



**GISBORNE
HOLDINGS LTD**

Investment for local return

Statement of Intent 2020-2022

TABLE OF CONTENTS

	Page
1. Introduction	2
2. About GHIL	2
3. Company Mission	3
4. Corporate Governance	3
5. Reporting to Shareholders	4
6. Major Transactions	5
7. Related Party Transactions	6
8. Distributions to Shareholder	6
9. Company Objectives	7
10. Growth & Investment Strategy	8
11. Financial Targets	8
12. Estimated Commercial Value of the Company	9
13. Shareholders Funds to Total Assets	9
14. Accounting Policies	9
15. Audit	9
16. Forecast Financial Information	10

INTRODUCTION

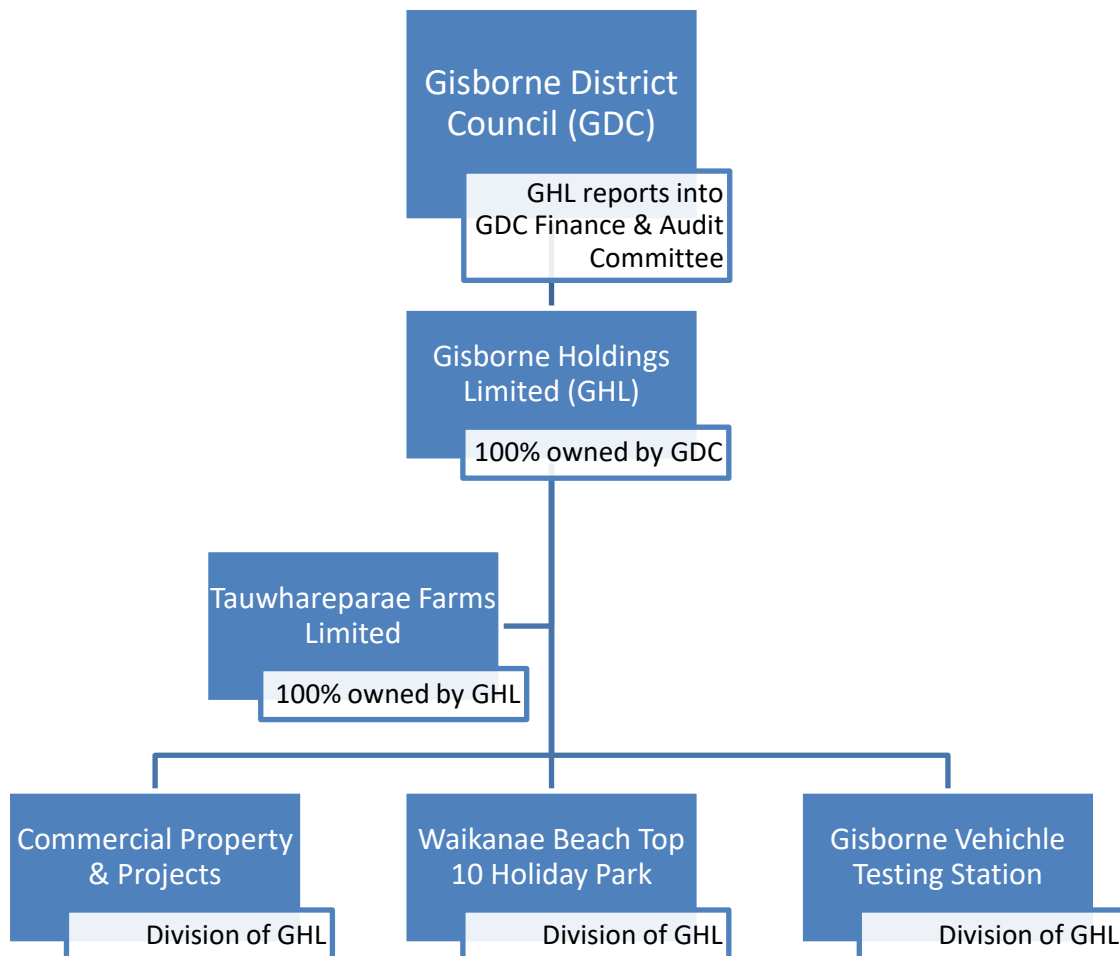
As a Council-Controlled Trading Organisation (CCTO), Gisborne Holdings Limited (GHL) is required to prepare an annual Statement of Intent (SOI) which publicly states its activities and objectives for the next three years in accordance with Section 64(1) of the Local Government Act 2002. The SOI takes shareholder comments into consideration and provides performance targets for organisational accountability.

ABOUT GHL

Gisborne Holdings Ltd is a wholly owned council-controlled trading organisation of Gisborne District Council.

The company is run a commercial basis and currently receives no funding from Gisborne District Council.

The group ownership and reporting structure is as follows:



The Group consists of:

Gisborne Holdings Ltd – the parent company with divisions including:

- Property Holdings – manages a large and diverse portfolio of commercial, tenant occupied rentals, farmland and forestry property. This division is also responsible for project managing all the company's developments.
- Gisborne Vehicle Testing Station – an independent testing station and AA agency.
- Waikanae Beach Top 10 Holiday Park – the region's largest accommodation provider, servicing the tourism sector.

Tauwhareparae Farms Ltd – farm and forestry operations at Tolaga Bay covering some 11,000 hectares of which 6,000 is considered effective with the remainder in forestry blocks and Protected Management Area's (PMA's).

COMPANY MISSION

To provide an appropriate return and growth from subsidiary companies and community assets relative to the industry they operate in.

To establish and efficiently direct an outstanding group of Council-controlled business activities which are aligned with Council's financial strategy.

By bringing the best available expertise to bear upon management of its assets, GHIL 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 the capital value of those assets under its stewardship.

Investing in, and promoting the establishment of, key infrastructure and community assets in a commercially viable manner.

CORPORATE GOVERNANCE

Regulatory Framework

Under the Local Government Act 2002, Gisborne Holdings Limited is a Council Controlled Trading Organisation (CCTO). The Principal objectives of a CCTO, as defined in section 59 of the Act, is to:

- a) achieve the objectives of its shareholders, both commercial and non-commercial, as specified in the statement of intent; and
- b) be a good employer; and
- c) exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavoring to accommodate or encourage these when able to do so; and

d) conduct its affairs in accordance with sound business practice.

The company's governance is also covered by the Companies Act 1993.

Statement of Intent (SOI)

GHL, as a CCTO, must prepare a SOI in accordance with Section 64(1) of the Local Government Act 2002.

A draft SOI must be submitted to Gisborne District Council (GDC) by 1 March with the final SOI being delivered by 30 June each year, after consultation and consideration of comments from GDC.

Board of Directors

GHL's directors are appointed by the shareholder to govern and direct GHL's activities. The Board is accountable to its shareholder for the financial and non-financial performance of the Company.

The appointment of directors to the boards of subsidiary companies is subject to Council approval, except where the directors are already appointed as directors of GHL.

The Board has established a Finance and Risk Committee to oversee the Company's financial reporting processes, internal control systems, and external audit processes.

The Board's responsibility includes such areas of stewardship as:

- Commercial performance
- Business plans, budgets and the SOI
- Corporate policies including financial, distribution and delegation of authority
- Management oversight and development
- Identification and management of business opportunities and risks
- Integrity of management information systems and internal control
- Compliance with relevant law
- Reporting to shareholders
- Relationships with stakeholders and external parties

REPORTING TO SHAREHOLDERS

The company has adopted 30 June as its balance date.

GHL will comply with all the reporting requirements under the Local Government Act 2002.

Statement of Intent (SOI)

The draft SOI delivered to Council on or before the 1 March will be accompanied by a report detailing any changes from the previous year's SOI and the directors rationale for making those changes.

Interim Report

Within two months of the end of the first half of each financial year, the Directors will deliver to the Shareholder an Interim Report in accordance with Section 66 (Half-yearly report) and Section 71 (Protection from disclosure of sensitive information) of the Local Government Act 2002. The half yearly report is required to comply with the requirements of NZIAS34 - Interim Financial Reporting.

The half yearly report shall contain unaudited financial statements and a chairman's report on the performance of the group along with any significant issues likely to affect the company's performance in the future.

Annual Report

Within three months of the end of each financial year, the Directors will deliver to the Shareholder an Annual Report in accordance with Section 67 (Annual report), Section 68 (Content of reports on operations of council-controlled organisations), Section 69 (Financial statements and auditors report) and Section 71 (Protection from disclosure of sensitive information) of the Local Government Act 2002.

The annual report shall also contain a chairman's report on the performance of the group along with any significant issues likely to affect the company's performance in the future.

GHL will provide audited Annual Accounts to GDC in a timely manner that fulfils Councils Group reporting requirements, including allowing for reporting to Council.

Finance and Audit Meetings

Through attendance at the Finance and Audit Committee meetings, the company will work collaboratively with its Shareholder to ensure a "no surprises" relationship in respect of any significant shareholder matters, to the extent possible in the context of commercial sensitivity and confidential agreements. The company will, 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.

Any matter requiring Council approval will be submitted formally through the Finance and Audit Committee.

GHL will comply with, and assist Gisborne District Council, at an operational level, in undertaking a review of services under Section 17A (Delivery of services) of the Local Government Act 2002.

GHL will report to GDC on CCTO establishment opportunities, and other investment opportunities that have the potential to enhance the economic well-being of the region and provide an adequate return. The company will also contribute to the best for region project in collaboration with Gisborne District Council and Eastland Community Trust, within reasonable commercial return expectations.

MAJOR TRANSACTIONS

The Directors will obtain prior approval, by Gisborne District Council resolution, for any major transaction. Major transactions are:

1. Sale of land

2. Formation of a subsidiary company
3. transactions for the acquisition or disposal of fixed assets, investments and shares where the value exceeds 10% of the total value of the company's assets or \$10m (whichever is the lesser) as determined by reference to the most recent financial statements prepared in terms of this SOI.

RELATED PARTY TRANSACTIONS

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

GDC will not instruct GHL to act in a non-commercial manner.

Assets transferred to GHL from GDC will be transferred at an independently assessed market value. GHL will issue shares to GDC for the equivalent value.

DISTRIBUTIONS TO SHAREHOLDER

The Directors of GHL considered two overriding goals when setting the annual distribution policy:

1. The Protection and Growth of the Asset base of GHL

The amount of the distribution should 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

2. Provide a constant Annual Distribution flow to GDC

To give certainty to GDC, GHL will commit to a minimum total distribution annually of \$1,800,000.

Distribution Policy:

The annual distribution is not discretionary, it is a calculated amount subject to a minimum distribution of \$1,800,000 with no maximum cap.

The Annual Tax Paid Distributable Cash Income will be distributed as follows:

- a) As GHL trading activities except Forestry:

50% of the net tax paid cash income (including Subvention Payments calculated pre-tax) will be distributed to GDC.

- b) As to Forestry:

75% of the net forestry cash distributable income, after deducting capital roading costs, income tax attributable to forestry income and making provision for the re planting of the harvested forestry estate, will be distributed to GDC.

- c) Distributable Funds will be calculated annually on a cash flow basis only and not recognise revaluation incomes and losses or depreciation provisions.

And is subject to the following provisos:

1. the Directors are satisfied that the requirements of section 4 of the Companies Act (the solvency test) have been satisfied.
2. the distributions will be fully imputed for tax purposes to the extent that imputation credits are available.
3. where subvention payments are paid to GDC the amount of these will be reflected in the total distributions to GDC.

By retaining a prudent proportion of tax paid cash income will ensure GHIL can repay debt and invest in prudent expansion of its asset base.

If GHIL is required to borrow to pay the minimum level of distribution for more than two consecutive years this Distribution Policy will be reviewed by GHIL and GDC to reassess the levels and causes of the need to borrow.

The distribution is to be paid within nine months after the end of the financial year from when the distribution was derived.

COMPANY OBJECTIVES

- Manage existing businesses to maximise and sustain profit generation.
- Grow the asset base while providing a predictable and sustainable revenue stream to Gisborne District Council.
- Focus on growing non-rates revenue for Gisborne District Council.
- To increase annual distributions to Gisborne District Council **or** to become an enabler for GDC to deliver projects by leveraging our balance sheet. A natural trade off exists between these options.

GHIL is committed to:

- *environmental stewardship*
- *health and wellbeing of staff*

GROWTH & INVESTMENT STRATEGY

GHL's investment strategy, in keeping with its current portfolio, is to manage a diverse mix of asset classes and risk profiles, to provide long term income and capital value resilience.

Assets are categorised as:

Core: provide strong capital appreciation and/or sustainable consistent revenue streams to enable investment through enhanced debt capacity.

Expansion: provide enhanced returns or diversification of revenue streams.

Available for Sale: assets that do not provide an appropriate return.

GHL is looking to grow current activities it owns and operates as well as taking advantage of other commercial opportunities:

- 1) Tourism – A facility improvements and expansion works program for the Waikanae Beach Top 10 Holiday Park is proceeding. The aim being to increase accommodation and activity offerings at the park to grow revenue especially during the shoulder and off-peak season and to adapt to changing market conditions e.g. freedom camping.
- 2) Farming – Capital investment to enhance productivity and mitigate the effect of extreme weather events.
- 3) Higher value use – GHL owns several individual assets that have historically operated on a minimum return basis, a range of options are currently being investigated to increase the returns across these assets.
- 4) Invest in complimentary activities or increase the offerings of the current activities.
- 5) Aid capital appreciation through the management of a comprehensive capital works program.
- 6) Infrastructure – GHL currently does not have any investment in enabling infrastructure in the Gisborne region beyond its property assets. An investment in this area would allow for an alternative long-term income stream beyond its property assets. GHL will be looking to invest into key regional infrastructure projects should an opportunity present itself.

FINANCIAL TARGETS

- A return on shareholders' funds ratio of at least 4%.
- A bank debt to bank debt plus equity ratio of no more than 20%.
- A minimum five year rolling average GDC return on investment of 2-3%.
- An interest coverage ratio of at least times 4.0.
- A shareholder funds to total assets ratio of no less than 80%.
- GHL meets the minimum level of distribution outlined in this SOI.

ESTIMATED COMMERCIAL VALUE OF THE COMPANY

The Directors estimate 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.

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 80% for the period covered by this SOI. The appropriateness of this target ratio will be reviewed annually by the Directors.

ACCOUNTING POLICIES

The financial statements of GHL and its subsidiaries will be prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993. GHL is a for-profit entity for the purposes of complying with NZ GAAP. The financial statements will be prepared on a historical cost basis except for land and buildings, available for sale investments, forestry, livestock and emissions units which will be measured at fair value.

The financial statements will comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

AUDIT

Ernst & Young, as agent for the Office of the Auditor General (OAG), will undertake the financial audit of GHL.

FORECAST FINANCIAL INFORMATION

Summarised group forecast financial statements

	2018/19	2019/20	2020/21	2021/22
	000's	000's	000's	000's
Forecast Statement of Comprehensive Income				
Gross Profit				
Tauwhareparae Farms Limited	4,576	4,508	4,930	5,160
Property Holdings	1,658	1,608	1,830	1,920
Gisborne Vehicle Testing Station	956	1,251	1,085	1,170
Waikanae Beach TOP 10 Holiday Park	1,453	1,748	1,830	1,990
Total Gross Profit	8,643	9,115	9,675	10,240
Expenditure				
Financing Costs	489	477	680	800
Depreciation	606	535	650	650
Other Expenses	4,202	5,125	4,450	4,500
Total Expenditure	5,297	6,137	5,780	5,950
Net Profit / (Loss) before Tax	3,346	2,978	3,895	4,290
Tax	502	447	584	643
Net Profit/ (Loss) After tax	2,844	2,531	3,311	3,647
Forecast Statement of Financial Position				
Current Assets	1,228	836	836	836
Non-Current Assets	121,296	122,960	125,810	128,660
Current Liabilities	-15,635	-14,375	-10,415	-6,119
Non-Current Liabilities	-10,190	-10,190	-13,690	-17,190
Shareholders Equity	96,699	99,230	102,541	106,187

	2018/19 000's	2019/20 000's	2020/21 000's	2021/22 000's
Forecast Statement of Movements in Equity				
Opening	93,855	96,699	99,230	102,541
Surplus / (deficit) for the Year	2,844	2,531	3,310	3,647
Closing	96,699	99,230	102,541	106,187

Forecast Statement of Cash Flows

Operating	3,542	4,143	5,240	5,696
Investing	-8,035	-2,200	-3,500	-3,500
Financing	1,430	-2,277	1,020	900
Net Cash Flow	-3,063	-334	2,760	3,096

Forecast Capital Expenditure

Plant & Equipment	160	155	250	200
Development	705	650	1,300	1,200
Vehicles	157	120	200	180
Buildings	2,230	1,200	1,750	1,920
Total	3,252	2,125	3,500	3,500

Forecast Performance Indicators

Return on Shareholder Funds (excluding Subvention)	4%	4%	4%	5%
Bank Debt / Bank Debt + Equity	15%	14%	14%	14%
Interest Coverage Ratio	9	8	8	7
Ratio of Shareholder Funds to Total Assets	80%	80%	81%	82%
Minimum Distribution	\$1.8m	\$1.8m	\$1.8m	\$1.8m

Forecast Return on Fixed Assets – Segmental reporting

	Tauwharepare Farms Limited	Property Holdings	Waikanae Beach TOP 10 Holiday Park	Gisborne Vehicle Testing Station
Fixed Assets as a % of the GHL portfolio	72%	23%	4%	1%
Forecast Return before tax	4.2%	1.6% *	14.5%	14.2%
Industry Benchmark	3 - 5%	6 - 8%	12 - 15%	13 - 15%

* on a gross lease basis.

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

Key Assumptions

- 1) The farming Revenue for the 2020 to 2022 years will be similar to 2019 full year forecast.
- 2) The forestry estate will decrease in value over the years due to harvesting. The decrease will be offset by forest growth in other area's and gains in property valuations.
- 3) Expenses will be maintained at similar levels to prior years.
- 4) The current Forestry strategy continues unchanged.
- 5) Childers Road and Banks St financing costs have been incorporated but as the nature of the developments have not yet been finalized, we are not in a position to estimate potential income, costs or CAPEX.

Key Risks and Uncertainties of the group's main businesses

- 1) For farming, the key risks are the weather, fluctuations in commodity prices and foreign exchange variations all of which the company has no control over.
- 2) For the commercial ventures, the weather, changes in spending habits and/or changes in government regulations can adversely affect results.

It is not practical to quantify the effect of these risks and uncertainties in specific monetary terms.

These Prospective Financial Statements are likely to vary from the actual financial results for the periods covered. These variations may be significant and material.

Corporate Information

The Prospective Financial Statements for Gisborne Holdings Limited are for the years ended 30 June 2020 to 30 June 2022. The Prospective Financial Statements have been prepared for inclusion in the Statement of Intent for the 3 years ended 30 June 2022. It should also be noted that the information in these statements may not be appropriate for purposes other than inclusion in the statement of intent.

Other disclosures

The directors authorised the issue of the Prospective Financial Statements and are responsible for Prospective Financial Statements presented, including the appropriateness of the assumptions underlying the Prospective Financial Statements and all other required disclosures.

Actual financial results are incorporated for the period 1 July 2018 to 31 December 2018 into the Prospective Financial Statements for the year ended 30 June 2019.

It is not intended to update the Prospective Financial Statements subsequent to presentation.

Signed R Telfer, GHL Chairman

Dated 04 June 2019