Tauwhareparae Farms Limited

Annual Report

For the Year Ended 30 June 2015

Contents

Chairman's report	1-4
Audit report	5-7
Statement of comprehensive income	8-9
Statement of changes in equity	10
Statement of financial position	11
Statement of cash flows	12
Notes to and forming part of the financial statements	13-52
Statutory information	53
Directory	54

CHAIRMAN'S REPORT 2015

Tauwhareparae Farms has again performed very well in a difficult year caused mainly by a poorly timed storm in October last year which cut our lambing percentage, and then the very tough year with lamb sale prices. However, beef and wool prices have contributed greatly to a very satisfying result.

It is very heartening to see the very good calving result for this year of 91% from MA Cows and 84% from 2 year heifers. This improvement has been a long time coming and is a credit to our General Manager and his team on the farms.

As the financial reports show, a total comprehensive income of $3,278,000 resulted in 2015, down on last year's $4,331,000. These profit figures are greatly affected by movement in the valuations of Livestock, Forestry and Property on Hand at the year end. The movement in these revaluations detrimentally affected the 2015 result in comparison with 2014. In Cash Flow terms 2015 has far exceeded the 2014 result (see later).

Expenses have been well controlled in the year and inclusive of the $1,068,000 distribution to GDC (last year $1,032,000), the total expenses are nearly $590,000 less than in 2014.

Statement of Financial Position

The Net Assets of TFL have grown by $3,278,000 in the year to $48,945,000.

Our Shareholders' Equity Ratio has improved to 89.6% from 87.4%.

At 30th June our total debt to Westpac was $271,000. Most of the liabilities we owed were the estimated value of deferred tax ($3,588,000) – most of which are highly unlikely to require settlement.

TFL and GHL are in a very sound financial position.

Cash Flow Report

The Statement of Cash Flows for 2015 shows Trading Incomes less Expenses resulted in a surplus of $2,196,000 this year against $969,000 last year. This was not quite up to Budget expectations – given the disappointing lamb result for the year.

TFL were able to increase this Operating Activities Surplus by $942,000 it had in cash at the bank at the start of the year. So we had $3,138,000 to spend in the year before borrowing.

After trading in some vehicles we replaced them, built a dam for around $357,000, started forestry infrastructure expenditure $220,000, and in all used up $781,000 of the funds available – leaving approximately $2,357,000.

This was used to fund the balance of our Subvention payment to GDC $800,000, repay our Westpac Term Loan $1,733,000 and pay bank interest about $100,000. This required $2,628,000 after a little interest recovered, and so we had to borrow $271,000 from Westpac to get through this year.

CHAIRMAN'S REPORT 2015 continued

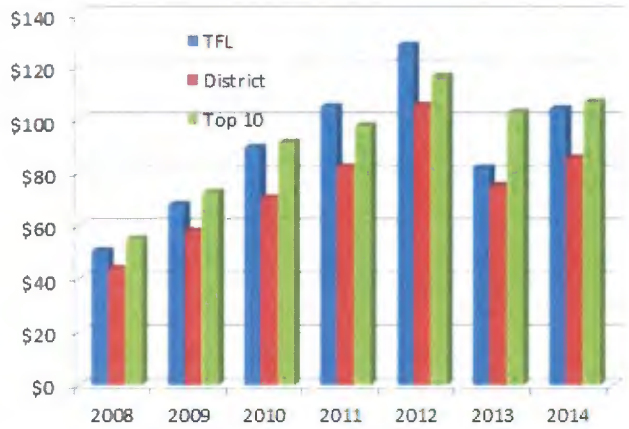
The core farming operating comparatives for the last five years are as follows:

	2011	2012	2013	2014	2015
Land as at 30 June (Ha)					
Developed	6,155	6,155	5,999	5,999	5,928
Undeveloped	3,684	3,654	3,654	3,654	3,654
Forestry	1,423	1,453	1,609	1,609	1,680
Total Land (Ha)	11,262	11,262	11,262	11,262	11,262
Stock as at 30 June					
Sheep (actual numbers)	31,565	32,451	30,092	32,045	32,081
Cattle (actual numbers)	5,949	5,842	4,915	5,312	5,091
Effective Stock Units	61,241	62,606	54,574	58,791	57,269
Lambing					
Lambing Percentage	136	141	139	134	134
Average Carcass Weight (kg)	17.60	18.35	17.97	18.24	18.06
Wool Production (kg)	160,260	179,307	195,496	147,247	175,023
Calving					
Calving Percentage ex Cows	86	85	83	86	91
Calving Percentage ex R2yr Heifers	-	-	-	-	83

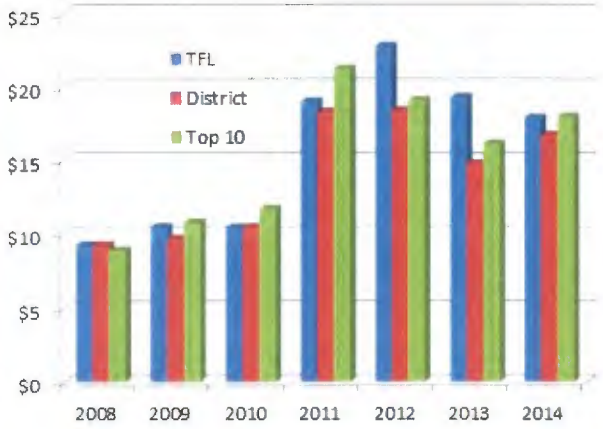
Benchmarking

The company is benchmarked annually against other farming properties in this district to provide a comparison for management and stakeholders. Details of the previous seven years benchmarks to 2014 are shown below. It is not possible to provide the comparison for the 2015 year until December 2015 when the data is available for the Gisborne District.

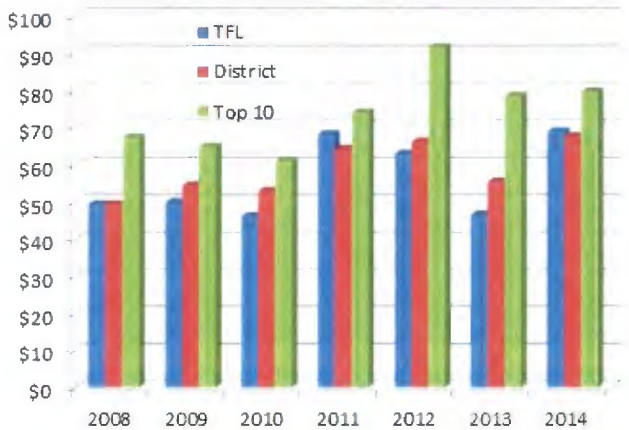
Gross Sheep Income per Stock Unit



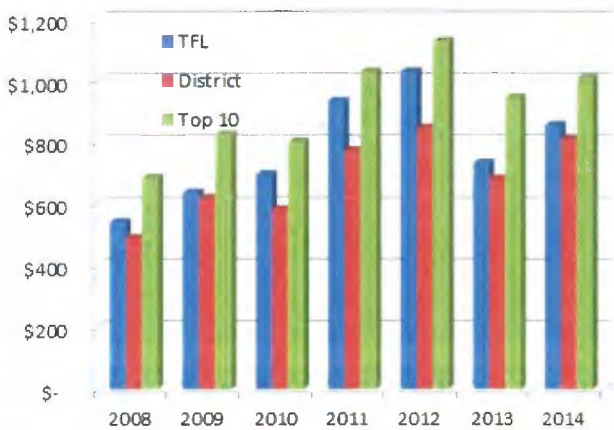
Gross Wool Income per Stock Unit

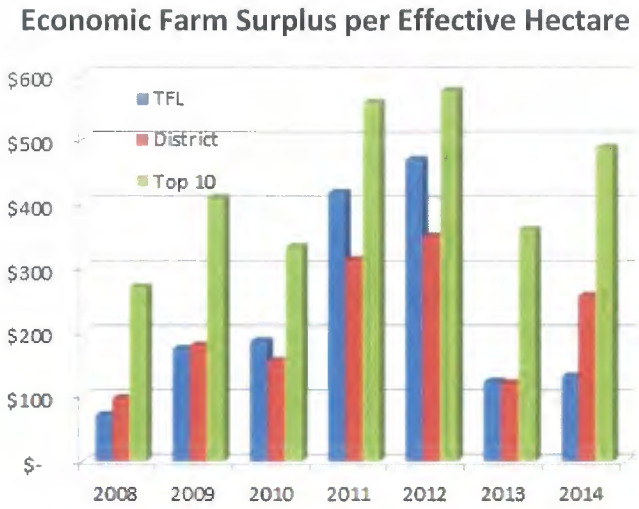


Gross Cattle Income per Stock Unit



Gross Income per Stock Unit





Personnel

We are very pleased with the "Culture" evident on the farms now. The Cookhouse addition is working very well and we can record a very happy and productive team at the Stations.

Fertiliser

We continue to apply prudent amounts of fertiliser as guided by our Ravensdown Consultant, Sue Quilter. This policy is showing good results as evidenced by its contribution to our cattle breeding ratio this year.

The history of fertiliser application follows:

	2011	2012	2013	2014	2015
Total Cost of Fertiliser	$492,271	$757,406	$742,280	$1,536,733	$923,687
Fertiliser per Stock Unit	$6.51	$12.37	$13.60	$26.14	$16.12

Distributions to GDC

Again this year we have accrued a distribution to GDC by way of a Subvention Payment of $1,068,000. This is $268,000 more than expected as per our Statement of Intent for 2015.

Looking Ahead

The Lowden Dam is now installed and working well. It now remains for us to install the reticulation from the dam to the troughs to water our stock. This is vital now in light of the El Nino weather pattern we are starting to experience already.

This is the major capital expense envisaged for 2015/16. Significant deferred maintenance in direct drilling pasture on Tamatea Station will be done this year also.

CHAIRMAN'S REPORT 2015 continued

Forestry

We continue developing our Harvest Plan for the start of the first five years of harvest planned in 2016/17.

We continue to investigate metal sources of the property to assist with forestry roading.

Manuka Honey

We have set aside and fenced off a gully (approximately 100 hectares) to plant as a trial Manuka Honey plantation. This will be planted in 2017.

Conclusion

TFL has been extremely well served by an excellent team of dedicated and skilful employees on the farms lead by Dean Brenssell, our General Manager.

We have a waiting list of people wishing to become employees – a tribute to the culture Dean has developed.

Our good result this year falls squarely at the feet of this very good team.

Finally I would like to thank my fellow Board members for their expertise and unselfish time input over the year. Thank you also to the team at Graham and Dobson for their help and assistance through the year.

R W Proudfoot
Chairman

Building a better working world

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF TAUWHAREPARAE FARMS LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of Tauwhareparae Farms Limited (the company). 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 performance information of the company on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 8 to 48, that comprise the statement of financial position as at 30 June 2015, 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 company on pages 49 to 52.

In our opinion:

- the financial statements of the company:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2015; 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 company presents fairly, in all material respects, the company's achievements measured against the performance targets adopted for the year ended 30 June 2015.

Our audit was completed on 18 September 2015. 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 company'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 company's internal control.

Building a better working world

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 company 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 company.

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 company.

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

AUDIT REPORT

Statement of comprehensive income for the year ended 30 June 2015

	Notes	Actual 2015 $000	Budget Unaudited 2015 $000	Actual 2014 $000
Continuing operations				
- Sheep sales	17	**2,789**	3,100	2,694
- Cattle sales	17	**2,473**	2,117	1,622
- Wool sales		**683**	493	504
- Forestry Income & Grants		**160**	140	181
- Sheep Value Increase		**-**	7	1,391
- Cattle Value Increase		**373**	-	1,092
- Forestry Value Increase	17	**467**	-	658
- Carbon Credits Allocated		**578**	57	-
- Carbon Credit Sales		**-**	-	511
- Carbon Credits Value Increase	19	**44**	-	-
Total revenue		**7,567**	5,914	8,653
Cost of sales				
- Sheep Purchases	17	**90**	59	54
- Cattle Purchases	17	**212**	127	293
- Sheep Value Decrease		**757**	-	-
- Cattle Value Decrease		-	100	-
- Carbon Credits Value Decrease		-	-	282
Total Cost of Sales		**1,059**	286	629
Gross Profit		**6,508**	5,628	8,024
Other income		**150**	60	99
Total Income		**6,658**	5,688	8,123
Expenditure from continuing operations				
- Farming Expenditure		**2,030**	2,112	2,652
- Salaries and Wages		**940**	828	919
- Administrative Expenditure		**502**	441	521
- Depreciation		**382**	368	365
- Fair value losses on financial instruments		**(15)**	(17)	(50)
- Loss on sale of Assets		**9**	-	13
- Financing Expenditure		**93**	119	146
- Subvention Payment – Gisborne District Council		**1,068**	800	1,032
Total Expenditure		**5,009**	4,651	5,598
Net profit/(loss) for the year	5	**1,649**	1,037	2,525
Taxation (expense)/credit	8	**(135)**	(141)	(542)
Net operating profit/(loss) after taxation		**1,514**	896	1,983

The accompanying notes form an integral part of these financial statements

Statement of comprehensive income (continued) for the year ended 30 June 2015

	Notes	Actual 2015 $000	Budget Unaudited 2015 $000	Actual 2014 $000
Other comprehensive income				
Net fair value gain on available-for-sale financial assets	7	-	-	-
Fair revaluation gain on property, plant & equipment	16	**1,774**	-	2,749
Deferred tax on buildings revaluation		**(10)**	-	(401)
Other comprehensive income for the year attributable to owners of the parent		**1,764**	-	2,348
Net profit/(loss) for the year		**1,514**	896	1,983
Total comprehensive income for the year attributable to owners of the parent		**3,278**	896	4,331

The accompanying notes form an integral part of these financial statements

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

	$000 Ordinary Shares	$000 Asset Revaluation Reserve	$000 Capital Reserve	$000 Available For sale Reserve	$000 Retained Earnings	$000 Total
At 1 July 2014	**20,000**	**32,152**	**(12,719)**	**(5)**	**6,239**	**45,667**
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	**20,000**	**33,916**	**(12,719)**	**(5)**	**7,753**	**48,945**

Statement of changes in equity for the year ended 30 June 2014

	$000 Ordinary Shares	$000 Asset Revaluation Reserve	$000 Capital Reserve	$000 Available For sale Reserve	$000 Retained Earnings	$000 Total
At 1 July 2013	20,000	29,804	(12,719)	(5)	4,256	41,336
Net profit/(loss) for the year					1,983	1,983
Other comprehensive income	-	2,348	-	-	-	2,348
Total comprehensive income for the year	-	2,348	-	-	1,983	4,331
Transactions with owners in Their capacity as owners						
Dividends paid	-	-	-	-	-	-
At 30 June 2014	20,000	32,152	(12,719)	(5)	6,239	45,667

Statement of financial position as at 30 June 2015

	Notes	Actual 2015 $000	Budget Unaudited 2015 $000	Actual 2014 $000
Contributed equity	6	**20,000**	20,000	20,000
Retained earnings	7	**7,753**	5,906	6,239
Reserves	7	**21,192**	17,080	19,428
Total equity		**48,945**	42,986	45,667
Represented by:				
Current assets				
Cash and cash equivalents		**359**	-	942
Trade and other receivables	10	**304**	76	103
Inventories	11	**186**	32	124
Taxation		**4**	2	-
Total current assets		**853**	110	1,169
Current liabilities				
Bank (Secured)	12	**630**	963	-
Derivative financial instruments	15	**-**	-	15
Payables and accruals	13	**766**	300	708
Gisborne District Council – Current Account	13	**1,000**	500	732
Gisborne Holdings Ltd – Current Account	13	**251**	251	251
Total current liabilities		**2,647**	2,014	1,706
Net working capital		**(1,794)**	(1,904)	(537)
Non-current assets				
Property plant & equipment	16	**35,862**	31,319	33,904
Biological assets	17	**17,455**	15,526	17,152
Available-for-sale-financial assets	18	**313**	250	249
Intangible assets – NZ Emission Units	19	**697**	116	75
Total non-current assets		**54,327**	47,211	51,380
Non-current financial liabilities				
Financial liabilities – term loans	14	**-**	-	1,733
Deferred tax	8	**3,588**	2,321	3,443
Total non-current liabilities		**3,588**	2,321	5,176
Net assets		**48,945**	42,986	45,667

For and on behalf of the Board, who authorise the issue of these financial statements on 18th September 2015

R W Proudfoot - Director

M P Todd - Director

The accompanying notes form an integral part of these financial statements

Statement of cash flows
for the year ended 30 June 2015

	Notes	Actual 2015 $000	Budget Unaudited 2015 $000	Actual 2014 $000
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		**5,967**	5,911	5,063
Income tax refunds / (payments)		**-**	-	2
Goods and services tax (net)		**168**	(6)	7
		6,135	5,905	5,072
Cash was disbursed to:				
Payments to suppliers & employees		**3,939**	3,562	4,103
		3,939	3,562	4,103
Net cash inflow / (outflow) from operating activities	22	**2,196**	2,343	969
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of fixed assets		**35**	4	57
Proceeds from sale of carbon credits		**-**	-	511
		35	4	568
Cash was applied to:				
Purchase of fixed assets		**236**	136	312
Forest asset expenditure		**220**	342	322
Development expenditure		**357**	500	30
Carbon credits expenditure		**3**	-	97
		816	978	761
Net cash inflow / (outflow) from investing activities		**(781)**	(974)	(193)
Cash flow from financing activities				
Cash was provided from:				
Dividends Received		**-**	-	-
Interest received		**7**	-	27
		7	-	27
Cash was applied to:				
Dividends and Subvention payments	9	**800**	800	900
Interest paid		**102**	120	146
Term Loan Repayment		**1,733**	1,733	-
		2,635	2,653	1,046
Net cash inflow / (outflow) from financing activities		**(2,628)**	(2,653)	(1,019)
Net increase / (decrease) in cash held		**(1,213)**	(1,284)	(243)
Opening cash brought forward		**942**	321	1,185
Ending cash carried forward		**(271)**	(963)	942
Cash at year end:				
Cash and cash equivalents		**359**	(213)	942
Bank wholesale advances		**(630)**	(750)	-
Ending cash carried forward		**(271)**	(963)	942

The accompanying notes form an integral part of these financial statements

Notes to and forming part of the financial statements

1. Corporate Information

Tauwhareparae Farms Limited (the Company) is incorporated and domiciled in New Zealand. The Company is a profit orientated entity. The Company is wholly owned by Gisborne Holdings Limited and is registered under the Companies Act 1993. The ultimate shareholder is the Gisborne District Council.

The Financial Statements for Tauwhareparae Farms Limited are for the year ended 30 June 2015. The Financial Statements were authorised for issue on 18 September 2015.

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

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 Company 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 ETS units have initially been recognised at cost (being estimated fair value at recognition date) and subsequently re-measured at cost less any impairment at each reporting date. This year the accounting policy has been changed so units are now re-measured at their fair value at each reporting date with gains and losses recorded in other comprehensive income. The directors view this as providing reliable and more relevant information as, if excess units were sold at balance date, this is the estimated price at which the sale would be transacted. The impact of this change on the opening balance, current and prior period closing balances is not significant.

EY

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 IFRS 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 2015, 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 and NZ IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to NZ IAS 16 and NZ IAS 38)	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. 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. The IASB also clarified that revenue is generally presumed 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.	1 January 2016	No or minimal effect.	1 July 2016
NZ IFRS 9 (2014)	Financial Instruments	The final version of NZ IFRS 9 *Financial Instruments,* 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 *Financial Instruments: Recognition and Measurement* and all previous versions of NZ IFRS 9. An entity may elect to apply earlier versions of NZ IFRS 9 if, and only if, the entity's relevant date of initial application is before 1 February 2015. Otherwise, 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 IFTS 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 *Financial Instruments: Disclosures.*	1 January 2018	No or minimal effect.	1 July 2018

EY

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 IFRS 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 2015, 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	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. NZ IFRS 15 supersedes: (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 IFRIC 18 Transfers of Assets from Customers (f) NZ SIC-31 Revenue – Barter transactions Involving Advertising Services The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised good 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: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations 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	1 January 2017	No or minimal effect	1 July 2017

EY

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 cash 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 measured 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 Company 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 estimated future cash flows, 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.

EY

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(i) Derivative financial instruments

The Company 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 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 held to maturity, 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 and 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 profit or loss". 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 liabilities held for trading are recognised in the Statement of Comprehensive Income.

EY

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 an 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 greater 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 models, 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 at 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 Standards 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 30 June 2015.

EY

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(k) Property, plant and equipment (continued)

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
Motor vehicles – 5 years

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

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.

EY

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(l) Emissions Trading Scheme
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 Company to receive emission units ("units") for carbon stored in the specified area, from a 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.

(m) 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 indicate that the carrying amount may not be recoverable.

The Company 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.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(n) 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 Company prior to the end of the financial year that are unpaid and arise when the Company 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.

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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 of 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.

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(p) Provisions and employee benefits

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is 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 Company 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 income statement 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.

(q) 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.

(r) 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 a 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 the 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.

EY

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(iii) Dividends
Revenue is recognised when the Company's right to receive the payment is established.

(s) 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 tax 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 differences.

Deferred income tax assets are recognised for all deductible 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.

Notes to and forming part of the financial statements

2. Summary of significant accounting policies (continued)

(s) Income tax and other taxes (continued)

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and 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.

(t) Government grants

The Company 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.*

Notes to and forming part of the financial statements

3. Financial risk management objectives and policies

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

The Company enters into derivative transactions, principally interest rate swap contracts. The purpose is to manage the interest rate risks arising from the Company's operations and its sources of finance. The main risks arising from the Company's financial instruments are interest rate risk, credit risk and liquidity risk. The Company 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 chief financial officer 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 Company's exposure to market interest rates relates primarily to the Company's long-term debt obligations. The level of debt is disclosed in note 14.

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

	Actual	Budget Unaudited	Actual
	2015	2015	2014
	$000	$000	$000
Financial assets			
Cash and cash equivalents	**359**	-	942
	359	-	942
Financial liabilities			
Bank overdrafts	**(630)**	(963)	-
Bank loans	**-**	-	(1,733)
	(630)	(963)	(1,733)
Net exposure	**(271)**	(963)	(791)

Interest rate swap contracts outlined in note 15 with a fair value of $Nil, (2014: $(14,581)), are exposed to fair value movements if interest rates change.

EY

Notes to and forming part of the financial statements

3. Financial risk management objectives and policies (continued)

The Company's policy is to manage its finance costs using a mix of fixed and variable rate debt. The Company'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 Company's attempt to manage its cash flow volatility arising from interest rate changes. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 30 June 2015, after taking into account the effect of interest rate swaps, 0% of the Company's borrowings are at a fixed rate of interest (2014: 100%)

The Company constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions 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.

At 30 June 2015, 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) and other comprehensive income	
	2015	**2014**
	$000	**$000**
+ 1% (100 basis points)	**(6)**	0
- 1% (100 basis points)	**6**	0

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 Company'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 Company was and is expecting to be exposed to in the next twelve months from balance date.

EY

Notes to and forming part of the financial statements

3. Financial risk management objectives and policies (continued)

(ii) Credit risk

Credit risk arises from the financial assets of the Company and comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets, and derivative instruments. The Company'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 Company does not hold any credit derivatives to offset its credit exposure.

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

It is the Company'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 Company has not experienced any bad debts.

(iii) Liquidity risk

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

The Company'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 Company manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. The Company has established comprehensive risk reporting covering its business operations that reflect expectations 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 2015. 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 Company can be required to pay. When the Company is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the company is required to pay.

EY

Notes to and forming part of the financial statements

3. Financial risk management objectives and policies (continued)

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 Company'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 Company's overall liquidity risk. The Company ensures that sufficient liquid assets are available to meet all the required short term cash payments.

	≤ 6 months $000	6-12 months $000	1-5 years $000	Total $000
Year ended 30 June 2015				
Financial Assets				
Cash and cash equivalents	**359**	**-**	**-**	**359**
Trade and other receivables	**304**	**-**	**-**	**304**
	663	**-**	**-**	**663**
Financial liabilities				
Trade and other payables	**(673)**	**-**	**-**	**(673)**
Interest bearing loans and borrowings	**(630)**	**-**	**-**	**(630)**
Gisborne District Council				
- Current Account	**-**	**(1,000)**	**-**	**(1,000)**
Gisborne Holdings Ltd				
- Current Account	**-**	**-**	**(251)**	**(251)**
	(1,303)	**(1,000)**	**(251)**	**(2,554)**
Net Inflow/(Outflow)	**(640)**	**(1,000)**	**(251)**	**(1,891)**
Year ended 30 June 2014				
Financial Assets				
Cash and cash equivalents	942	-	-	942
Trade and other receivables	103	-	-	103
	1,045	-	-	1,045
Financial liabilities				
Trade and other payables	(634)	-	-	(634)
Interest bearing loans and borrowings	-	-	(1,733)	(1,733)
Gisborne District Council				
- Current Account	-	(732)	-	(732)
Gisborne Holdings Ltd				
- Current Account	-	-	(251)	(251)
	(634)	(732)	(1,984)	(3,350)
Net Inflow/(Outflow)	411	(732)	(1,984)	(2,305)

Notes to and forming part of the financial statements

3. Financial risk management objectives and policies (continued)

Fair Value

The Company 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

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

	Year Ended 30 June 2015			Year Ended 30 June 2014		
	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	-	-	-	1	-	1
Unlisted investments	-	**313**	**313**	-	248	248
	-	**313**	**313**	1	248	249
Financial liabilities						
Derivative instruments						
Interest rate swaps	-	-	-	-	(15)	(15)
	-	-	-	-	(15)	(15)

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 Company 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 market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps not traded on a recognised exchange.

Notes to and forming part of the financial statements

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 reasonable 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 assumptions 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 conditions may be 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 Company assesses impairment of all assets at each reporting date by evaluating conditions specific to the Company 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 Company's 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. Judgement if also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

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.

EY

Notes to and forming part of the financial statements

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 manufacturers' 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.

EY

Notes to and forming part of the financial statements

5. Net operating surplus before taxation	Actual 2015 $000	Budget Unaudited 2015 $000	Actual 2014 $000
After crediting:			
Interest Income	**7**	-	22
Dividends income	**41**	-	-
Depreciation recovered			
- Motor vehicles	**9**	-	32
After charging:			
Audit fees and expenses	**38**	42	37
Depreciation			
- Buildings and improvements	**242**	236	236
- Plant and equipment	**34**	26	27
- Motor vehicles	**106**	106	102
Directors' fees	**75**	82	75
Employee benefit expenditure	**940**	828	919
Interest expense:			
- Term loans	**53**	119	146
- Wholesale advance facility	**40**	-	-

6. Contributed equity

Issued and paid up			
Balance at 1 July	**20,000**	20,000	20,000
100 ordinary shares *			
Balance at 30 June	**20,000**	20,000	20,000

* All shares are fully paid and have equal voting rights.

EY

Notes to and forming part of the financial statements

	Actual	Budget Unaudited	Actual
	2015	2015	2014
	$000	$000	$000
7. Retained Earnings & Reserves			
Retained Earnings			
Balance 1 July	**6,239**	5,010	4,256
Net Profit attributable to equity holders	**1,514**	896	1,983
Balance 30 June	**7,753**	5,906	6,239
Asset Revaluation Reserve			
Balance 1 July	**32,152**	29,804	29,804
Revaluation of Land	**1,750**	-	2,385
Revaluation of other land improvements	**(44)**	-	247
Revaluation of Buildings	**68**	-	117
Deferred tax on buildings revaluation	**(10)**	-	(401)
Balance 30 June	**33,916**	29,804	32,152
Capital Reserve			
Balance 1 July	**(12,719)**	(12,719)	(12,719)
Balance 30 June	**(12,719)**	(12,719)	(12,719)
Available-for-sale Revaluation Reserve			
Balance 1 July	**(5)**	(5)	(5)
Revaluation of Investments	**-**	-	-
Balance 30 June	**(5)**	(5)	(5)
Total Closing Balance Revaluation Reserves	**21,192**	17,080	19,428

Nature and Purpose of Reserves

Asset Revaluation Reserve
The asset revaluation reserve is used to record increases and decreases in the fair value of land and buildings to the extent that they offset one another.

Capital Reserve
The capital reserve records the increases and decreases in the fair value of the former subsidiary Tauwhareparae Farms Ltd being amalgamated into the company.

Available-for-sale Revaluation Reserve
The available-for-sale revaluation reserve records movements in the fair value of available-for-sale financial assets.

Notes to and forming part of the financial statements

8. Income Tax	Actual 2015 $000	Budget Unaudited 2015 $000	Actual 2014 $000
(a) Income Tax			
The major components of income tax expense are:			
Income Statement			
Current income tax			
Current income tax charge	-	-	-
Prior Year Adjustment	-	-	-
Deferred income tax			
Relating to origination and reversal of temporary differences	**135**	141	542
Income tax expense/(credit) reported in the income statement	**135**	141	542
(b) Amounts charged or credited directly to other comprehensive income			
Relating to revaluation of buildings	**10**	-	401
Income tax expense reported in other comprehensive income	**10**	-	401
(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	**1,649**	1,037	2,525
Total accounting profit/(loss) before income tax	**1,649**	1,037	2,525
At the Company's statutory income tax rate of 28% - (2014: 28%)	**462**	290	707
Herd livestock adjustment	**(165)**	-	(236)
Imputation credits on dividends received	**(11)**	-	-
Non-deductible income and expenses	**-**	75	71
Group loss offset – Gisborne District Council	**(151)**	(224)	**-**
Aggregate income tax expense/(credit)	**135**	141	542
Aggregate income tax expense/(credit) is attributable to:			
Continuing operations	**135**	141	542
	135	141	542

EY

Notes to and forming part of the financial statements

8. Income Tax (continued)

	Actual	Budget Unaudited	Actual
	2015	2015	2014
	$000	$000	$000
(d) Recognised deferred tax assets and liabilities			
Deferred income tax at 30 June relates to the following:			
(i) Deferred tax liabilities			
Biological Assets	**2,550**	2,131	2,572
Accelerated depreciation: buildings, plant & equipment, motor vehicles	**867**	179	860
Other	**(24)**	(22)	(10)
NZ Emission Units	**195**	33	21
Gross deferred tax liabilities	**3,588**	2,321	3,443
Set-off of deferred tax assets	**-**	-	-
Net deferred tax liabilities	**3,588**	2,321	3,443
(ii) Deferred tax assets			
Tax Losses	**-**	-	-
Gross deferred tax assets	**-**	-	-
Set-off of deferred tax assets against liabilities	**-**	-	-
Net deferred tax assets	**-**	-	-

9. Subvention Payments Paid

Declared and paid during the year			
Subvention Payment 2013	**-**	-	600
Subvention Payment 2014	**732**	800	300
Subvention Payment 2015	**68**	0	-
	800	800	900
Imputation credit balance			
Balance as at 1 July	**25**	14	27
Resident withholding tax paid on interest received	**4**	-	-
Imputation and dividend credits	**-**	-	-
Imputation credits attached to dividends paid	**15**	-	-
Taxation refunds received during the year	**-**	-	(2)
Balance as at 30 June	**44**	14	25

Notes to and forming part of the financial statements

10. Trade and other receivables

	Actual	Budget Unaudited	Actual
	2015	2015	2014
	$000	$000	$000
Trade receivables	**303**	76	102
Accrued interest	**-**	-	-
Prepayments	**1**	-	1
	304	76	103

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. Inventories

	Actual	Budget Unaudited	Actual
	2015	2015	2014
	$000	$000	$000
Farm supplies on hand	**60**	32	41
Wool on hand	**126**	-	83
	186	32	124

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

12. Bank (secured)

A wholesale advance facility with a limit of $3 million is in place with Westpac NZ Ltd. 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 2015 was $630,000 (2014: $Nil).

13. Payables and accruals

	Actual	Budget Unaudited	Actual
	2015	2015	2014
	$000	$000	$000
Trade creditors and accruals	**673**	225	634
Accrued staff entitlements	**93**	75	74
	766	300	708
Related party payables:			
Gisborne Holdings Ltd	**251**	251	251
Gisborne District Council	**1,000**	500	732
	1,251	751	983
	2,017	1,051	1,691

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.

EY

Notes to and forming part of the financial statements

14. Financial liabilities – term loans (secured)

	Actual	Budget Unaudited	Actual
	2015	2015	2014
	$000	$000	$000
Westpac NZ Ltd.	-	-	1,733
	-	-	1,733
Less current portion	-	-	-
Term portion	-	-	1,733

Assets pledged as security
The Company had a $1.73 million wholesale term loan facility with Westpac NZ Ltd. This was repaid on 11th November 2014 in addition to the wholesale advance facility detailed in Note 12. The loan was secured by way of a general security agreement including a mortgage over all the Company's freehold land.

Fair values
The carrying amount of the Company's borrowings approximate their fair value.

Interest rate and liquidity risk
Details regarding interest rate and liquidity risk are disclosed in note 3.

Defaults and Breaches
During the current and prior years, there were no defaults or breaches on any of the loans.

15. Derivative financial instruments

	Actual	Budget Unaudited	Actual
	2015	2015	2014
	$000	$000	$000
Interest rate swap contracts			
Current liability	-	-	15
Non-current liability	-	-	-
	-	-	15

In order to put a cap on interest rates the Company has entered into interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover 0% (2014: 100%) of the principal outstanding.

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

EY

Notes to and forming part of the financial statements

16. Property plant & equipment

	Freehold Land & Improvements	Buildings	Plant & Equipment	Motor Vehicles	Total
	$000	$000	$000	$000	$000
Year ended 30 June 2015					
At 1 July net of accumulated depreciation and impairment	**30,279**	**3,152**	**158**	**315**	**33,904**
Additions at cost	**371**	**43**	**68**	**119**	**601**
Disposals at net book value	-	-	**(1)**	**(34)**	**(35)**
Revaluations	**1,706**	**68**	-	-	**1,774**
Depreciation charged for the year	**(163)**	**(79)**	**(34)**	**(106)**	**(382)**
At 30 June net of accumulated depreciation and impairment	**32,193**	**3,184**	**191**	**294**	**35,862**

Carrying amounts of property plant & 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	Plant & Equipment	Motor Vehicles	Total
	$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	**1,153**	**1,000**	**190**	**294**	**2,637**

EY

Notes to and forming part of the financial statements

16. Property plant & equipment (continued)

	Freehold Land & Improvements $000	Buildings $000	Plant & Equipment $000	Motor Vehicles $000	Total $000
Year ended 30 June 2014					
At 1 July net of accumulated depreciation and impairment	27,713	3,085	117	227	31,142
Additions at cost	93	27	74	222	416
Disposals at net book value	-	-	(6)	(32)	(38)
Revaluations	2,632	117	-	-	2,749
Depreciation charged for the year	(159)	(77)	(27)	(102)	(365)
At 30 June net of accumulated depreciation and impairment	30,279	3,152	158	315	33,904

Carrying amounts of property plant & equipment were 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 $000	Buildings $000	Plant & Equipment $000	Motor Vehicles $000	Total $000
Cost or fair value	2,166	1,719	439	562	4,886
Accumulated depreciation And impairment	1,221	683	281	247	2,432
Net Carrying Amount	945	1,036	158	315	2,454

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 as at 30 June 2015 was $35,260,000 (2014:$33,325,000). Further land and building assets with a book value of $117,000 (2014: $106,000) 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 company.

EY

Notes to and forming part of the financial statements

17. Biological Assets (Consumable)

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

The company farms livestock for the sale of sheep, lambs, cattle and calves.

(A) Reconciliation of opening balance to closing balance

For the year ended 30 June 2015

	Sheep		Cattle		Forestry		Total
	Quantity	**$000**	**Quantity**	**$000**	**Hectares**	**$000**	**$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**	**773**
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**

For the year ended 30 June 2014

	Sheep		Cattle		Forestry		Total
	Quantity	**$000**	**Quantity**	**$000**	**Hectares**	**$000**	**$000**
Opening Balance as at 1 July	30,092	3,083	4,915	3,689	1,609.3	6,992	13,764
Natural Increase	29,837	3,273	2,235	1,520	-	-	4,793
Purchases	63	54	54	293	177.2	247	594
Change in Fair Value	-	1,081	-	1,044	-	658	2,783
Sales	(25,411)	(2,694)	(1,748)	(1,622)	-	-	(4,316)
Deaths, Killed & Recoveries	(2,536)	(323)	(144)	(143)	(178.0)	-	(466)
Closing Balance as at 30 June	32,045	4,474	5,312	4,781	1,608.5	7,897	17,152

EY

Notes to and forming part of the financial statements

17. Biological Assets (Consumable) (continued)

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

Consumable Biological Assets

Livestock

SHEEP

	2015		2014	
	Quantity	**$000**	Quantity	$000
Mature sheep				
Mixed age ewes	**17,759**	**2,140**	17,810	2,513
Two tooth ewes	**5,817**	**745**	6,521	1,016
Breeding rams	**242**	**60**	228	57
Immature sheep				
Ewe hoggets	**6,530**	**640**	7,196	849
Ram & wether hoggets	**1,733**	**131**	290	39
Total sheep	**32,081**	**3,716**	32,045	4,474

CATTLE

	2015		2014	
	Quantity	**$000**	Quantity	$000
Mature cattle				
Mixed age cows	**1,591**	**1,905**	1,507	1,650
Rising three year heifers	**600**	**775**	485	552
Rising two year heifers	**620**	**597**	898	793
Rising two year steers & bulls	**44**	**41**	161	151
Breeding bulls	**99**	**355**	101	315
Immature cattle				
R1 Heifers	**1,065**	**677**	1,097	617
R1 Steers & Bulls	**1,072**	**805**	1,063	703
Total cattle	**5,091**	**5,155**	5,312	4,781

FORESTRY

	2015		2014	
Forest tree crop	**Hectares**	**$000**	Hectares	$000
Total Forestry	**1,679.5**	**8,584**	1,608.5	7,897
TOTAL BIOLOGICAL ASSETS AS AT 30 JUNE		**17,455**		17,152

EY

Notes to and forming part of the financial statements

17. Biological Assets (Consumable) (continued)

The fair value of livestock is determined by independent valuation as at 30 June 2015. The independent livestock valuation was performed by Gisborne East Coast Farmers Ltd, independent livestock agents, in accordance with the Company'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 company has access to, the most relevant market has been used.

The gain on initial recognition of livestock sold is recognised in the income statement 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. The independent forestry valuation as at 30 June 2015 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 costs 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:

	2015	2014
Appropriate Discount Rate (Pre tax)	**7%**	7%
Rate of inflation	**2%**	2%
Rate of tax	**28%**	28%

During the year $220,278 (2014: $246,963) of forestry development expenditure was capitalised to the forest asset.

EY

Notes to and forming part of the financial statements

17. Biological Assets (Consumable) (continued)
(C) Cost of sales and Gross Profit – Biological Assets

	Quantity	Average Price $	2015 $000	Quantity	Average Price $	2014 $000
Livestock						
Sheep						
Sales	**27,581**	**101**	**2,789**	25,411	106	2,694
Less cost of sales						
Opening stock	**32,045**	**140**	**4,474**	30,092	102	3,083
Add Purchases	**94**	**955**	**90**	63	852	54
Less closing stock	**32,081**	**116**	**3,716**	32,045	140	4,474
Total cost of sales			**848**			(1,337)
Gross profit from Sheep			**1,941**			4,031

	Quantity	Average Price $	2015 $000	Quantity	Average Price $	2014 $000
Cattle						
Sales	**2,279**	**1,085**	**2,473**	1,748	928	1,622
Less cost of sales						
Opening stock	**5,312**	**900**	**4,781**	4,915	750	3,689
Add Purchases	**40**	**5,308**	**212**	54	5,433	293
Less Closing stock	**5,091**	**1,013**	**5,155**	5,312	900	4,781
Total cost of sales			**(161)**			(799)
Gross profit from cattle			**2,634**			2,421

	2015 $000	2014 $000
Forestry		
Opening Valuation	7,897	6,992
Forestry Development Expenditure	**220**	247
Less Closing Valuation	**8,584**	7,897
Gross profit/(loss) from forestry	**467**	658

Notes to and forming part of the financial statements

18. Available-for-sale-Financial Assets

	Actual	Budget Unaudited	Actual
	2015	2015	2014
	$000	$000	$000
At fair value			
Shares – New Zealand unlisted	**313**	249	**248**
Shares – New Zealand listed	**-**	1	**1**
	313	250	**249**

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

(a) Listed Shares

The 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 Company has listed shares with a current market value of $Nil (2014: $197). If the market value of the shares increased/decreased by 10% the fair value would increase/decrease by $Nil (2014: $20).

There are no individually material investments.

(b) Unlisted shares

Valuation 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 other comprehensive income are reasonable and the most appropriate at the Statement of Financial Position date.

EY

Notes to and forming part of the financial statements

19. Intangible Assets

Intangible assets consist of NZ Emissions Units

Reconciliation of opening balance to closing balance
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	-	-
Impairment reversed	-	-
Surrendered	-	-
Sales	-	-
Valuation Increase	-	**44**
Closing Balance as at 30 June	**110,704**	**697**

For the year ended 30 June 2014

	NZ Emission Units Post 1989	
	Quantity	$000
Opening Balance as at 1 July	142,754	260
Received by government grant at fair value	-	-
Purchased	182,329	96
Impairment reversed	-	292
Surrendered	(182,329)	(62)
Sales	(123,849)	(511)
Closing Balance as at 30 June	18,905	75

20. Capital commitments

There are no material capital commitments at balance date (2014: $50,465).

21. Contingencies

The Company has a contingent liability in respect of both its pre-1990 and post-1989 forests which are part of the New Zealand Emissions Trading Scheme. Should the Company deforest all of its pre-1990 forests, it would have a liability under the ETS to surrender New Zealand emissions units of approximately $0.993 million determined at 30 June 2015 (2014: $0.623m). Should the Company 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 $0.697 million determined at 30 June 2015 (2014: $0.075m). 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.

EY

Notes to and forming part of the financial statements

22. Cash flow statement reconciliation

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

	Actual	Budget Unaudited	Actual
	2015	2015	2014
	$000	$000	$000
Net operating surplus/(deficit) after taxation	**1,514**	896	1,983
Add back non-cash items:			
Depreciation (net)	**373**	368	333
Forestry value revaluation	**(467)**	-	(658)
Livestock revaluation	**384**	92	(2,483)
Loss / (gain) on disposal of assets	**9**	-	13
Movement in derivative financial instruments taken to the Income Statement	**(15)**	(17)	(50)
Increase/(decrease) in deferred tax liability excluding transfers to reserves	**135**	141	542
Other fixed and investment assets changes/(credits)	**(52)**	-	-
Carbon Credits allocated	**(578)**	(57)	-
Carbon Credits revaluation/impairment	**(44)**	-	(230)
Subvention Payment – Gisborne District Council	**1,068**	800	1,032
	813	1,327	(1,501)
Add back items classified as financing activity:			
Interest & dividends received	**(7)**	-	(27)
Interest paid	**102**	120	146
	95	120	119
Decrease/(increase) in working capital:			
Accounts receivable and prepayments excluding capital disposal accruals	**(201)**	-	122
Inventories	**(62)**	-	(92)
Accounts payable and accruals excluding capital expenditure accruals	**41**	-	336
Taxation payable/receivable	**(4)**	-	2
	(226)	-	368
Net cash inflow from operating activities	**2,196**	2,343	969

Notes to and forming part of the financial statements

23. Transactions with related parties

During the year the Company paid rates for land, paid for dog registrations, vehicle registration and RUC, and consultancy fees to the Gisborne District Council, who is the ultimate sole shareholder of the Company. The amounts charged by the Gisborne District Council were based on normal terms and conditions of trade. The total sum paid in relation to these expenses for the year was $155,027 (including GST) (2014: $134,073). There was an outstanding balance at 30 June 2015 of $3,402 (2014:$10,979).

	Sales to related parties		**Purchases from related parties**		**Other transactions with related parties**	
Related Party	**2015**	2014	**2015**	2014	**2015**	2014
Consolidated	**$000**	$000	**$000**	$000	**$000**	$000
Shareholder:						
Gisborne District Council						
- Rates, vehicle registrations dog registration and consultancy fee paid	-	-	**155**	134	-	-
- Subvention Payment	-	-	-	-	**800**	900
Director:						
Peter Reeves						
- Bull purchases	-	-	**24**	46	-	-
- Supervision fees and expenses	-	-	**4**	24	-	-
- Stock Food	-	-	**11**	14	-	-

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.

	2015	2014
	$000	$000
Compensation of key management personnel		
Short-term employee benefits	**75**	98
Post-employment benefits	**-**	-
Other long term benefits	**-**	-
Termination benefits(a)	**-**	-
Share-based payments	**-**	-
Employees paid over $100,000 per year.		
$130,000 - $140,000	**1**	-
$140,000 - $150,000	**-**	1

24. Subsequent events

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

25. Government Grants

The Company receives Government grants in the form of forestry 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 2015 was $160,547 (2014: $180,026).

EY

Notes to and forming part of the financial statements

26. Risk identification and management

The Company 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.

27. 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.

EY

Notes to and forming part of the financial statements

28. Performance Targets of Tauwhareparae Farms Limited for the Year Commencing 1 July 2014

The following performance targets have been set for the 2014/15 financial year.

Objective	Performance Target	Performance Result
1. To ensure that the financial targets and strategic direction of TFL are in line with the requirements of GDC.	▸ A draft SOI for TFL will be submitted for approval to GHL by 28 February each year. This will then 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
	▸ TFL's accounting return on shareholder's funds (defined as EBIT plus subvention payment divided by average shareholder funds employed) of at least 2%.	Achieved 5.9%
	▸ Consolidated ratio of net external debt to net external debt plus equity of no more than 10%.	Not Achieved 10.3%
	▸ 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 3.4%
	▸ Audited annual accounts will be provided to Council by the 20 September each year. (To allow consolidation into the Councils accounts in a timely manner.)	Not Achieved Provided on 1 October 2014
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 be made to Councillors.	Achieved
	▸ Major matters of urgency are reported to the Finance and Monitoring Committee at the earliest opportunity.	No matters arose
3. To ensure that TFL 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 TFL directorate annually.	Achieved
	▸ The Company will review the training needs of individual TFL Directors, and ensure training is provided where required.	Achieved

EY

Notes to and forming part of the financial statements

28. Performance Targets of Tauwhareparae Farms Limited for the Year Commencing 1 July 2014 (continued)

4. TFL's process for the selection and appointment of directors to the boards of subsidiaries is rigorous and impartial.	▸ The process followed for each appointment to a subsidiary board is transparent and fully documented.	Achieved
	▸ That directors of subsidiary companies are selected for their commercial expertise and business aptitude relative to the subsidiaries objectives, subject to the approval of the GDC and in accordance with the Council's appointment policy.	Achieved
5. To ensure that TFL returns a dividend to GHL in accordance with the Distribution Policy and with regard to GDC's budgets, and meets other financial targets.	▸ TFL pays an interim and final distribution for the 2014/15 financial year in accordance with the distribution policy.	Achieved
6. To ensure that the final company SOI is appropriate, measurable, attainable and timely.	▸ Comment on the draft SOI within the statutory timeframe of 30 April each year.	Achieved
7. To ensure that the final company SOI is a commercially focused document, while also being compatible with the strategic aims of GDC.	▸ TFL to produce a commercially focused draft SOI.	Achieved
	▸ GHL will assess the alignment of the SOI with any specifically notified GDC strategic directive.	Achieved
8. To ensure that TFL's reporting is relevant and timely.	▸ TFL's SOI to incorporate specific reporting requirements in accordance with legislation and accepted practice.	Achieved
9. To ensure that there are adequate processes for the identification, assessment and management of the risk exposures of TFL.	▸ TFL's SOI to incorporate specific statements regarding the processes for the management of risk exposures.	Achieved

Notes to and forming part of the financial statements

28. Performance Targets of Tauwhareparae Farms Limited for the Year Commencing 1 July 2014 (continued)

10. Performance Targets

Farming Operations
The Company intends to measure its operational performance in undertaking its farming operations by comparing itself to the district averages by reference to the following farm-related parameters with the aim of achieving results comparable to that achieved by the top 20% of the district's farms during the period under review.

Category	Measurement Base	Target	Result
Effective Hectares		6,000	5,928
Opening Stock Units		60,000	58,814
Closing Stock Units		60,000	57,269
Fertiliser			
Phosphate	Kg/stock unit	1.6kg	3.4kg
Sulphur	Kg/stock unit	1.6kg	3.2kg
Sheep			
Ewe Lambing	%	150%	134%
Deaths	%	Less than 4%	4.1%
Sheep Income	$/ssu	$80	$64
Wool			
Wool Income	$/ssu	$17	$22
Wool Weight	kg/ssu	5kg	5.7kg
Cattle			
Calving Cows	%	87%	91%
Deaths	%	Less than 1.5%	2.0%
Cattle Income	$/csu	$60	$93
Total Farm Expenditure			
Total Farm Expenditure	Per effective hectare	$500	$501
Economic Farm Surplus			
Economic Farm Surplus (EBIT)	Per effective hectare	$250	$471
Number of Lost Time Injury Accidents		0	1
Number of successful personal grievances taken against the company		0	0
Permanent Staff Turnover		Less than 20%	17%

Economic Farm Surplus (EBIT, Earnings before interest and tax) is the return inclusive of all operating and administration expenditure, governance and corporate overheads, and depreciation. It does not include significant capital items, interest and taxation.

Notes to and forming part of the financial statements

28. Performance Targets of Tauwhareparae Farms Limited for the Year Commencing 1 July 2014 (continued)

Financial Ratios:		2015	2014
Current Ratio:	Current Assets (including livestock)/ Current Liabilities	3.7	6.1
Return on equity:	Net Income after Tax plus Property Revaluations and Subvention Payments/ Shareholders Funds	9.2%	12.3%
Return on Assets:	Net Income after Tax plus Property Revaluations and Subvention payments/ Total Assets	7.9%	10.2%
Gearing:	Total Debt/Shareholders Equity	12.7%	15.1%

Statutory information

Directors holding office during the year

Robert Walter Proudfoot	(Chairman)
Christopher Mark Egan	Retired 30/10/2014
Peter Stanley Reeves	
Robert James Telfer	Appointed 30/10/2014
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 interests 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 actions.

Directors' remuneration (Section 161(2) of the Companies Act 1993)
Directors' remuneration in respect of the year ended 30 June 2015 was as follows:

R W Proudfoot	$30,000
C M Egan	$4,983
P S Reeves	$15,000
R J Telfer	$10,048
M P Todd	$15,000

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

To R W Proudfoot
- Vehicle and Expense Reimbursement $2,251

To R J Telfer
- Vehicle Reimbursement $262

To M P Todd
- Expense Reimbursement $1,077

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.

Directory

Directors

Robert Walter Proudfoot	(Chairman)
Christopher Mark Egan	Retired 30/10/2014
Peter Stanley Reeves	
Robert James Telfer	Appointed 30/10/2014
Matthew Peter Todd	

Registered office

393 Gladstone Road
GISBORNE

Postal address

PO Box 1325
GISBORNE

Telephone 0-6-869 1234
Facsimile 0-6-867 8357

Senior management

General Manager – Dean Brenssell
Chief Financial Officer – Richard Stannard - Graham & Dobson Limited

Auditor

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

Bankers

Westpac NZ Limited
Gisborne Branch
PO Box 942
GISBORNE

Solicitors

Nolans
PO Box 1141
GISBORNE