

Kahungunu Asset Holding Company Ltd Chairman's Report



Kahungunu, He tangata ahuhenua, mōhio ki te whakahaere i ngā mahi o uta me ō tai.

Tihei Kahungunu

It is my pleasure to provide a report of the Kahungunu Asset Holding Company Limited (KAHC) results for the year ended 30 June 2014.

Background

KAHC was established in 2005 by Ngāti Kahungunu Iwi Incorporated (NKII) to receive and manage the Treaty of Waitangi fisheries settlement on behalf of Ngāti Kahungunu.

The KAHC has the vision of building a “successful business and economic profile for Ngāti Kahungunu and a mission of “growing our assets and to maximise the economic and wider returns from them for the collective good of Ngāti Kahungunu.” **To achieve the vision and mission of KAHC we have established four key result areas:**

- Strong Governance and Organisational Robustness
- Fisheries sector
- Diversified asset portfolio
- Quality relationships.

Nature of Business

The business of the KAHC is to receive and manage the fisheries settlement assets and other commercial assets of NKII for maximum commercial benefit. Each year the company agrees its Statement of Intent with the NKII Board, setting the strategic direction and expected returns for the coming year.

There have been no changes to the current makeup of our Directors. I wish to acknowledge the contributions of all our Directors including Mike Paku, Taine Randell, Hayden Hape, Trevor Moeke, and Paora Amunson. I believe the stability we have enjoyed at the governance level is reflected in the positive results we have endured throughout the financial year.

In June of this year, Jonathan Dick was appointed as the Director of Environment and Natural Resources for Ngāti Kahungunu Iwi Incorporated. This role now includes providing advice and support to the Kahungunu Asset Holding Company. I am confident that through a combination of the experience and business skills of the current Directors and the contributions of our wider team members we will be in a strong position to meet the challenges of the business year ahead.

Fisheries Assets

The key assets owned by KAHC include fishing quota, shares in Aotearoa Fisheries Limited (AFL), shares in Napier Mussels Limited, shares in Fiordland Lobster Company Limited, Tautane Station and cash. The company received the following settlement assets to manage on behalf of Ngāti Kahungunu in accordance with the Māori Fisheries Act 2004:

- August 2006: 162,942,485 quota shares valued at \$9,436,870, 7874 income shares in Aotearoa Fisheries Ltd, valued at \$19,874,733¹
- July 2010: 501,527,278 quota shares valued at \$16,933,500²

¹ The shares in AFL and quota received under the Fisheries Settlement process have been included in the accounts at the value established by Te Ohu Kaimoana on transfer.

² CRA3 quota valued at \$1,617,057 is reserved for settlement with Rongomaiwahine Iwi Trust from this settlement.

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- September 2012: Aquaculture pre-commencement space settlement cash \$1,499,845
- Cash of \$2,030,106

The company has received a total of 7,874 shares in AFL as part of the fisheries settlement which is a 6.3% holding in AFL. In 2013 we received a bonus issue of 7,874 shares which took the company's holdings in AFL to 15,748 shares. During the year we were required to reassess the valuation of our AFL shareholdings. Unfortunately this revaluation has resulted in a reduction in the value of our share holdings in AFL by \$5,701,535. This has reduced the book value of our AFL shares from \$19,874,735 as reported in 30 June 2013 down to a revised current value of \$14,173,200. When this loss of share value is combined with the lack of an AFL dividend it has a negative impact on our company. It is important to note that this reduction in value is a reflection on the performance of AFL and not the performance of the KAHC.

The company is participating in the current review of Te Ohu Kaimoana, AFL, Te Wai Māori Trust and Te Pūtea Whakatupu Trust. Our Company will be seeking greater transparency and accountability from these organisations and the ability of our Directors to influence the direction and performance of these organisations, particularly AFL.

Within the fishing sector the Annual Catch Entitlements (ACE) have been shrinking but we have been able to compensate against this by entering into joint ventures such as our recent agreement with Sealord's Limited.

We will continue to investigate the viability of new business opportunities in the fisheries sector. An example of this is illustrated by our participation in a working group to assess the feasibility of fishing surf clams in the Area 2 fishery.

Non Fisheries Assets

The company will continue to diversify its asset portfolio in non-fisheries assets. We will look for non-fisheries investment opportunities in line with our current investment strategy. This approach is also in line with our objective of reducing our exposure to risk by investing too heavily in a single asset class. A successful example of this strategy is the purchase of the Tautane Station in 2013. This property is being held as a long term investment and is currently leased to the Taratahi Agricultural Training Centre (Wairarapa) Trust Board for an annual fee of \$620,000. The company is committed to repaying the mortgage on the Tautane Station by as early as 2017. The company plans to make an annual contribution to development at the Station at a cost of \$50,000 per annum.

Financial Performance

The company has again recorded a before tax profit of \$3,238,465. However with the impairment of our AFL shareholdings we have a deficit before tax of \$2,463,070.

Gross Profit 2007-2014

30-Jun-07	\$1,769,233
30-Jun-08	\$2,458,049
30-Jun-09	\$2,028,815
30-Jun-10	\$2,733,836
30-Jun-11	\$3,409,582
30-Jun-12	\$3,872,548
30-Jun-13	\$5,372,656
30-Jun-14	(\$2,463,070)

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Retained Earnings 2007-2014

30-Jun-07	\$344,051
30-Jun-08	\$1,402,100
30-Jun-09	\$2,030,915
30-Jun-10	\$3,364,748
30-Jun-11	\$4,983,779
30-Jun-12	\$7,216,327
30-Jun-13	\$10,948,984
30-Jun-14	\$6,845,914

Equity 2008-2014

30-Jun-08	\$33,742,051
30-Jun-09	\$34,370,866
30-Jun-10	\$52,222,903
30-Jun-11	\$53,992,484
30-Jun-12	\$57,724,877
30-Jun-13	\$61,457,534
30-Jun-14	\$57,124,464

After payment of the \$1,640,000 dividend to NKII, combined with an additional payment of \$190,000 towards the Kahungunu Innovation Hub and a payment of \$40,000 to the Taiwhenua Assistance Fund, there is a reported decrease in equity of \$4,333,070 for the year ended 30 June 2014.

FINANCIAL PERFORMANCE BY ASSET CLASS

Shares in Aotearoa Fisheries Ltd

The company did not receive any income from AFL during the year. This is primarily due to the recorded loss of \$44.4 million from the Sealord Group Ltd sale of its Argentinian subsidiary Yuken. This is a disappointing result which has had a negative impact on our company's business.

The net book value (NBV) of the company's shareholding in AFL as disclosed in its Annual Report³ was \$19,781,020, a reduction in the capital value of these shares of \$5,701,535 since the shareholding was transferred.

Aotearoa Fisheries Shares NBV

30-Jun-08	19,359,459
30-Jun-09	20,043,676
30-Jun-10	22,547,575
30-Jun-11	24,342,565
30-Jun-12	24,969,398
30-Jun-13	25,456,767 ⁴
30-Jun-14	19,781,020

³ For information on AFL visit their website <http://afl.maori.nz/>

⁴ Based on the AFL annual report to 30/09/2013 the KAHC shareholdings is \$25,482,555. Based on 6.3% calculation. Not actually disclosed.

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Shares in Fiordland Lobster Company Ltd

The company owns 131,590 shares in Fiordland Lobster Company Limited (FLC). This represents a 5.74% holding in FLC. These shares have been included in the company accounts at cost. The net book value of the company's shareholding in FLC as disclosed in its Annual report as at 31 March 2014 was \$5,934,847 (31/3/12: \$5,087,409).

Fiordland Lobster Dividend

30-Jun-08	\$45,000
30-Jun-09	\$91,431
30-Jun-10	\$120,590
30-Jun-11	\$144,749
30-Jun-12	\$159,224
30-Jun-13	\$159,224
30-June-14⁵	\$263,180

Fiordland Lobster NBV shares

30-Jun-08	1,136,064
30-Jun-09	1,788,061
30-Jun-10	2,658,504
30-Jun-11	3,733,886
30-Jun-12	4,297,351
30-Jun-13	5,087,409
30-Jun-14	\$5,934,847

Quota - ACE sales

The bulk of the company's earnings from the sale of Annual Catch Entitlement (ACE) derive from the quota.

ACE Sales

30-Jun-07	1,983,963
30-Jun-08	2,755,961
30-Jun-09	2,551,163
30-Jun-10	3,163,240
30-Jun-11	3,153,147
30-Jun-12	3,300,792
30-Jun-13	3,276,042
30-Jun-14	3,309,567

Shares in Napier Mussels Ltd

The company now holds a 91% shareholding in Napier Mussels Ltd (NML). The company acquired an additional 41% in the period at nil cost. It is not viable to develop the farm at this time but it is important to maintain the resource consents associated with the marine farming space. The shares and advances totaling \$76,375 are recorded at a nil value as they do not currently have a realisable value.

⁵ Dividend to be paid in December 2014

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Shares in Area 2 Finfish Management Company Limited

The company holds 1 share in Area 2 Finfish Management Company Limited (Area2). This represents a 2.56% holding in that company. These shares have been included at cost. The net book value of the company's share in Area2 is disclosed in its Annual report at 31 March 2013 was \$570.

Shares in Trident Systems General Partner Limited

The company acquired 3,705 shares in Trident Systems General Partner Limited (Trident) during the year. This represents a 1.18% holding in that company. These shares have been included at cost. The net book value of the company's share as disclosed in its annual report at 31 July 2014 was \$10 (31/3/2013: \$285).

Shares in KAHC Investments Limited

The company owns 100 shares in KAHC Investments Limited. This company has not traded during the year.

Constitutional reporting

During the year to 30 June 2014 there have been no:

- Sales or exchanges of settlement quota;
- Transactions with settlement quota that have resulted in a registered interest by way of caveat or mortgage being placed over the quota;
- Interest registered against the settlement quota shares;
- Sales or exchanges or acquisitions of AFL income shares.

Going Forward

The KAHC continues to enjoy a close working relationship with the NKII Board. There will always be significant challenges in managing settlement assets for the benefit of our shareholder but I believe we have got a good mix of skills, expertise and sound business knowledge to rise to any challenges that will face us in the coming business year. We will also continue to seek partners who are either Kahungunu fishers or are Kahungunu based to ensure our business is of benefit to our community.

Finally, I believe our result for the year is pleasing given some of the challenges we have had to contend with. I am pleased to offer the attached statement of financial performance for your consideration.

Tihei Kahungunu!



Rangī Manual
Chairman