

**Gisborne Holdings Limited and its  
Council Controlled Organisation (CCO)  
Subsidiaries**

Tauwhareparae Holdings Ltd  
Tauwhareparae Forests Ltd

Statement of Intent for the Three Years  
Commencing 1 July 2010

## Table of Contents

|     |  |    |
|-----|--|----|
| 1.  | INTRODUCTION .....   | 1  |
| 2.  | COMPANY MISSION .....  | 1  |
| 3.  | THE OBJECTIVES OF THE COMPANY .....  | 1  |
| 4.  | NATURE AND SCOPE OF ACTIVITIES.....  | 2  |
| 5.  | CORPORATE GOVERNANCE.....  | 4  |
| 6.  | PERFORMANCE TARGETS OF GISBORNE HOLDINGS LIMITED FOR THE THREE YEARS COMMENCING 1 JULY 2010..... | 4  |
| 7.  | SHAREHOLDERS FUNDS TO TOTAL ASSETS.....  | 6  |
| 8.  | DISTRIBUTIONS TO SHAREHOLDERS .....  | 7  |
| 9.  | CAPITAL EXPENDITURE .....  | 8  |
| 10. | MAJOR TRANSACTIONS AND ACQUISITION OR DISPOSAL OF OTHER INTERESTS.....                           | 8  |
| 11. | REPORTING TO SHAREHOLDERS.....   | 8  |
| 12. | ACCOUNTING POLICIES .....  | 9  |
|     | SCHEDULE 1 .....   | 10 |

---

## 1. Introduction

This Statement of Intent ("SOI") is prepared in accordance with Section 64 and Schedule 8 of the Local Government Act 2002.

The SOI specifies for Gisborne Holdings Limited ("GHL") and its subsidiaries the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the group may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable SOI is a public and legally required expression of the accountability relationship between the company and its sole shareholder, the Gisborne District Council ("GDC"). The SOI is reviewed annually with the GDC and covers a three year period commencing 1 July 2010.

This SOI does not cover Gisborne Holdings Ltd's subsidiary Tauwhareparae Farms Ltd. Historically Tauwhareparae Farms Ltd (then named Port Gisborne Ltd) owned the Gisborne port. The port was subsequently sold. As such it was and still remains a port company. As a port company it is deemed not to be a Council-Controlled Organisation (CCO). Under the Port Companies Act 1988 it is covered by its own Statement of Corporate Intent which is similar in nature to this SOI. In consultation with GDC, the Directors of GHL will be amalgamating Tauwhareparae Farms Ltd with Tauwhareparae Holdings Ltd on 30 June 2010 to remove the port company status of TFL.

## 2. Company Mission

To provide a superior return and growth from subsidiary companies.

"To establish and efficiently direct an outstanding group of Council-controlled business activities which are aligned with Council's strategic direction"

"By bringing the best available expertise to bear upon management of its assets, GHL will contribute to the Gisborne District Council (GDC) by owning and managing selected regional assets and investments in accordance with sound business practice and sustainable development principles. It will provide funds to the GDC while protecting those assets under its stewardship."

Investing in, and promoting the establishment of, key infrastructure assets in a commercially viable manner to assist the development of Gisborne as a world-class destination.

## 3. The Objectives of the Company

As required by section 59 of the Local Government Act 2002, the principal objective of GHL is to:

- } achieve the objectives of its shareholders, both commercial and non-commercial, as specified in this statement of intent; and
- } be good employer in accordance with S:36(2) of Schedule 7 of the Local Government Act 2002; and
- } exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage

these when able to do so; and conduct its affairs in accordance with sound business practice.

GHL contributes to achieving the following Community Outcomes in Gisborne District Council's Long Term Council Community Plan:

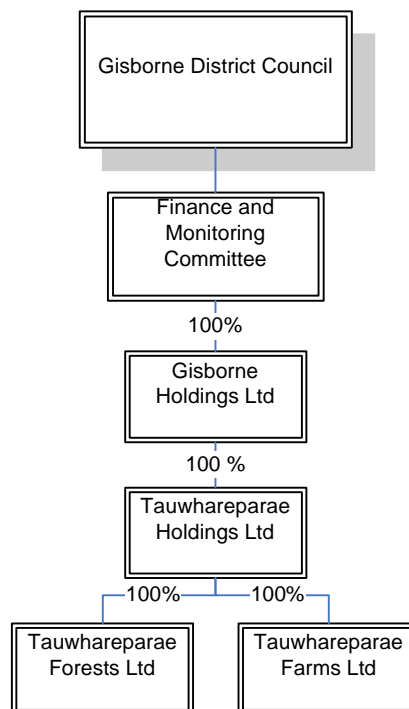
Environmentally Sustainable Tairāwhiti – We value our environment ensuring it is protected and enhanced for future generations.

Prosperous Tairāwhiti – We support and develop our economy to grow and attract positive tourism and investment, while maximizing the benefits for our people and managing the impact on our environment.

#### 4. Nature and Scope of Activities

Gisborne Holdings Ltd is a wholly-owned council-controlled organisation ("CCO") of GDC, which was formed in June 1994.

The current group structure is as follows:



The group consists of:

Gisborne Holdings Ltd – Parent company

} Tauwhareparae Holdings Ltd – Holding company.

} Tauwhareparae Forests Ltd – No business conducted since incorporation in 1997.

} Tauwhareparae Farms Ltd – farm and forestry operations at Tolaga Bay. (As a port company under the Port Companies act excluded from this SOI.)

On 30 June 2010 it is proposed to amalgamate Tauwhareparae Farms Ltd and Tauwhareparae Holdings Ltd. The surviving entity will be renamed Tauwhareparae Farms Ltd. This will no longer be a port company and the Port Companies act will cease to apply.

#### Shareholding Role

GHL on behalf of GDC has:

- } A shareholding investment in Tauwhareparae Holdings Ltd ("THL") of \$20,000,000 representing 100% of THL's share capital.

THL on behalf of GHL has:

- } A shareholding investment in Tauwhareparae Farms Ltd ("TFL") of \$20,000,000 representing 100% of TFL's share capital.

Activities that are to be undertaken by GHL are:

- } Negotiation of the individual annual SOIs for the CCOs that it owns (the subsidiary companies) and the recommendation of those SOI's to Council for approval.
- } Negotiation of the annual SOI between GDC as shareholder and GHL.
- } Monitoring the performance of the subsidiary companies that GHL owns.
- } Advice to GDC regarding potential CCO establishment opportunities.
- } Appointment and monitoring of the directors of the subsidiary companies. The appointment of directors to the boards of subsidiary companies is only to occur after prior consultation and agreement with the Council.

The undertaking of any activity not provided for under this SOI requires the prior approval of GDC, specifically:

- } No subsidiary companies are to be formed by GHL without the prior approval of GDC.
- } No shares are to be acquired by GHL without the prior approval of GDC.
- } No shares held by GHL are to be sold or otherwise disposed of without the prior approval of GDC.

The board will also seek approval for any material departures from the adopted SOI and any material variation from budgeted financial return.

Over time, Council may form other CCOs from undertakings currently within the Council structure. GHL is an obvious vehicle for holding the shares in these enterprises, however it remains GDC's intention that the directors approach to the holding of other shares will be determined on a case-by-case basis.

Specific objectives of GHL are:

- } To monitor the performance of each subsidiary company.
- } To ensure that each subsidiary company operates economically and efficiently, and in accordance with an agreed SOI, and to optimise the returns from, and the value of, the subsidiary companies within the parameters set by Council.
- } To ensure, insofar as it is lawfully able and commercially practicable, that the SOI of each of the subsidiary companies reflect the policies and objectives of Council.
- } To keep GDC informed of matters of substance affecting GHL and the subsidiary companies and, insofar as it is practical and reasonable in the opinion of the directors, provide the opportunity for comment on such matters prior to taking any action.

- } } To ensure that there is regular and informative reporting of the financial and non-financial performance and risk exposures of GHL and the subsidiary companies.
- } To report to GDC on CCO establishment opportunities, and other investment opportunities that have the potential to enhance the economic well-being of the region, and provide an adequate return.
- } To maintain and improve good governance by regularly and constructively appraising the performance of the subsidiary company directorates and maintaining an appropriate monitoring framework.

## 5. Corporate Governance

GHL's directors are appointed by the shareholders to govern and direct GHL's activities. This responsibility includes such areas of stewardship as:

- } Commercial performance
- } Business plans and budgets
- } Corporate policies
- } Financial; and dividend policies
- } Management oversight and development
- } Delegations or authority
- } Identification and management of business risks
- } Identification and management of business opportunities
- } Internal control systems
- } Integrity of management information systems
- } Relationships with stakeholders and external parties
- } Compliance with relevant law
- } Reports to shareholders

## 6. Performance Targets of Gisborne Holdings Limited for the Three Years Commencing 1 July 2010

The following performance targets have been set for the 2010/11 financial year, and the two years following:

| Objective  | Performance Target  |
|--|---|
| 1. To ensure that the financial targets and strategic direction of GHL are in line with the requirements of GDC. | <ul style="list-style-type: none"> <li>} A draft SOI for GHL will be submitted for approval to GDC by 1 March each year.</li> <li>} A completed SOI will be submitted to GDC by 30 June each year.</li> <li>} The groups accounting return on shareholders funds (defined as EBIT divided by average shareholder funds employed) of at least 2%.</li> </ul> |

| Objective   | Performance Target  |
|---|---|
|   | <ul style="list-style-type: none"> <li data-bbox="823 315 1449 483">} Consolidated ratio of net debt to net debt plus equity of no more than:<br/>2011 11.9%          2012 11.6%<br/>2013 11.0%</li> <li data-bbox="823 506 1449 651">} A minimum five year rolling average Council return on investment in the range of 1-3%. Return being defined as dividends paid to council over net assets.</li> <li data-bbox="823 674 1449 819">} 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.)</li> </ul> |
| <p>2. To ensure that GDC is kept informed of all significant matters relating to its subsidiaries.</p>  | <ul style="list-style-type: none"> <li data-bbox="823 853 1449 999">} 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 Councilors.</li> <li data-bbox="823 1021 1449 1133">} Major matters of urgency are reported to the Finance and Monitoring Committee at the earliest opportunity.</li> </ul>   |
| <p>3. To ensure that GHIL directors add value to the company and that their conduct is according to generally accepted standards.</p>   | <ul style="list-style-type: none"> <li data-bbox="823 1155 1449 1267">} The Chair will conduct a formal evaluation of the GHIL directorate within the 2011 calendar year.</li> <li data-bbox="823 1335 1449 1435">} The Company will review the training needs of individual GHIL directors, and ensure training is provided where required.</li> </ul>   |
| <p>4. GHIL's process for the selection and appointment of directors to the boards of subsidiaries is rigorous, impartial and in accordance with the GDC approved processes.</p> | <ul style="list-style-type: none"> <li data-bbox="823 1458 1449 1570">} The process followed for each appointment to a subsidiary board is transparent and fully documented.</li> <li data-bbox="823 1592 1449 1805">} 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</li> </ul>  |

| Objective   | Performance Target  |
|---|---|
| 5. To ensure that GHL returns a dividend to GDC in accordance with the Dividend Policy and with regards GDC's budgets, and meets other financial targets.         | } GHL pays an interim and final dividend for the 2010/11 financial year in accordance with the dividend policy.   |
| 6. To ensure that the subsidiary companies return a minimum acceptable dividend as per the SOI of the subsidiary companies.                                       | } GHL meets its budgeted level of dividend income.  |
| 7. To ensure that GHL's procedures for the recommendation of directors for appointment to subsidiary directorates are open and in accordance with written policy. | } That the adopted Directors Policy be followed for any director appointments made.   |
| 8. To ensure that the draft subsidiary company SOI's are received on a timely basis for review and comment.   | } Draft SOI's are to be received by 14 February from the subsidiary companies.  |
| 9. To ensure that the final subsidiary company SOI's are appropriate, measurable, attainable and timely.  | } Comment on the draft SOI's within the statutory timeframe of 30 April each year.  |
| 10. To ensure that the final subsidiary company SOI's are commercially focused documents, while also being compatible with the strategic aims of GDC.             | } GHL will direct the subsidiary companies to produce commercially focused draft SOI's.<br><br>} GHL will assess the alignment of the SOI's with any specifically notified GDC strategic directive. |
| 11. To ensure that the subsidiary company reporting is relevant and timely.   | } Subsidiary company SOI's to incorporate specific reporting requirements in accordance with legislation and accepted practice.   |
| 12. To ensure that there are adequate processes for the identification, assessment and management of the risk exposures of the subsidiary companies.              | } Subsidiary company SOI's to incorporate specific statements regarding the processes for the management of risk exposures.   |

## 7. Shareholders Funds to Total Assets

### a. Ratio of Shareholders' funds to total assets

Shareholders' funds are defined as the sum of the amount of share capital on issue, retained earnings/accumulated losses, revenue and capital reserves. Total assets are defined as the sum of the net book value of current assets, investments, fixed assets, and

intangible assets as disclosed in the company's Statement of Financial Position, prepared in accordance with the accounting policies adopted by the Directors.

The target ratio of shareholders' funds to total assets shall not be less than 87% for the period covered by this SOI. The appropriateness of this target ratio will be reviewed annually by the Directors.

b. Estimate of the commercial value of the company

The Directorate estimates the commercial value of the shareholders investment in each company in the group to be no less than the shareholders funds.

The value ascribed to shareholders' funds will be that stated in the annual Statement of Financial Position of the company as at the end of the financial year preceding each SOI.

c. Transactions between related parties and compensation from GDC

Transactions between GDC, GHL and the subsidiary companies will be conducted on a wholly commercial basis. Compensation for any services provided by GHL to GDC will be conducted on a wholly commercial basis.

## 8. Distributions to Shareholders

Profit retention and dividend policy will be determined from year to year by the Directors in accordance with operational results, financial prospects, and the circumstances prevailing, with the objectives of ensuring that:

} The amount of the dividend does not limit GHL's ability to fund future capital expenditure requirements to both maintain and expand current operations and address issues relating to the company's debt structure; and with the provisos that:

- The Directors are satisfied that the requirements of section 4 of the Companies Act (the "solvency test") have been satisfied.
- Where imputation credits are available, the dividends will be fully imputed for tax purposes to the extent that imputation credits are available.

} (In relation to the subsidiary farming operations) an interim dividend of \$500,000 will be payable in February each year; and a final dividend of 70% of the net distributable income, after deduction of the interim dividend that will be payable during October each year.

- The group net distributable income is defined as: Net operating profit after taxation per the audited financial statements -

LESS

- Net after tax increase in the valuation of any forestry biological asset.
- Net after tax increase in the valuation of any livestock biological asset.
- Net after tax income from any carbon credits

PLUS

- 30% of the net after tax cash income received from the sale of any carbon credits

} To assist the Shareholder with budgeting, the following ordinary dividends are forecast:

| Financial Year   | 2010/11   | 2011/12   | 2012/13   |
|------------------|-----------|-----------|-----------|
| Interim Dividend | \$500,000 | \$500,000 | \$500,000 |
| Final Dividend   | \$0       | \$0       | \$0       |
| Total Dividend   | \$500,000 | \$500,000 | \$500,000 |

## 9. Capital Expenditure

The parent company does not foresee a need for capital expenditure at this time.

## 10. Major Transactions and Acquisition or Disposal of Other Interests

The Directors will obtain prior approval, by Gisborne District Council resolution, for any major transaction involving the acquisition or disposal of fixed assets or investments, the value of which exceeds 10% of the total value of the company's assets as determined by reference to the most recent financial statements prepared in terms of this SOI.

No shares in any other company or organization will be purchased or disposed of without the Gisborne District Councils prior written consent. No activity will be undertaken by the company in direct competition with existing ratepayer businesses without the approval of the Gisborne District Council.

## 11. Reporting to Shareholders

GHL will provide information that meets the requirements of the Companies Act 1993, the Local Government Act 2002, and the reporting requirements prescribed from time to time by the New Zealand Institute of Chartered Accountants, in order to enable the shareholders to make an informed assessment of the company's performance. The following information will be made available:

- a) An annual SOI in accordance with Section 64, Section 66 and Schedule 8 of the Local Government Act 2002 and any other information that the Directors deem appropriate.
- b) A half-yearly report in accordance with Section 66, 67 and 71 of the Local Government Act 2002 and the reporting requirements prescribed from time to time by the Companies Act 1993, the New Zealand Institute of Chartered Accountants, and any other information that the Directors deem appropriate. Full NZ IFRS compliant half-yearly accounts are not required. However the half-yearly report shall contain a financial commentary comparing actual performance year to date to budget and the forecast year end result.
- c) An annual report in accordance with Section 67, 68, 69 and 71 of the Local Government Act 2002 and the reporting requirements prescribed from time to time by the New Zealand Institute of Chartered Accountants, and any other information that the Directors deem appropriate.
- d) The company will provide regular reports to the Council on its activities and the results of its subsidiary companies. It will operate on a "no surprises" basis in respect of significant

shareholder matters, to the extent possible in the context of commercial sensitivity and confidentiality agreements.

## 12. Accounting Policies

The financial statements of GHL and its subsidiaries are prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They comply with the New Zealand International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate. The accounting policies adopted by the Company will also be consistent with the policies adopted by the Gisborne District Council group. Prospective financial information provided in accordance with Schedule 8 of the LGA 2002 will be prepared in accordance with the provisions of FRS42 - Prospective Financial Information.

## Schedule 1

### Summarised budgeted financial statements

|   | 2009/10<br>\$000s | 2010/11<br>\$000s | 2011/12<br>\$000s | 2012/13<br>\$000s |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>Statement of Financial Performance</b> |                   |                   |                   |                   |
| Revenue                                   | 4,728             | 4,483             | 4,931             | 5,198             |
| Expenditure                               | 3,432             | 3,483             | 3,513             | 3,561             |
| Net Profit before Tax                     | 1,296             | 1,000             | 1,418             | 1,637             |
| Tax                                       | 397               | 230               | 402               | 450               |
| Net Profit After Tax                      | 899               | 770               | 1,016             | 1,187             |
| <b>Statement of Financial Position</b>    |                   |                   |                   |                   |
| Current Assets                            | 327               | 481               | 418               | 451               |
| Non-Current Assets                        | 41,274            | 41,564            | 42,066            | 42,522            |
| Current Liabilities                       | (171)             | (179)             | (265)             | (364)             |
| Non-current Liabilities                   | (4,660)           | (4,826)           | (4,663)           | (4,366)           |
| Shareholders' Equity                      | 36,770            | 37,040            | 37,556            | 38,243            |
| <b>Statement of movements in equity</b>   |                   |                   |                   |                   |
| Opening                                   | 36,871            | 36,770            | 37,040            | 37,556            |
| Surplus(deficit) for the year             | 899               | 770               | 1,016             | 1,187             |
| Capital increase(reduction)               |                   |                   |                   |                   |
| Revaluation                               |                   |                   |                   |                   |
| Other                                     |                   |                   |                   |                   |
| Dividend paid/proposed                    | (1,000)           | (500)             | (500)             | (500)             |
| Closing                                   | 36,770            | 37,040            | 37,556            | 38,243            |
| <b>Statement of cash flows</b>            |                   |                   |                   |                   |
| Operating                                 | 1,569             | 1,060             | 1,440             | 1,292             |
| Investing                                 | (251)             | (115)             | (672)             | (514)             |
| Financing                                 | (1,287)           | (848)             | (838)             | (799)             |
| Net Cash Flow                             | 31                | 97                | (70)              | (21)              |

### Key Assumptions

- 1) Revenue for the 2012 and 2013 will increase 5% on the previous year.
- 2) The forestry estate will increase in value by 10% per annum.
- 3) That expenses will be maintained at similar levels to prior years.
- 4) That there is no income from the allocation of NZU's under the Emissions Trading Scheme.

### Summarised Forecast Performance indicators

|  | 2009/10<br>\$000s | 2010/11<br>\$000s | 2011/12<br>\$000s | 2012/13<br>\$000s |
|--|-------------------|-------------------|-------------------|-------------------|
| Return of Shareholders Funds           | 2.4%              | 2.1%              | 2.7%              | 3.1%              |
| Net debt/net debt + Equity             | 11.6%             | 11.9%             | 11.6%             | 11.0%             |
| 5 year rolling average ROI             | 1.7%              | 1.9%              | 1.9%              | 1.8%              |
| Ratio of Sholder funds to total assets | 88.4%             | 88.1%             | 88.4%             | 89.0%             |

Signed



C Mark Egan – Chairman

Dated 26 June 2010