u>	<u>-</u>	<u>(226)</u>
Net cash inflow from operating activities	<u>2,995</u>	<u>1,999</u>	<u>2,196</u>

23. Transactions with related parties

During the year the Group paid rates for land and water, and paid for dog registrations, vehicle registrations, R.U.C., and consent fees to the Gisborne District Council, who is the ultimate sole shareholder of the Group. The amounts charged by the Gisborne District Council were based on normal terms and condition of trade. The total sum paid in relation to these expenses for the year was \$132,936 (2015: \$134,806). There was a balance outstanding at 30 June 2016 of \$2,307 (2015: \$3,402).

During the year Gisborne District Council rented commercial property from the Group. The amount charged to the Gisborne District Council was based on normal terms and condition of trade. The total sum paid in relation to these expenses for the year was \$910,175 (2015: Nil). During the year the Gisborne District Council was charged by the Group a Management Fee, for the management of Councils commercial operations including community housing, Gisborne Vehicle Testing Station and the Waikanae Beach Top Ten Holiday Park. The amount charged to the Gisborne District Council was based on normal terms and condition of trade. The total sum paid in relation to this was \$105,000 (2015: Nil).

Related Party	Sales to related parties		Purchases from related parties		Other transactions with related parties	
	2016	2015	2016	2015	2016	2015
Consolidated	\$000	\$000	\$000	\$000	\$000	\$000
Shareholder:						
Gisborne District Council						
Rates materials and dog registrations paid	-	-	133	135	-	-
Subvention payment	-	-	-	-	1,000	800
Management Fee	105	-	-	-	-	-
Rental	910	-	-	-	-	-
Director:						
Peter Reeves						
- Bull purchases	-	-	21	24	-	-
- Supervision fees & expenses	-	-	-	4	-	-
- Stock Food	-	-	11	11	-	-

There were no other transactions with entities owned by directors.

No related party debts have been written off or forgiven during the year.

Details relating to key management personnel, including remuneration paid are included below.

Key management personnel include all directors.

Compensation of key management personnel	2016	2015
	\$000	\$000
Short-term employee benefits	200	75
Post-employment benefits	-	-
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Employees paid over \$100,000 per year		
- \$130,000 - \$140,000	-	1
- \$140,000 - \$150,000	2	-

24. Operating Leases

The company has various commercial property leases. The leases run for various terms, and are reviewed as per individual lease agreements.

	2016	2015
	\$000	\$000
Contracted Future Minimum Rental Income		
Within one year	2,199	-
After one year but no more than five years	3,337	-
After more than five years	7,693	-
Contracted Future Minimum Rental Expense		
Within one year	496	-
After one year but no more than five years	462	-
After more than five years	193	-

25. Subsequent events

No significant items/events have occurred between year-end and the signing of the financial statements.

26. Government Grants

The Group receives Government grants in the form of forestry and Poplar/Willow establishment grants from the East Coast Forestry Project. There are no contingencies and unfulfilled conditions relating to these grants at balance date. The amount received for the year ended 30 June 2016 was \$90,294 (2015: \$160,547).

27. Risk identification and management

The Group has in place policies and procedures to identify areas of significant business risk, and implement procedures to effectively manage those risks. Where appropriate the Board obtains advice directly from external advisors. Once a significant business risk is identified, the Board is advised and corrective action is taken promptly to mitigate and monitor the risk.

28. Capital Management

The Group's capital is its equity which comprises retained earnings. Equity is represented by net assets. The Group manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, and general financial dealings to ensure the Group effectively achieves its objectives and purpose, whilst still remaining a going concern.

29. Performance targets of Gisborne Holdings Limited for the commencing 1 July 2015

The following performance targets have been set for the 2015/16 financial year

Objective	Performance Target	Performance Result
1 To ensure that the financial targets and strategic direction of GHL are in line with the requirements of GDC.	A draft SOI for GHL will be submitted for approval to GDC by 1 March each year.	Achieved
	A completed SOI will be submitted to GDC by 30 June each year.	Achieved
	The groups accounting return on shareholders' funds (defined as EBIT plus subvention payment divided by average shareholder funds employed) of at least 2%.	Achieved 13.6%
	Consolidated ratio of net external debt to net debt plus equity of no more than 10%	Achieved 10.0%
	A minimum five year rolling average Council return on investment in the range of 1-3%. Return being defined as distributions paid to Council over net assets.	Achieved 3.40%
	Audited annual accounts will be provided to Council by 20 September each year. (To allow consolidation into the Councils accounts in a timely manner.)	Not Achieved
2 To ensure that GDC is kept informed of all significant matters relating to its subsidiaries.	At least two progress reports be made to GDC in the financial year (in addition to reporting on specific issues), with at least one presentation to be made to Councillors.	Achieved
	Major matters of urgency are reported to the Performance, Audit and Risk Committee at the earliest opportunity.	Achieved
3 To ensure that GHL directors add value to the company and that their conduct is according to generally accepted standards.	The Chair will conduct a formal evaluation of the GHL directorate annually.	Achieved
	The Company will review the training needs of individual GHL Directors, and ensure training is provided where required.	Achieved
4 GHL's process for the selection and appointment of directors to the boards of subsidiaries is rigorous, impartial and in accordance with the GDC approved processes.	The process followed for each appointment to a subsidiary board is transparent and fully documented.	Achieved
5 To ensure that GHL returns a distribution to GDC in accordance with the Distribution Policy and with regard to GDC's budgets, and meets other financial targets.	GHL pays a distribution for the 2015/16 financial year in accordance with the distribution policy.	Achieved

29. Performance targets of Gisborne Holdings Limited for the commencing 1 July 2015 (continued)

Objective	Performance Target	Performance Result
6	To ensure that the subsidiary companies return a minimum acceptable distribution as per the SOI of the subsidiary companies.	GHL meets its budgeted level of distribution income. Achieved
7	To ensure that GHL's procedures for the appointment of directors to subsidiary directorates are open and in accordance with written policy.	That the adopted Directors Policy be followed for any direct appointments made. Achieved
8	To ensure that the draft subsidiary company SOI's are received on a timely basis for review and comment.	Draft SOI's are to be received by GHL 28 February from the subsidiary companies. Achieved
9	To ensure that the final subsidiary company SOI's are appropriate, measureable, attainable and timely.	GHL to comment on the draft SOI's within the statutory timeframe of 30 April each year. Achieved
10	To ensure that the final subsidiary company SOI's are commercially focused documents while also being compatible with the strategic aims of GDC.	GHL will direct the subsidiary companies to produce commercially focused draft SOI's. Achieved GHL will assess the alignment of the SOI's with any specifically notified GDC strategic directive. Achieved
11	To ensure that the subsidiary company reporting is relevant and timely.	Subsidiary company SOI's to incorporate specific reporting requirements in accordance with legislation and accepted practice. Achieved
12	To ensure that there are adequate processes for the identification, assessment and management of the risk exposures of the subsidiary companies.	Subsidiary company SOI's to incorporate specific statements regarding the processes for the management of risk exposures. Achieved

Summarised Performance Indicators

	Budget 2015/2016 Unaudited	Achieved 2015/2016
Return on shareholders' funds*	2.00%	21.60%
Net external debt/net external debt + equity	10.00%	10.00%
5 year rolling average distribution return on investment	1-3.00%	3.40%
Ratio of shareholder funds to total assets	80.00%	88.33%

* Total comprehensive income plus subvention payments/
Average Shareholders' funds

Statutory information

Directors holding office during the year

Robert Walter Proudfoot (Chairman)
 Peter Stanley Reeves
 Robert James Telfer
 Matthew Peter Todd

Entries in the interests' register

General notice of interests declared during the year (Section 140(2) of the Companies Act 1993)

No general notices of interest were notified by directors during the year.

Share dealings (Section 148 of the Companies Act 1993)

No director has had any relevant interest in any shares issued by the Company.

Use of company information (Section 145 of the Companies Act 1993)

During the year the Board received no notices from any director requesting to use Company information received in their capacity as a director which would not otherwise have been available to them.

Directors' insurance (Section 162(7) of the Companies Act 1993)

The Company has insured, and provided indemnities to all its directors against liabilities to other parties (except the Company or a related party of the Company) that may arise from their positions as directors.

The insurance/indemnity does not cover liabilities arising from criminal convictions

Directors' remuneration (Section 161(2) of the Companies Act 1993)

Directors' remuneration in respect of the year ended 30 June 2016 was as follows:

RW Proudfoot	\$70,770
PS Reeves	\$40,000
RJ Telfer	\$49,230
MP Todd	\$40,000

In addition to directors' fees the following amounts were paid during the year:

To RW Proudfoot	
• Vehicle and Expense Reimbursement	\$393
To PS Reeves	
• Vehicle and Expense Reimbursement	\$1,391
To RJ Telfer	
• Vehicle and Expense Reimbursement	\$2,731
To MP Todd	
• Expense Reimbursement	\$684

No other benefits have been provided by the Company to a director for services as a director or in any other capacity. No loans have been made by the Company to a director nor has the Company guaranteed any debts incurred by a director.

Donations

The Group did not make any donations during the year ended 30 June 2016 (2015: Nil)

Directory

Directors

Robert Walter Proudfoot (Chairman)
Peter Stanley Reeves
Robert James Telfer
Matthew Peter Todd

Registered office

The Works Building
41 The Esplanade
GISBORNE

Postal address

PO Box 694
GISBORNE
Telephone 06-867 2049

Senior Management

General Manager – Matt Feisst – Tairawhiti Investments (Division of Gisborne Holdings Ltd)
General Manager Dean Brensell – Tauwhareparae Farms Limited

Auditor

Ernst & Young on behalf of the Office of the Auditor General – Marcus Henry

Chartered Accountants

Jackson Blakeman – Gisborne Holdings Limited
P O Box 1288
Gisborne
Contact: Debbie Blakeman

Graham and Dobson – Tauwhareparae Farms Limited
P O Box 1247
Gisborne
Contact: Richard Stannard

Bankers

ANZ - Gisborne Branch
PO Box 1246
Gisborne

Solicitors

Grey Street Legal – Gisborne Holdings Limited
PO Box 146
Gisborne

Nolans – Tauwhareparae Farms Limited
P O Box 1141
Gisborne