



Ngati Hine Forestry Trust

2017 Annual Report

He mihi

Tena koutou e te iwi, no koutou nga whenua kei raro i te marara o te Ngahere o Ngati Hine.

Na reira, ka mihi tonu ki te iwi kua ngaro atu i te tirohanga kanohi, kua haere ke i te ara kuiti, e kore ra ko te hoki mai. Ratou i takoto ai i runga ano i a tatou marae maha, haere koutou, haere koutou, haere, oti atu.

Ka hoki ano ki a tatou te hunga ora, e oke tonu nei ki te whakatutuki i nga kaupapa i wawatatia ai e ratou ma, tena ano tatou katoa.

a) Our Strategic Direction

It is a privilege to present this Annual Report to you the beneficial owners at this 2017 Annual General meeting.

The Trustees continue to implement the Trust's strategic plan of progressively becoming 'active' managers of the beneficial owners' collective assets and to also grow and extend the asset base.

Considerable advancement in a number of areas have occurred throughout the course of the past year and these and other matters are canvassed later in this report.

Te Pae Tawhiti – Our Vision

‘He Whenua Hua—He Tangata Ora’

Productive lands, People wellbeing, Self-Reliance, Environmental sustainability

Kaupapa – Our Mission

‘He Ringa Ahuwhenua’ - To Actively Grow our Assets

b) Financial Report

The following is a summary of the 2016/17 financial result:

Income	\$1,108,779.00
Expenditure	(\$1,372,768.00)
Net Deficit	(\$ 263,989.00)



The repayment of the Westpac NZ kiwifruit orchard debt of \$1,440,000.00 was repaid during the year. All of the Trust's Kiwifruit Orchards and housing portfolio are therefore now mortgage and debt free.

There were a number of factors contributing to the loss, including the continued reduced income from kiwifruit because of cultivar conversions, the discontinuance of rent being received from TPL 4, the lack of income from manuka honey due to a very poor season, the reduced value of the NZU's at balance date and contributed loss from the Matawaia Forest Joint Venture.

c) Forest Harvesting

The lessee of our lands, TPL 4 (Taumata Plantations Ltd), have, through their agents Hancock Forest Management NZ Ltd (Hancock's) been harvesting their lease area steadily since 2008.

As the TPL 4 forest area is harvested these harvested areas are progressively surrendered back to the Trust.

To date a total of 2,738 hectares of productive forest land has been surrendered back to the Trust by TPL 4, of which 583 hectares were handed back during 2017. Some 977 hectares of productive forest land have yet to be harvested.

The expiry date of the lease to TPL 4 is 30 September 2021.

d) Second Rotation Pine Crop and Planting of Manuka

While the Trust's intergenerational land utilisation strategy is to return as much of the Trust's lands back into a healthy native forest, in the meantime, it will be necessary to return, at least initially, a significant part of the forest into a second rotation pine crop.

The Trust has undertaken significant land use mapping and analysis based on scientific evidence and best practice standards to determine the areas of the forest estate which are best suited for pine or manuka planting and possibly other native species. This detailed mapping also provides for the enhancement and expansion of existing native species, wetlands and riparian corridors along waterways.

The Trust is therefore implementing a mosaic as has been discussed at previous meetings with the long term goal to transition over time the forest lands from exotic pine to native species based on scientific evidence as to optimal land utilisation.

The very significant cost of undertaking a second rotation pine regime on areas best suited for pine by the Trust itself is just not possible and work continues as part of the Trust's membership of the Taitokerau Maori Forestry Collective to find a joint venture partner to assist.



The Trustees are mindful of the shareholders' views with regards to the current Taumata Plantations Limited lease and consequently a different, more beneficial joint venture arrangement is envisaged.

In the meantime the Trust has been establishing, as can be afforded, its own 100% owned pine and manuka plantations.

The Trust, during the winters of 2011 and 2012, re-established some 749.9 hectares of lessee (TPL 4) surrendered land as a commercial second rotation pinus radiata forest. The cost of this re-establishment was \$845,557.00.

A further 105 hectares of pinus radiata was planted during the winter 2017. The cost of this spans both the 2016/2017 (\$43,471.00) and 2017/2018 (\$62,620.00 to date) financial years.

This means that 19% of the Trust's forest lands have been now been re-established as a commercial pinus radiata forest crop, which is 100% owned by you the beneficial owners. In addition by August 2018 some 305 hectares of pine within the Matawaia forest block will have been planted within the joint venture and these pine trees are 50% owned by the Trust.

In 2016 the Trust planted a trial plot of 1.5 hectares of eco sourced manuka plants and during the winter of 2017 a further 10 hectares of manuka was planted. It is intended that in terms of the land utilisation strategy and the mosaic approach that additional manuka planting will be undertaken during each winter period.

e) Matawaia Forest

The Matawaia forest has been a distinct forest within the overall lands of the Trust. The harvesting of the 351 hectares of the Matawaia pine forest crop which commenced in December 2013 will now be completed by April 2018.

The Matawaia Forest pine crop is owned by Taitokerau Forests Ltd (TFL) which has a forestry right over the trees. This means TFL own the trees. TFL awarded the Harvesting and Marketing contract to the Ngati Hine Forestry Trust and Kiwi Forestry International Ltd 50/50 Joint Venture Partnership Company.

This partnership involves the harvesting and marketing of the Matawaia first rotation crop and for the planting and management for 28 years of the second rotation crop of the Matawaia Forest area.

Planting of a second rotation pine crop commenced in 2015 with 128.9 hectares being planted, a further 135.2 hectares in 2016 and 17 hectares in 2017. The balance of approximately 24 hectares will be replanted in 2018. This will therefore total approximately 305.1 hectares of pine which are 50% owned by you the beneficial owners.



Approximately 46 hectares of very steep land and wetland areas will not be replanted in pine but rather be left to regenerate in native.

This 50/50 JV partnership has a number of advantages to the beneficial owners, these being:

- The Trust being involved in the harvesting and marketing operation to ensure that employment opportunities for local people and contractors are maximised.
- The cost of planting the second rotation has been met largely from income generated by undertaking the harvesting and marketing contract with TFL meaning that no significant cash has been required from the Trust.
- At the time of harvest of the second rotation crop in 28 years the Trust will receive 50% of the harvest proceeds
- The Trust is also receiving the Crown grant monies via TFL during the current harvest as provided for in the loan arrangements with the Crown.

f) Ruatangata Forest

This is an area of the forest comprising some 430 hectares of forest crop, which until February 2015 was included in the lease to Taumata Plantations Limited (TPL 4) with the forest crop owned by the lessee TPL 4.

In May 2016 the Trust transacted a stumpage sale of this forest to Aubade New Zealand Limited. This sale was reported upon in last year's report and financial statements.

Aubade utilising local contractors has so far harvested 20% of this forest.

Aubade is, from this year, supporting via a scholarship a young and local Ngati Hine forester with ongoing studies towards forestry industry qualifications.

g) Roothing Compensation Payable to TPL 4

The lease to TPL 4 contained a provision whereby at the end of the lease on 30 September 2021 the Trust must pay to TPL 4, the lessee, compensation for the permanent roads, estimated at 50 km, established within the forest by the lessee. This compensation amount is calculated as two thirds of the value (not cost) of these roads.

The quantum of this amount was determined through a valuation process as being \$445,000.00. The Trust made strong representations to TPL 4 seeking that this amount be written off. After extensive negotiations the Trust and TPL 4 came to a mutually agreeable resolution. The agreement made via a Variation of Lease on 24 March 2017 was that TPL 4 agreed to release the Trust from any obligation to pay this roosting compensation and in return the Trust agreed to forgo rental payments from 1 April 2017 to 30 September 2021 valued at \$180,000.00



The \$445,000.00 was included as a non current liability within last year's 2015/2016 financial statements. This provision has been reversed in this year's 2016/2017 financial statements by including this provision as income. There is commentary regarding this transaction in the notes to these statements; Note 19.

h) Emissions Trading Scheme (ETS)

All the first rotation pine plantation of 4,564 hectares situated on the Trust land is pre 1990 forest in terms of the Climate Change Response Act 2002 (Emissions Trading Scheme). This means that the Trust must ensure that this land is returned to a defined forest species after harvest that meets the criteria which is laid down in the Emission Trading Scheme (ETS).

The ETS criterion states that at four years after harvest the land must either have 500 stems per hectare of exotic forest species (e.g. pine) or be regenerating predominantly in indigenous species (e.g. manuka) which is growing in a manner that is likely to become forest land ten years after the harvest and that at twenty years there is crown cover of at least 30% from trees that have reached 5 metres in height.

Any lands that end up not meeting this ETS criterion will be deemed to be “deforested” and the Trust would then have to return 750 NZU’s (New Zealand Units) per hectare to the Crown. The risk of the Trust having to compensate for de-afforested land at some future time is considered to be low.

The Trust still holds 171,172 NZU's which had a tradable value as at 30 June 2017 of \$2,944,159.00 (= \$17.20 per NZU).

In August 2013 the Trust lodged with the Waitangi Tribunal a contemporary claim against the imposition by the Crown of the ETS upon the Trust's forest lands. This claim is registered as Wai 2397. The Trustees are continuing to progress this claim in conjunction with its lawyers (funded via Legal Aid) as quickly as is possible, however, any early resolution is not anticipated.

i) Manuka Honey

As at balance date the Trust owned and managed 520 hives in its own right with a further 350 hives owned by the Trust but being managed in a Joint Venture with Ngabush Honey Co Limited (Jim Ngawati).

Despite a very poor last season as evidenced by a loss of \$225,478.00 within the financial statements and the appearance of Myrtle rust the Trustees are confident that the manuka honey industry has a bright future and as a consequence has plans in place to further expand its manuka honey business.



The Trust is a member of a collective committee of Maori land owners who have interests in the manuka honey space; this collective has the name Taitokerau Miere. The Collective has been working hard to coordinate itself and has utilised Government funding to complete the development of a business plan which if implemented could see a significant Maori manuka honey organisation.

Whether or not such an initiative will get off the ground is unknown at this stage as prospective members of the Collective are still considering the business plan and whether or not they wish to proceed with implementing it. The significant capital required to get this off the ground is a big factor in these considerations.

j) Nutraceuticals

The Trustees have established a Joint Venture Company, Hineora Limited, a vehicle for the Trust to enter into the nutraceutical industry. This is a 60% / 40% JV with the Trust holding the 60%. The JV partners are Peter Gregory and Jules Smith who own a company called Washbar which manufactures, distributes and markets products for pets e.g. soaps the ingredients for which are derived predominantly from native plants.

This business is based on extracting bio active substances from native plants located on Trust whenua and creating health products that can be sold with the Ngati Hine story both domestically and overseas.

A number of other companies are already doing this (including the Trust's JV partner) and have proved that there is considerable money to be made from selling health products based on naturally sourced ingredients.

The Trust is at the research stage of this project with funding having been received from external sources and with University expertise.

k) Kiwifruit Orchards - Paparata, Te Tara Kowhai, Te Ara Kopeka and Ahuareka

The beneficial owners own four kiwifruit orchards in Kerikeri comprising in total some 35.75 hectares (88 acres) of land. Upon these orchards there are 24.17 canopy hectares of kiwifruit.

Paparata, Te Tara Kowhai and Te Ara Kopeka were purchased in June 2004 and then leased to Kerifresh (Turners and Growers Horticulture Ltd) for a term of fifteen years to expire in June 2019. These three leases are profit sharing arrangements. Paparata and Te Ara Kopeka are both Hayward Green orchards with a 70%/30% (in favour of the Trust) profit share and the leases on these two orchards both expire in June 2019. With respect of Te Tara Kowhai a variation of lease was agreed to at the time of converting its cultivar. The details of this are explained later.



The Trust's fourth orchard, Ahuareka, was purchased in December 2006 and it is also leased to Kerifresh on a 80%/20% profit share arrangement. The current lease expires on 30 June 2021.

Psa V arrived in Kerikeri four years ago and as at 30 June 2017 86 orchards out of 107 were identified as having Psa V. Most of these orchards have been or will by now be converted to newer more resilient varieties, predominantly Zespri G 3.

During the winter of 2014 Te Tara Kowhai was converted from Hayward Green, Hort 16 A and Gold 9 to ENZA A19 a Turners and Growers Gold variety. The significant capital cost of this conversion was borne by Kerifresh and in return the net profit share arrangement was changed from 70%:30% to 37.20%:62.80% in favour of Kerifresh for a period of ten years. At the end of this ten year period the profit share will revert back to 70%:30% in favour of the Trust with the lease extending a further ten years to expire in June 2034. This conversion will not see a full crop being produced until 2018.

In July 2015 Ahuareka orchard was converted from Gold Hort 16 A to Zespri Gold 3. The capital cost of this conversion, including obtaining Zespri Gold 3 licence, at a special Hort 16 A to G3 concessional licence fee, is being fully funded by the Trust, although costs of conversion (approximately \$295,000.00) are currently being held by Turners and Growers and will be repaid out of the Trust's profit share once sufficient production is achieved to do so. The net profit share arrangement for this orchard therefore remains 80%:20% in favour of the Trust. Zespri will not be marketing Hort 16 A from 2018 and this was another reason for the Trust having to now convert its Ahuareka Hort 16 A orchard to Gold 3. This conversion will not see a full crop being produced until 2018/2019.

The timing of the conversion, if proceeded with, of the remaining two Hayward Green orchards Paparata and Te Ara Kopeka is being considered during 2017, along with options as to how these conversions, if undertaken, will be funded. The cultivar types to be converted to will also be considered. The expense of purchasing G 3 Zespri licences to replace Hayward Green combined with conversion costs would result in outgoings of \$1.4 million per orchard.

Coupled with the loss of income for two years, means that the pay back on such an investment would take 7 years. Alternative options are also being considered.

There remains the option of retaining the status quo (i.e. retain the Hayward Green variety and not change the cultivar) or possibly either one or both of these orchards could be sold. The revenue from the Trust's 70% net profit share from these two Hayward Green orchards for the 2016 crop was in the order of \$36,000.00.

The Trust is having independent analysis undertaken to assist the Trustees with making decisions on the future of these two orchards.



While the conversions of Te Tara Kowhai and Ahuareka cultivars are taking place there is a loss of production which has resulted in a significant decline in income until such time as the new growth cultivar variety comes into production. This revenue "hole" is in part being compensated by the one off revenue stream received from the stumpage sale of the Ruatangata Forest.

Once all four orchards are back in full production it is anticipated that the level of income to be achieved in five to seven years time will be significantly greater than what has been achieved to date, potentially in the \$1 million net plus per annum - this income coming predominately from only Ahuareka and Te Tara Kowhai.

The cost of purchasing the Trust's four kiwifruit orchards and subsequent capital improvements has been \$4,802,508.00. The current capital value of these four orchards has been estimated at around \$10 million.

Turners and Growers are looking to put in place cadetships and a scholarship that will encourage our young people into the industry with the view to take them through to supervisory and management positions over time.

l) Housing Portfolio

The beneficial owners own twenty two homes, of which twenty one are located in Kaikohe, Kawakawa and Moerewa and most are leased to Housing New Zealand. The other home is located on the Ahuareka Orchard, Kerikeri.

Eleven of these homes were purchased in 2006 and ten were new builds constructed in 2010. All of these houses are mortgage free. The Trustees have decided that the provision of social housing is no longer a primary objective of the Trust and as a consequence the Trustees are now looking to sell some of the housing portfolio, preferably to another Maori entity operating as a provider of social housing if this can be arranged.

The capital freed up from the sale of houses will either be reinvested in other core business assets of the Trust or in new business or a mixture of both.

m) Review of Te Ture Whenua Maori Act 1993

The proposed legislation "Te Ture Whenua Maori Bill" is currently sitting within the Parliamentary system. Given the outcome of the recent general election and the principal sponsor of this bill no longer being in Parliament it is considered unlikely that this Bill will be proceeding in its current form any time soon, if at all.



n) Dividends

As reported at past Annual General Meetings, and particularly at the Special General Meeting at Motatau Marae in August 2017 the payout of any dividends is not able to be contemplated in the immediate future.

The stumpage sale of the Ruatangata Forest did provide a significant cash injection, however, after tax and paying off all of the Trust's debts the remainder is to be used to expand the Trust's manuka honey business and to compensate for the loss of income from the kiwifruit orchards during the cultivar conversion process.

The reducing rentals received from the Trust's forest estate is also a factor to be compensated for, together with, the increasing costs of maintaining more and more of the forest estate as TPL 4 surrender land back to the Trust.

Once the kiwifruit conversions have been completed and full production is achieved then this income together with the expected income from the manuka honey business in around five years time will bring the Trust back a stabilised profitable situation.

The costs of replanting (native and pine) and maintaining the Trust's forest estate, are however very significant but they come with very large financial returns at the end of second rotation pine plantings. It is therefore a long game and it is envisaged that dividends will only be possible at the end of this second rotation period.

o) Marae Grants

There is provision within the Trust Order that allows the Trustees to make grants to Marae for capital building projects. A policy has been written as to how these grants may be made. This policy is being submitted at this 2017 AGM for consideration by you the beneficial owners and will be discussed separately.

p) Shares in Ngatihine H2B held by the Trust

During the 1960s, 1970s and early 1980s the Crown purchased shares from various Ngati Hine owners on a willing buyer/willing seller basis. These shares were purchased by the Maori Trustee in 1983 who at that time was the sole Trustee of the Ngati Hine Forestry Trust. At that time the shares owned by the Trust totalled 91,208. At the time of this transaction the Maori Land Court specifically ordered that the voting rights which may otherwise attach to these shares at AGM's et cetera shall not be exercised – they are to be neutral shares which, in the hands of the trustees, shall not confer beneficial rights.

At the 1999 AGM beneficial owners resolved that the shares be offered back to the original owners to purchase at a value of \$3.46 per share. Only one whanau took up this offer to purchase "their" 5563.688 shares.



The Trust therefore has since that time retained 85,644.312 shares in itself. As stated above there are no voting rights attached to these shares.

For the purpose of the buyback offer as described above the Trust's accountant undertook a valuation of these shares in September 1999 and determined a value at that time of \$3.46 per share. A valuation then was relatively straightforward to complete because the Trust had a very limited asset base at that time.

If the Trust were to have a new comprehensive current market valuation completed to determine the value of a Ngatihine H2B share then full registered valuations of all of its assets, forest, houses, orchards et cetera would need to be obtained at some considerable cost. Given that there is no practical need or requirement for such a gold plated valuation the Trustees believe that the significant expenditure required to undertake this process is not warranted.

However the Trust's accountant has prepared, as a cost-effective alternative, an analysis of valuation based purely on the movement of the equity value of the Trust. Based on the asset and liability values recorded in the Trust's 2017 financial statements, the indicative value of a Ngatihine H2B share is \$5.44. This compares to a value of \$3.46 in September 1999.

This analysis is able to be completed each year which will serve as an indicator for you the beneficial owners as to the movement in value and equity in the Trust.

q) Investment Analysis

The Trustees have a number of significant decisions to make regarding the development of its core business and new business developments. The investment required will be undertaken through following a rigorous analysis of each opportunity. This analysis will:

- outline the Trusts risk tolerance and management, performance expectations, and governance policies for investment activities
- outline the Trust strategic asset allocation target
- determine how investment risk is managed within each business, and what risk limits are in place
- determine how risk limits are monitored and reported
- provide provisions for ongoing review

Essentially this process will assist the Trustees with prioritising future capital investment spending. It will provide a linkage and a discipline that sits between the Trusts Strategic Intent and its Strategic and Operational plans. It will also assist in determining the balance between capital investments e.g. forestry that have a long-term revenue horizon versus the need for annual cash flow in the here and now.



r) Study Grant

In terms of clause 7.8 of the Trust Order the Trustees during this year have supported Pira Vakatini (whose mother comes from Matawaia, in particular from the Waiomio and Paewhenua Whanau) who is studying for his Diploma in Forestry Management at Toi-Ohomai Institute in Rotorua. Pira plans to follow this Diploma with a Bachelor Degree in Forest Management.

s) Summary

Over the past year the Trust has repaid all of the Westpac debt on the Trust's orchards, concluded negotiations with TPL 4 with regard the roading compensation, extended the manuka honey business, established a platform to enter the nutraceutical business, planted 105 hectares of 2R pine, planted 10 hectares of manuka and completed detailed land utilisation mapping of the forest estate.

The emphasis this coming year is to analyse and agree on the allocated funds for core investments and new investments and to lock in the future land management plans for the forest estate, including second rotation pine options, the further planting of manuka and the expansion of the Trust's exposure within the Manuka honey industry.

The Trust held a Special General meeting at the Motatau marae on Saturday 19th August and was able to engage in more detail with the beneficial owners on key aspects of the Trust's business including dividends, forestry, Te Ture Whenua Act and Education and Employment. The SGM allowed for a much more interaction and open discussion.

The Trust will continue with advancing progress in the nutraceutical space, look to sell a part of the housing portfolio, to further consider options with regards the Trust's two Hayward green orchards and a possible new investment in a blueberries orchard in Kerikeri.

Na reira, kua mutu enei korero ki konei.

Tena ra koutou katoa.

A handwritten signature in black ink, appearing to read "Pita Tipene", is written over a faint, circular watermark of the Ngati Hine Forestry Trust logo.

Pita Tipene
Chairman
Ngati Hine Forestry Trust